Largecap mutual funds hold lowest cash levels in 12 months. Should investors see it as a bullish signal or exercise caution?

By Surbhi Khanna, Published on: July 20, 2026.

Large-cap mutual funds are holding the lowest cash levels in the last 12 months, signalling that fund managers are deploying a greater portion of their money into equities instead of keeping it on the sidelines. According to Dolat Capital's latest monthly mutual fund report, active equity schemes' assets under management (AUM) rose 4% to Rs 35.6 trillion in June from Rs 34.3 trillion in May.

While total cash holdings remained unchanged at around Rs 1.2 trillion, cash as a percentage of AUM declined to 3.4%, the lowest level in the past one year with large cap funds holding the least cash.

A bullish signal or exercise caution?

Many investors tend to interpret lower cash holdings as a sign that fund managers expect markets to move higher. However, experts caution against using cash levels as a market-timing indicator.

Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors told ETMutualFunds that investors should avoid treating lower cash holdings as an invitation to invest aggressively.

“Low cash should not be treated as a green signal to buy aggressively. High deployment of cash simply means portfolios are running near capacity. Investors should continue holding their existing investments or keep investing through SIPs rather than booking profits unless their asset allocation has deviated significantly and requires rebalancing. With very little cash available, markets may also have less protection against unexpected global events," he said.

Aparna Shanker, CIO-Equity, The Wealth Company MF echoed a similar view. Shanker shared with ETMutualFunds that cash levels alone should not determine investment decisions and large-cap funds are designed to remain largely invested, so lower cash balances are consistent with their investment mandate.

She further said that investors should continue aligning investments with their financial goals and time horizon rather than reacting to short-term market signals and large-cap funds continue to remain an important part of a diversified portfolio, while SIPs remain an effective investment strategy.

According to the report, among equity categories, large-cap schemes held the least cash at 2.2%, down 8 basis points from May and the lowest level in the last 12 months. Mid-cap funds held 3.9% cash, while small-cap funds held 5.3%. Cash holdings in Contra and Flexi Cap funds also fell to one-year lows. The decline in cash holdings comes at a time when domestic equity markets have remained resilient despite global uncertainties. Lower cash levels generally indicate that fund managers are finding investment opportunities and prefer to stay invested rather than wait on the sidelines.

Does lower cash allocation reflect fund managers' confidence in the market?

The sharp decline in cash holdings suggests fund managers have been steadily deploying available money into equities. Since large-cap funds are mandated to invest at least 80% of their assets in large-cap stocks, a further reduction in cash indicates that managers are seeing value in select companies despite pockets of expensive valuations.

Shanker said a decline in cash holdings to a one year low indicates that fund managers continue to find opportunities despite elevated valuations in select pockets of the market and large cap companies today

offer relatively better earnings visibility, stronger balance sheets and greater resilience amid global uncertainties.
She further said that lower cash allocation reflects a preference to stay invested and participate in long term wealth creation rather than hold idle liquidity and it is more a reflection of selective conviction than an aggressive bullish stance.

Dhawan said that managers are actively deploying capital because large-cap valuations, particularly in sectors like banking and technology, look reasonable compared to other market capitalizations at the moment.

This shifts the focus toward staying fully invested, as holding onto cash is not a good option, especially when the market is rising steadily, as it causes the fund to underperform the benchmark and regular monthly investments keep a steady stream of cash coming in, giving managers the confidence to lean into equities rather than holding onto cash, he further said.

As the report said that large-cap schemes held the least cash at 2.2%, mid-cap funds held 3.9% cash, while small-cap funds held 5.3% in June. Will this lowest cash level impact returns of large cap funds going forward if the market corrects going forward?

In the last one year, large cap funds delivered a negative average return of 0.83% with Samco Large Cap Fund losing the most of around 10.44% and Quant Large Cap Fund delivering the highest return of 6.73% in the same period.

In the same time period, mid cap funds gave an average return of 5.31% and small cap funds gave an average return of 4.99%.

Impact on returns if market corrects

One concern with lower cash holdings is that fund managers have a smaller liquidity cushion during market corrections. This means the portfolio may fully participate in any market decline.

Dhawan said that without a cash buffer to absorb the initial shock, the fund's net asset value will directly absorb the market drop, causing deeper short-term drawdowns & price erosion and if heavy redemption requests follow a market decline, managers could be forced to liquidate their large-cap holdings at lower prices, which can slow down the eventual recovery.

He further said that the standard resilience of large caps typically shows that small-cap stocks could get impacted during the initial panic phase, resulting in steeper day-to-day price changes & movements.

Shanker said that funds with lower cash balances may experience the full impact of a market correction in the near term as they have limited liquidity buffers. However, large cap portfolios typically comprise high quality businesses with durable earnings and strong competitive advantages, which have historically recovered faster from periods of volatility.

Therefore, while short term NAV movement may be more pronounced, long term returns will continue to be driven by earnings growth and business fundamentals rather than temporary cash positions, she further said.

Cash allocation in one year

Out of 32 large cap funds that have been there in the market for the last one year, around 15 funds increased their cash allocation with Quant Large Cap Fund increasing the cash level by Rs 369 crore to Rs 881 crore in June against Rs 512 crore in July 2025.

Around 17 large cap funds reduced their cash allocation in the last one year with ICICI Prudential Large Cap Fund reducing the cash allocation by Rs 2,299 crore to Rs 4,430 crore in June 2026 against Rs 6,730 crore in July 2025. SBI Large Cap Fund reduced the cash allocation by Rs 1,352 crore in the last one year.

JioBlackRock Large Cap Fund and Parag Parikh Large Cap Fund were the new entrants in the large cap segment.

Can lower cash limit future opportunities?

Lower cash reserves can reduce a fund manager's ability to deploy fresh money immediately if markets witness a sudden correction and valuations become attractive.

Shanker said that lower cash holdings may marginally reduce immediate deployment flexibility during sharp corrections, but active fund management extends well beyond maintaining cash and portfolio rebalancing, sector rotation and continuous inflows through SIPs provide opportunities to capitalise on changing market conditions.

She further said that over the next 12 to 18 months, we remain constructive on large cap equities. India's macroeconomic fundamentals, healthy domestic liquidity, improving corporate earnings trajectory and continued structural growth support the long term investment case. While volatility may persist due to global developments, large caps are likely to remain the preferred segment for investors seeking quality, resilience and relatively stable risk adjusted returns.

Dhawan said that tight liquidity directly limits a manager's flexibility to act quickly and buy quality stocks at discounted prices if a sudden market correction presents cheaper entry levels.

“Over the next 12 to 18 months, it is fair to expect steady but moderate returns, with large caps serving as a portfolio anchor despite the temporary lack of cash availability. Future performance will depend on continuous monthly flows, as new incoming capital will be the primary tool for managers to rebalance their sector allocations & manage their cash levels,” he further said.

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