

Largecaps record 28% jump in inflows, Midcaps and Smallcaps see sharp declines. Is safety back in focus?

By Surbhi Khanna, Published on: February 11, 2026.



Despite the market witnessing a correction in January, investor flows revealed a clear rotation towards Largecap funds. According to the monthly data released by the Association of Mutual Funds in India (AMFI), the monthly inflows in Largecap funds jumped 28%, whereas those in Midcap and Smallcap funds declined by 24% and 23% respectively in January.

Mutual fund experts noted that investors should interpret the January flow data more as a risk management response to market conditions rather than a structural shift in market leadership.

Rajesh Minocha, a Certified Financial Planner (CFP) and Founder of Financial Radiance, shared with ETMutualFunds that many investors chase past returns, often on a short-term basis, and when they see funds showing negative returns, they stop the SIP in those funds and start investing in those that are the flavour of the month at that time. After Midcap and Smallcap stocks reached high valuations and portfolios showed negative or low returns, investors are now seeking safety in Largecaps.

“The FIIs that had withdrawn a lot of money last year, mainly in Largecaps, are also likely to return to India after there has been more clarity on the tariffs and the growth story for India remaining intact,” Minocha further said.

Another market expert, Vishal Dhawan, Founder and CEO, Plan Ahead Wealth Advisors, told ETMutualFunds that with the Nifty50 correcting less than Midcap and Smallcap indices, the sharp rise in Largecap inflows reflects investors prioritising stability, liquidity and earnings visibility amid heightened volatility. This behaviour is consistent with past phases where short-term corrections in broader markets lead to temporary capital migration towards Largecaps, especially when valuations in Midcaps and Smallcaps are still adjusting after a strong prior run.

At this stage, the trend points more towards tactical caution than a strategic abandonment of Midcap and Smallcap opportunities. Largecaps are regaining relevance as core portfolio anchors, but Midcaps and Smallcaps are still likely to play a meaningful role over the cycle, particularly for investors with longer time horizons and higher risk tolerance, Dhawan added.

In January, Largecap funds received an inflow of Rs 2,004 crore compared to an inflow of Rs 1,567 crore in December. Midcap funds received an inflow of Rs 3,185 crore in January against an inflow of Rs 4,175 crore in December.

Smallcap funds received an inflow of Rs 2,942 crore in January compared to an inflow of Rs 3,823 crore in December.

So does the decline in inflows indicate that SIP allocation needs to be adjusted? Dhawan said that allocations should not be adjusted aggressively in response to short-term market moves or monthly flow data, as SIPs are designed to smooth volatility over market cycles. Reacting to recent corrections by materially increasing Largecap exposure or cutting Midcap and Smallcap SIPs risks turning a long-term discipline into a timing exercise.

While recommending that this environment is a good checkpoint for rebalancing rather than reallocating, Dhawan further said that if Midcap and Smallcap SIPs have grown disproportionately after the strong run of previous years, modest rebalancing towards Largecaps or Flexicap funds can help restore portfolio balance and reduce risk concentration.

“Conversely, for long-term investors with high risk tolerance, maintaining SIPs in Midcaps and Smallcaps without increasing exposure allows them to benefit from volatility through disciplined accumulation. Overall, the focus should remain on asset allocation integrity, not short-term market leadership signals,” he added.

Minocha said that adjusting SIP allocations in response to market fluctuations does not benefit long-term investors. Asset allocation should be based on investment goals and risk tolerance, not short-term trends. While new investments may require tactical adjustments, existing SIPs should remain unchanged.

Nifty50, Nifty Midcap 150 - TRI and Nifty Smallcap 250 - TRI fell by 3.15%, 3.89% and 5.40% respectively in January. With the dip in the indices, is it a good time to accumulate Midcaps and Smallcaps or stay defensive with Largecaps?

Minocha said that the market is in a selective accumulation phase, less intense than previous aggressive cycles. Gradually increasing exposure to Midcap and Smallcap stocks through SIPs and STPs is advisable while maintaining a solid position in Largecaps.

Avoid an overly defensive approach, as it may limit future growth opportunities. Investors can also look into funds like Flexicaps, Large & Midcap and Multicap funds, where the categorisation of how much to keep across different market capitalisations is determined by the fund managers, subject to internal limits.

Dhawan said that this phase calls for a balanced stance rather than a binary choice between accumulating Midcaps and Smallcaps or staying fully defensive in Largecaps. The recent correction has started to ease valuation excesses in parts of the Midcap and Smallcap universe, making selective and gradual accumulation sensible for investors with a long-term horizon.

“Largecaps should anchor portfolios for stability, while Midcaps and Smallcaps should be added slowly through SIPs as a secondary allocation, balancing safety with long-term growth,” Dhawan further added.

Vaiibhav Chugh, CEO, Abakus Mutual Fund, said the last 18 months have tested patience. However, investors and partners have shown tremendous resilience, which in itself is a positive development. The time correction has gradually reduced valuation froth in markets, specifically in Largecaps, thus attracting more flows. Though at index levels Smallcaps may appear a bit expensive, at the stock level opportunities are emerging, and investors should now look at Smallcaps as well.

Largecap funds: They delivered a negative average return of around 3.04%. There were 34 funds in the said time period, of which Quant Large Cap Fund lost the most at around 5.12%, whereas Bank of India Large Cap Fund lost the least at 1.50% in January.

Midcap funds: They delivered a negative average return of 3.87%. Out of 31 funds in the said time period, Quant Mid Cap Fund lost the most at around 7.68%, and HDFC Mid Cap Fund lost the least at 1.64%.

Smallcap funds: They gave a negative average return of 4.6% in January. Out of 33 funds in the said time period, Quant Small Cap Fund lost the most at around 7.50%, whereas Baroda BNP Paribas Small Cap Fund lost the least at around 2.61% in January.

How should long-term investors interpret falling Midcap and Smallcap inflows? Dhawan said that long-term investors should view falling Midcap and Smallcap inflows as a sentiment-driven cooling phase rather than a deterioration in long-term fundamentals. In periods of heightened volatility, capital typically shifts towards Largecaps as investors seek liquidity and earnings certainty.

“While near-term performance may remain uneven, the medium to long-term outlook for quality Midcaps and Smallcaps remains intact, particularly for investors with a long-term horizon,” Dhawan further said.

Minocha said that recent underperformance has led to investor caution and withdrawals. However, this phase may benefit those investing with a five to seven-year horizon, provided they choose funds carefully and set realistic return expectations. While market fluctuations are inevitable, long-term wealth is built by remaining invested beyond perceived safe periods.