Indian Stock Market: Mystery Unravelled

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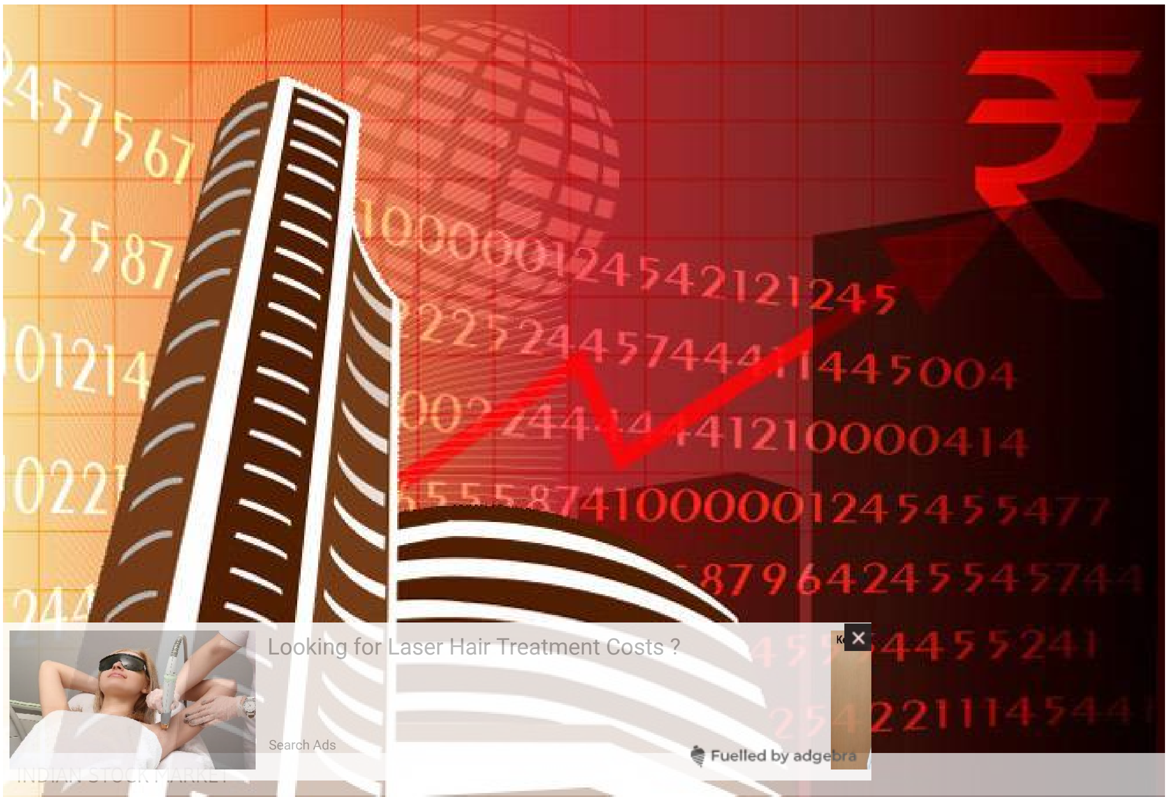

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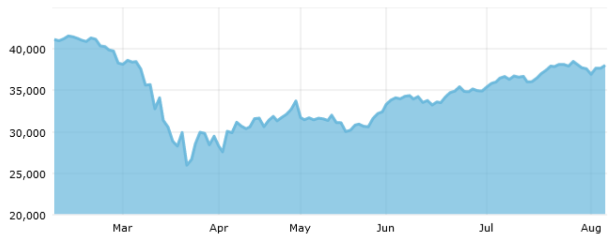
The Covid 19 pandemic, an unprecedented situation and also defined as a 'Black Swan' event, resulted in human and economic consequences for nations across the world. It ensued a complete 'Lockdown' being announced by the Prime Minister, Mr. Narendra Modi until April 14, 2020 to battle the transmission of the virus and minimize its disastrous impact on citizen's health. The Unlock resulted in demand and supply chain disruptions and a liquidity crisis for countries. A logical outcome of the havoc was its negative impact on stock markets globally.

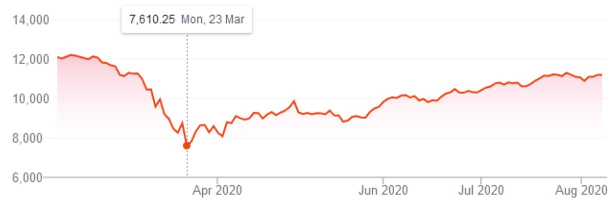
The market capitalization in Indian stock exchanges prior to the pandemic was approx. $2.16 trillion and market conditions were largely favorable with record highs being witnessed in January 2020. With the onset of the pandemic, it brought about a scenario of gloom and uncertainty in the stock markets, with markets crashing to five year lows and trough points not witnessed ever since the Global Financial Crisis of 2008. However, during the GFC, the Sensex had crashed 61% in a year as against 30% currently in a three-month time period.

