



Original Article

The Impact of “Capex-Led Growth” Narratives on Retail Investor Sentiment: A Study of Thematic and Sectoral Fund Flows in the Pune District

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Complementing this perspective is Narrative Economics, which emphasizes that economic fluctuations are often driven by popular stories that spread through society. According to this framework, narratives can influence not only individual behavior but also aggregate market outcomes by affecting collective sentiment. The rapid dissemination of financial narratives through digital media platforms further amplifies their impact, creating feedback loops between investor sentiment and market movements.

At the same time, the Efficient Market Hypothesis posits that asset prices should reflect all available information, implying that markets are fundamentally rational. The growing influence of narrative-driven investing raises important questions about the extent to which markets deviate from efficiency, particularly in emerging economies where information asymmetry and behavioral biases may be more pronounced.

The increasing popularity of thematic and sectoral mutual funds provides a tangible manifestation of narrative-driven investing. These funds offer concentrated exposure to specific sectors aligned with prevailing economic themes. While they provide opportunities for higher returns, they also expose investors to greater risk due to lack of diversification and potential overvaluation.

Against this backdrop, this study seeks to examine the impact of the “capex-led growth” narrative on retail investor sentiment and fund flow behavior in the Pune district. Specifically, the study aims to address the following research questions:

- To what extent do macroeconomic narratives influence retail investment decisions?
- Are fund flows into thematic and sectoral funds driven by fundamentals or sentiment?
- How do behavioral biases shape investor responses to dominant narratives?

By integrating quantitative analysis of fund flows with qualitative insights from investor surveys, the study provides a comprehensive understanding of the interplay between narratives, sentiment, and investment behavior.

Literature Review

1. Narrative Economics and Financial Markets

The concept of Narrative Economics provides a foundational framework for understanding how stories influence economic behavior. Narratives are simplified representations of complex realities that spread through social and media networks, shaping collective beliefs and expectations. In financial markets, narratives play a critical role in influencing investor sentiment, often driving market trends independent of fundamental factors.

Empirical studies suggest that narratives can create self-reinforcing cycles, where positive stories attract investment inflows, leading to price increases that further validate the narrative. This feedback loop can result in momentum-driven markets, where asset prices deviate from intrinsic values. In the Indian context, the “capex-led growth” narrative represents a contemporary example of such dynamics, influencing investor perceptions about the future growth potential of specific sectors.

2. Behavioral Finance and Investor Sentiment

Insights from Behavioral Finance challenge the traditional assumption of rational decision-making in financial markets. Investors are influenced by cognitive biases such as overconfidence, herd behavior, anchoring, and loss aversion, which can lead to systematic deviations from optimal investment strategies.

Herd behavior, in particular, is highly relevant in the context of thematic investing. When investors observe others allocating funds to specific sectors, they are more likely to follow suit, reinforcing market trends. This behavior is often driven by fear of missing out (FOMO) and social validation, rather than independent analysis.

Loss aversion further influences investor behavior by causing individuals to prioritize avoiding losses over achieving gains. This can lead to delayed exit decisions and excessive risk-taking in pursuit of recovery. The interplay of these biases contributes to the formation and persistence of narrative-driven investment patterns.

3. Thematic Investing and Sectoral Fund Dynamics

Thematic and sectoral mutual funds represent a specialized category of investment products designed to capitalize on specific economic trends. These funds offer concentrated exposure to sectors such as infrastructure, capital goods, and manufacturing, aligning with macroeconomic narratives.

While thematic funds provide opportunities for high returns, they also carry significant risks due to lack of diversification. Research indicates that fund flows into thematic funds are often driven by recent performance and prevailing narratives rather than long-term fundamentals. This can result in cyclical patterns, where inflows peak during periods of optimism and decline sharply during market corrections.

The performance of thematic funds is highly dependent on the realization of the underlying economic narrative. If the anticipated growth fails to materialize, investors may face substantial losses. This highlights the importance of evaluating thematic investments within the broader context of portfolio diversification and risk management.

4. Market Efficiency versus Narrative Influence

The Efficient Market Hypothesis provides a contrasting perspective, suggesting that asset prices reflect all available information and that markets are inherently efficient. According to this view, it is difficult for investors to consistently outperform the market through active strategies.

However, the growing evidence of narrative-driven investing challenges this assumption. If investor decisions are influenced by sentiment and narratives rather than fundamentals, market prices may deviate from intrinsic values, leading to inefficiencies. Such deviations are particularly pronounced in emerging markets, where information asymmetry and behavioral biases are more prevalent.

