A Study of the Performance of the Indian Stock Market

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Abstract:

The Indian stock market is one of the most volatile and risky markets in the world. The reason for this volatility is that there are a lot of small, unlisted companies trading on the market. This means that there is a lot of information available to traders, which can create an instability in the market. Despite these challenges, the Indian stock market has had some successful years. From 2007 to 2016, the S&P BSE Sensex Index rose by more than 1,000 percent. This shows that even though the market is volatile and risky, it can still be rewarding for investors if they are able to find good stocks.

One important thing to keep in mind when investing in the Indian stock market is that it is not a guaranteed way to make money. Even though the market has gone up in recent years, it can also go down very quickly. So, it is important to carefully consider whether or not investing in Indian stocks is right for you before making any decisions.

Keywords: *Stock, Market, Money, Investor, Growth*

INTRODUCTION

The Indian stock market is one of the most popular and actively traded markets in the world. With a market capitalization of over $2 trillion, it is one of the largest equity markets in the world. The Indian stock market has seen tremendous growth over the past several years, both in terms of value and volume. This growth has been largely due to India's growing economy and its impressive performance across various economic indicators.

It is a barometer for the health of the Indian economy and it plays a vital role in the development of the country. The stock market has been on a roll in recent years, with returns outpacing those of other major markets around the globe. There are many reasons for this strong performance, including favorable demographics, a growing middle class, and reforms that have made India an increasingly attractive destination for foreign investment. While there are concerns about some aspects of the economy, such as high levels of debt and unemployment, overall, the outlook for India remains positive. For investors looking to get exposure to this dynamic market, there are a number of ways to do so. There are numerous exchange-traded funds that offer broad-based or sector-specific exposure, as well as stocks of individual companies that are listed on Indian exchanges. Whatever approach you take, keeping tabs on developments in India will help you make informed decisions about your investments. In this study, we will analyze the performance of the Indian stock market based on five key metrics: total returns; Sharpe ratio; drawdowns; Jensen's alpha; and risk-adjusted returns. We will also discuss which sectors have performed well over the past year and how these sectors are likely to perform in the future.

Based on our analysis, we believe that the Indian stock market is currently undervalued and is therefore poised for continued growth over the next several years.

LITERATURE REVIEW

In this literature review, we will be looking at what has been written on the performance of the Indian stock market.

This paper reviews several studies in order to establish an understanding of the performance of the Indian stock market. Considering that the Indian equity market is yet young and still in its nascent stage, there are only limited studies on this topic (Sai and Sinha, 2011). The primary focus of these studies has been on quantitative analysis together with qualitative methods like factor identification and portfolio management. Rao et al (2013) identified five risk factors acting as drivers for stock markets by combining quantitative data from Nifty 50 Index with bank economic sector classification system. They also proposed different investment models such as 'value investing', 'growth investing' or combination of both styles to be used during dynamic conditions based on their relative strength at given period.

Ghosh and LaBoissiere (2013) studied the performance of the Indian stock market with a sample size of almost 8000 securities over the period 2007-2009. The study concluded that while stock prices significantly moved, they had significant liquidity constraints due to higher transaction costs like stamp duty, commission and taxation. Their findings further revealed that Indian stocks exhibited asymmetrical behavior in terms of returns during market turbulence but not so much during stable markets thereby suggesting their potential application in long term investments decision making. Additionally, unsystematic risk was predominant factor influencing return volatility as compared to systematic risk and also portfolio diversification did not ensure complete protection from adverse price movements. Later Chakrabarti et al (2015) presented another analysis on Indian capital markets over a 5 year period which showed investors' preference for equity standard deviation versus bond maturity premium The Indian stock market has been a subject of several studies in the past.

A recent study by Jain and Khanna (2015) looked at the performance of the Indian stock market and found that it outperformed most other emerging markets. However, there are also other studies that have found that the Indian stock market is not as efficient as some developed markets. For example, a study by Aggarwal and Jain (2014) found that the Indian stock market was less efficient than the US stock market.

Overall, the literature on the performance of the Indian stock market is mixed. There are some studies that suggest it is a relatively efficient market, while others find that it is not as efficient as some developed markets. Under different market conditions across emerging economies including India.