BSE Sensex: Six months snapshot……



Source: https://www.bseindia.com/index.html

With the virus pervading the borders of the country in March 2020, the BSE Sensex crashed to 25,981.24 on March 23, 2020 from 41569.50 on February 13, 2020. The news of Unlock 1.0 did bring some cheer to the markets and it recovered to 33,303.52 on June 1, 2020. Domestic Institutional Investors (DIIs) invested Rs. 55,955 crores in this interim period, the highest during the past 15 years. Nifty was not far behind and its numbers too were reflective of a similar trend, with Nifty ending up at 7610.23 on March 23,2020 and Unlock 1.0, bringing about its recovery to 9826.15 as on June 1, 2020. This fall was in line with global benchmark indices.



Source: https://www.nseindia.com/

The gloom and doom was indicative of weak sentiments that the virus had unleashed on investors, domestically and globally. Interestingly, the uncertainty adversely impacted the Sensex / Nifty in March as investors resorted to relentless selling. This brought to light a paradox of FII money leaving the boundaries of the host country (approx. Rs 65,816 crores) even though it offered a higher interest rate relative to the Fed rate. FIIs continued to be net sellers during March-May, 2020 despite Fed rate getting reduced from 1.25% to 0.25% (as per the decision on March 15 by Federal Reserve) goes against the normal behaviour of FIIs. This contrarian behaviour was an outcome of the uncertainty caused due to the pandemic. A point of concern for emerging markets including India was the massive sell-off in global risk assets by foreign portfolio investors and theirs preferring to move back to the safety of dollar backed assets.

To add fuel to the fire, with news of production being brusquely brought to a halt, fear of retrenchment and layoffs, consumer demand focused on essential items, sectors such as tourism, aviation, hospitality, entertainment etc. receiving a major blow and all economic indicators pointing towards contraction of economies world over, stock prices of companies were adversely affected. RBI and Government did unfold a slew of measures such as infusion of liquidity of Rs. 1.37k crore by bringing down the repo rate and reverse repo rate, 3 lakh crore automatic collateral free loan for businesses / MSMEs, three months' moratorium on interest payments which was subsequently extended to August 31, 2020 etc.

Stock markets on the rise

Interestingly, with the coronavirus now spreading both to the urban and rural areas in India, and people having contracted the virus being as high as 20,27,746 as on August 7, 2020, the stock markets have been seen to be going against the tide and witnessing a rise. BSE Sensex has touched 37,929.24 as on August 7, 2020. Localized lockdowns have also not acted as a deterrent to increased buying sentiments in stock markets.

One of the key reasons that this rise can be ascribed to are increased foreign portfolio investments (FPI) into India. Increased liquidity by way of stimulus by Central Banks is finding its way into the stock markets globally. May - June 2020 shows FPI inflows into India touching a 15 month high and receiving net FPI inflows to the tune of Rs, 36,400 crores despite the fact that economic indicators were in the recovery mode but still not strong enough. Even though rating agencies had downgraded India's sovereign ratings (Moody's had downgraded the same to 'Baa3' from 'Baa2' with the outlook 'negative'), foreign investors are still upbeat about the Indian economy.

Macroeconomic fundamentals, government policies, stimulus measures announced being a mixed bag of demand and supply measures with structural reforms and near to medium term reforms point towards a positive outlook for investors. Thus, return of FIIs since June 2020 may also be ascribed to big-ticket reform measures announced by the Prime Minister, Mr. Narendra Modi. With the PM stating that more structural measures pertaining to land and labour reforms are on the anvil and are being are being actively discussed in the Ministries, investor confidence in India's policy measures has risen. It is important that the Government actively moves into an implementation and execution phase so that positive outcomes of these reforms and measures can be seen and felt at the ground level and give the much needed boost to economic growth and further reinforce investor confidence.

Stock market is influenced and buoyed by investor optimism about the economy in future. The Macroeconomic Report for July 2020 released by the Finance Ministry is indicative of an uptick in the economy and mentions signs of green shoots appearing. The report cites a host of high frequency macroeconomic indicators such as Index of Industrial Production, Purchasing Manager's Index, steel and cement production, e-way bill generation, GST tax collection, railway freight, generation of power etc. all showing improvements. This has helped in boosting the confidence of investors and encouraged market sentiments with regards to economic recovery. Yes, increasing number of Covid19 cases are alarming, but on the other hand, with steady progress taking place in the research for Covid19 vaccine, stock markets are hopeful and positively reinforcing buyer sentiment amidst positive global cues.

It must also be borne in mind that FPIs are looked upon as "Influencers" by Retail Investors. With FPI inflows into India touching a 15 month high in May-June investor sentiments turned positive with 10 lakh demat accounts being opened only in June. Drops in BSE Sensex provides investors especially the retail investors the opportunity to enter into the market and earn a higher rate of return especially when they have a long term perspective in mind. The hope and belief amongst these investors is that Covid19 shall also become history and liquidity will push prices of stocks up. Rather, going by numbers the new entrants to the stock markets have been blessed with plentiful beginner's luck. The fear in the minds of these retail investors is that with economic recovery they might not get an opportunity to buy at current prices. With an average annual return of 15%, the stock market does become an attractive option for investors to venture in, partake in the profits and be a part of the growth story.