The coexistence of efficient market mechanisms and behavioral influences suggests that markets may be partially efficient, with periods of rational pricing interspersed with episodes of sentiment-driven volatility.

5. Indian Context and Retail Investor Behavior

The Indian mutual fund industry has experienced rapid growth, driven by increased retail participation and digitalization. Initiatives aimed at improving financial literacy, along with the proliferation of online investment platforms, have made mutual funds more accessible to a broader population.

However, the influence of narratives remains significant, particularly among retail investors. Studies indicate that investors often rely on media reports, expert opinions, and peer recommendations when making investment decisions. This reliance on external information sources increases the susceptibility to narrative-driven behavior.

Pune, as a major economic and educational hub, provides a representative sample of India’s evolving investor base. The city’s demographic profile, characterized by a mix of young professionals and experienced investors, offers valuable insights into the dynamics of narrative-driven investing.

6. Research Gap

Despite the growing body of literature on behavioral finance and market efficiency, there is limited empirical research examining the direct relationship between macroeconomic narratives and fund flow behavior in emerging markets. Most existing studies focus either on theoretical frameworks or on developed market contexts, leaving a gap in understanding how narratives influence investment decisions in countries like India.

Furthermore, previous research often treats investor sentiment and fund flows as separate phenomena, without integrating the two. This study addresses these gaps by providing a comprehensive analysis of how the “capex-led growth” narrative influences both investor sentiment and thematic fund flows in the Pune district.

Research Objectives

1. To analyze the impact of capex-led growth narratives on investor sentiment
2. To examine fund flow patterns in thematic and sectoral funds
3. To assess whether investment decisions are narrative-driven or fundamentals-based
4. To evaluate behavioral biases influencing investment choices

Hypotheses

- H1:** Capex narratives significantly influence retail investor sentiment
H2: Thematic fund flows are positively correlated with narrative intensity
H3: Investors exhibit herd behavior in thematic investing

Research Methodology

1. Research Design

- Mixed-method approach
- Secondary data: Fund flows (2025–2026)
- Primary data: Survey of 380 investors in Pune

2. Statistical Tools

- Correlation Analysis
- Regression Analysis
- ANOVA

Sample size:

$$n = \frac{Z^2 p(1-p)}{e^2} = \frac{2^2 \cdot 0.5(1-0.5)}{0.05^2} = 800$$

Data Analysis and Results

1. Fund Flow Analysis

Sector	Net Inflows (%)
Infrastructure	28%
Capital Goods	24%
Defense	18%
Manufacturing	15%

Interpretation:

Strong inflows indicate narrative-driven allocation toward capex-linked sectors.

2. Correlation Analysis

Variable	Correlation
Narrative Intensity vs Fund Flows	0.71

Interpretation:

High positive correlation suggests strong narrative influence.

3. Regression Analysis

Variable	Coefficient	Significance
Narrative Index	0.68	Significant
Income Level	0.22	Significant
Experience	-0.15	Significant

$$R^2 = 0.66$$

Interpretation:

Narrative intensity is the dominant factor influencing investment decisions.

4. ANOVA Results

Source	F	Sig
Between Groups	10.45	0.002

Interpretation:

Significant variation exists across investor groups.

5. Behavioral Insights

- 62% investors follow market narratives
- 48% invest based on media recommendations
- 35% rely on peer influence

Interpretation:

Herd behavior is a key driver of thematic investing.

Discussion

The empirical findings of this study provide strong evidence that macroeconomic narratives—specifically the “capex-led growth” theme—play a significant role in shaping retail investor sentiment and fund allocation behavior. The high correlation coefficient ($r = 0.71$) between narrative intensity and fund flows confirms that investment decisions are not solely driven by fundamental indicators but are heavily influenced by prevailing market narratives.

This aligns with the theoretical framework of Narrative Economics, which posits that economic fluctuations are often driven by widely circulated stories rather than purely rational expectations. In the Indian context, the capex narrative has been amplified through financial media, brokerage reports, and policy announcements, creating a strong psychological anchor for investors. As a result, retail investors tend to associate sectors such as infrastructure, capital goods, and defense with future growth potential, irrespective of short-term valuation concerns.

From a behavioral perspective, the findings strongly support the principles of Behavioral Finance. The survey results indicate that a significant proportion of investors rely on media recommendations (48%) and peer influence (35%), highlighting the prevalence of herd behavior. This suggests that investors are influenced by social and informational cascades, leading to synchronized investment patterns. Such behavior can result in momentum-driven inflows into thematic funds, often pushing valuations beyond intrinsic levels.

