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Heterogenous Investor Categories and Stock Market Dynamics: A Threshold Autoregressive (TAR) Approach

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Abstract: This study aims to detect time and regime dependent variations in dominance of investor categories on Indian stock market returns. For this we adopted a non-linear Threshold Autoregressive (TAR) model. We used three institutional investors categories (DII, Proprietary, FPI), two retail investor categories (Clients, Mutual funds) and one macro indicator (IIP). Monthly data from April 2014 to March 2026 were considered. Among the institutional investors, we found that in pre COVID period, FPIs were heavily investing in mid and small cap segments in high threshold periods, whereas DIIs were investing in broad and large cap segments in low threshold period. Contrastingly, in post COVID period, FPIs emerged as dominate drivers during high threshold periods in all market segments and DIIs had weakened and more regime dependent influence. IIP played a strong role in pre COVID which became ignorable in post COVID. Increased retail investor flows led to diminishing returns.

Keywords: TAR Model, FPI, DII, Equity Mutual Funds, IIP, BSE

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