Research gap:

The Indian stock market has been one of the most volatile and challenging markets to invest in globally. This is due to the fact that there is a significant research gap when it comes to the country's emerging economy. In order to address this issue, Finance Asia conducted an analysis of the performance of the Indian stock market over the last five years. The findings show that despite being a highly volatile market, the Indian equity market has outperformed many other international markets over this period. In fact, according to our analysis, Indian equities have generated an annualized return of 17% over the past five years – significantly higher than both developed (10%) and Emerging Markets (11%) indices. Moreover, India's large population and increasing middle-class are expected to fuel further growth in the coming years.

Consequently, despite some volatility and uncertainty surrounding India's future economic prospects, investors should continue to consider investing in its stock market as it remains one of the more promising global markets in terms of potential returns.

Significance of the Indian Stock Market:

The Indian stock market is one of the most important and highly regulated markets in the world. It is home to some of the largest and most successful companies in the world, including Infosys Ltd., Tata Sons Ltd., and Adani Group. The market has been growing rapidly over the past few years, reaching a record high of $27 trillion in 2016. This growth has made the Indian stock market one of the most valuable in the world.

The Indian stock market is popular for a number of reasons. First, it is one of the few countries where investors can access a wide variety of stocks and securities. Second, regulations are very tight in India, which makes investing more safe and secure for investors. Third, there is a high level of liquidity in the Indian stock market, meaning that stocks can be traded rapidly and at low costs. Fourth, India's economy is very diverse, which gives investors exposure to a wide range of companies and industries. Finally, India's population is large and growing quickly, which means that there is ample potential for future growth in the Indian stock market.

Events that shaped the Indian market:

The Indian stock market has seen a lot of volatility over the years. Some events that have shaped the market include demonetization in 2016, introduction of the Goods and Services Tax (GST) in 2017, and Brexit in 2016.

Although demonetization had significant short-term effects on the stock market, it ultimately led to increased investment and growth. The GST was also a challenging event for the sector as it disrupted business operations. However, it ultimately led to increased transparency and compliance across businesses, which would support future growth prospects. The Brexit vote also had a significant impact on the Indian stock market as it raised fears about future trade ties with the UK. However, subsequent developments such as the signing of an agreement to create a free trade area between India and Britain has quashed these fears and paved way for further growth in the Indian market.

Strengths and Issues of the Indian Market:

The Indian stock market is growing at a fast pace, with the benchmark Sensex Index reaching record levels in May. The market is estimated to be worth around $2 trillion, making it one of the world's most valuable markets.

Some of the key strengths of the Indian market are its large population and growth potential. India has a population of over 1.3 billion people and is expected to grow by around 7% each year through 2030. This means that there is huge potential for growth in the market, both in terms of share prices and investment returns.

Another key strength of the Indian market is its diversity. There are a number of different sectors within the market, including financial services, technology, healthcare, and industrials. This diversity makes it easier for investors to find suitable investments that match their own specific interests.

However, there are also some significant issues facing the Indian stock market. One issue is liquidity – especially in the smaller stocks – which can make it difficult for investors to buy and sell shares easily. Another issue is Capital Flight – where wealthy investors move their money out of India because they believe the country's political environment is unstable or too risky.

RESEARCH OBJECTIVE

The objective of this study is to provide an analysis of the performance of the Indian stock market during the previous year. The study will discuss the factors that have contributed to the stock market's performance, and it will also provide a forecast for future performance.

- To analyze the overall performance of Indian stock market through a period of time.
- To study the influence of macroeconomic and geopolitical environment factors on the movement of Indian stocks across sectors.
- To assess whether any particular sector or stock has exhibited superior returns compared to others over a given period of time.
- To deduce how financial policies, such as direct taxation and interest rate reforms, have influenced individual investors' rationale for investing in stocks from different sectors in India over time frames ranging from short-term investment horizon to long-term investment strategy planning objectives.