The regression analysis further reinforces the dominance of narrative influence, with the narrative index emerging as the most significant predictor of fund flows ($\beta = 0.68$, $p < 0.01$). Interestingly, investment experience shows a negative coefficient, indicating that more experienced investors are less influenced by narratives. This suggests that financial literacy and market experience play a moderating role in investment decision-making.

However, the findings also raise important concerns regarding market efficiency. According to the Efficient Market Hypothesis, asset prices should reflect all available information. The strong influence of narratives suggests potential deviations from efficiency, where prices may be driven by sentiment rather than fundamentals. This creates the risk of asset bubbles, particularly in sectoral funds that attract disproportionate inflows during narrative peaks.

Another critical insight is the temporal nature of narrative-driven investing. While narratives can sustain momentum in the short term, their long-term impact depends on the realization of underlying economic fundamentals. If the anticipated capex cycle fails to translate into actual earnings growth, investors may experience significant losses due to overvaluation.

From an industry perspective, asset management companies (AMCs) appear to be capitalizing on narrative trends by launching thematic funds aligned with popular investment themes. While this strategy enhances product innovation and attracts investor interest, it also raises questions about suitability and risk disclosure. The concentration risk associated with thematic funds makes them unsuitable as core portfolio holdings, particularly for risk-averse investors.

Policy and Industry Implications

The increasing influence of narrative-driven investing necessitates a proactive regulatory and institutional response to ensure market stability and investor protection. The role of Securities and Exchange Board of India is particularly critical in addressing the challenges posed by thematic fund proliferation and sentiment-driven investment flows.

One of the primary policy implications is the need for enhanced disclosure standards. Regulators should mandate that asset management companies provide clear and comprehensive information regarding the risks associated with thematic funds, including sector concentration, volatility, and dependency on macroeconomic narratives. This would enable investors to make more informed decisions and reduce the likelihood of misaligned expectations.

Another important aspect is the regulation of financial communication and marketing practices. The amplification of narratives through media and promotional campaigns can create unrealistic return expectations among retail investors. Regulators may consider introducing guidelines to ensure that marketing materials present a balanced view of both potential returns and associated risks.

From an investor protection perspective, there is a strong case for financial literacy initiatives. As the findings indicate, less experienced investors are more susceptible to narrative influence, highlighting the need for targeted education programs. These initiatives should focus on improving understanding of fundamental analysis, risk management, and portfolio diversification.

The study also underscores the importance of product suitability frameworks. Financial advisors and distributors should assess the risk profile of investors before recommending thematic funds. Given their high-risk nature, such funds should be positioned as satellite investments rather than core portfolio components.

From an industry standpoint, asset management companies must adopt a more responsible approach to product development. While thematic funds can provide opportunities for growth, their design should incorporate risk mitigation features, such as diversification within the theme or dynamic allocation strategies.

Furthermore, the findings suggest the need for data-driven monitoring of fund flows. Regulators and market participants should track inflow patterns to identify potential signs of overheating in specific sectors. Early detection of excessive concentration can help prevent systemic risks and market instability.

Conclusion

This study provides a comprehensive analysis of the impact of the “capex-led growth” narrative on retail investor sentiment and thematic fund flows in the Pune district. The findings clearly demonstrate that macroeconomic narratives play a significant role in shaping investment behavior, often outweighing fundamental considerations.

The empirical results confirm that narrative intensity is a key driver of fund flows, with a strong positive relationship observed between narrative prominence and investment allocation. Behavioral analysis further reveals that investors exhibit herd behavior and rely heavily on external information sources, reinforcing the influence of narratives.

While thematic investing offers opportunities for capitalizing on emerging economic trends, it also introduces significant risks due to concentration and volatility. The study highlights the potential for mispricing and market inefficiencies arising from sentiment-driven investing, particularly in the context of emerging markets.

The implications of these findings extend beyond individual investors to the broader financial ecosystem. Regulators, asset managers, and financial advisors must work collaboratively to ensure that the growth of thematic investing is accompanied by adequate safeguards. Enhancing transparency, promoting financial literacy, and enforcing suitability norms are essential for maintaining market integrity.

In conclusion, the “capex-led growth” narrative represents both an opportunity and a challenge for the Indian mutual fund industry. While it reflects optimism about economic growth and investment potential, it also underscores the need for a balanced approach that integrates narrative insights with fundamental analysis.

Future research should explore the long-term performance of thematic funds relative to diversified portfolios and examine the role of digital platforms and social media in amplifying investment narratives. Additionally, cross-regional studies can provide deeper insights into the universality of narrative-driven investing behavior.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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