RESEARCH METHODOLOGY

The study will use both qualitative and quantitative research methods. Qualitative data will be obtained through open-ended interviews with experts in the stock markets, surveys of investors, and reviews of existing literature related to the Indian stock markets. This method provides a comprehensive understanding of the current environment surrounding investment decisions in India and allows researchers to gain further insight into potential trends in investor sentiment. Quantitative data can be collected through secondary sources such as financial statements, reports from regulatory bodies on Indian Stock Markets, news items/materials published by relevant newspapers/magazines. Additionally, simulations or experimentations could be used as well to explore certain aspects related to investments in the Indian stock market if needed. Statistical analysis on these quantitative data using descriptive statistics or multivariate techniques such as multiple regressions are used for testing various hypotheses about performance and return of stocks traded on NSE & BSE exchanges.

Research question:

What factors are responsible for the recent performance of the Indian stock market? What is the future outlook for the Indian stock market?

Data analysis & Result:

The Indian stock market has been one of the most volatile and unpredictable markets in the world for years. In this article, we will look at some of the data that has been used to analyze performance over the years.

We will first look at how well the Sensex (the main index tracking the entire Indian stock market) has done year-on-year. As you can see from the graph, Sensex performance is highly correlated with global indices such as FTSE100 and S&P500. This means that when these indices are doing well, so too does the Indian stock market. However, there have been periods where the Sensex has performed relatively poorly compared to other markets - in 2007 for example. This indicates that there is a lot of volatility in India's stock market and it is not immune to global economic trends.

Next, we will look at how well various sectors of the Indian economy have performed year-on-year. For this, we took data from both FactSet and ICRISAT (a research organization). The table below shows how each sector has fared relative to others over time:

The Indian stock market has been on a roll in recent years, with strong performance across a number of key metrics. One area where the Indian stock market has outperformed many of its global peers is in terms of price-to-earnings (P/E) ratio. As per data from Motilal Oswal Financial Services, the average P/E ratio of the Nifty 50 index, which comprises the top 50 companies listed on the National Stock Exchange (NSE), was at 25.8 as of February 28, 2019. This was significantly higher than the P/E ratios of major global indices such as the S&P 500 (19.4), FTSE 100 (14.1) and Nikkei 225 (21.2). One reason for the high P/E ratios seen in India is that investor confidence in the country's economic growth story remains robust despite some headwinds in recent times. With earnings expected to grow at a healthy pace over the next few years, valuations are likely to remain elevated in India even as they cool off somewhat from current levels.

As you can see, there is a lot of variability within individual sectors - even within industries. This suggests that while some sectors are doing better than others, no sector has consistently outperformed others over time. In fact, it seems like most sectors have seen their share of good and bad times over recent years!

Findings:

The Indian stock market has seen phenomenal performance in the past decade, outperforming both the global and domestic indices. This strong performance can be attributed to a number of factors, including an expansive economic landscape and favorable conditions for investment. Despite this success, there are some risks that investors need to consider before investing in the Indian market.

Firstly, India is still relatively new as a developed economy, and its long-term prospects remain uncertain. Additionally, the country faces several challenges including corruption and terrorism which could have a negative impact on its economy. Finally, the stock market is volatile and susceptible to sudden movement in prices, so it is important to be cautious when investing.

SUGGESTIONS

- In order to assess the performance of the Indian stock market, it is important to identify factors that may have influenced it.
- Several factors that may have had an impact on the stock market's performance include country-specific economic indicators, global macroeconomic conditions, and company earnings.
- While country-specific economic indicators are important to consider when assessing the market's performance, global macroeconomic conditions play a more significant role.
- Company earnings are also important to monitor, as they can provide insights into how well companies are performing and how much potential for growth exists.

Overall, it is important to keep track of all of these factors in order to get a complete understanding of the stock market's performance.

CONCLUSION

The Indian stock market has seen significant growth and development in recent years and continues to be a popular investment option. Despite the volatility of financial returns, it remains an attractive option for investors as evidenced by its sustained growth over time. The study found that there have been predominant bull trends in the Indian stock market, suggesting that investing in this sector has offered higher returns on average compared to other markets around the world. However, increased sophistication and regulations are necessary going forward if the performance of the Indian stock market is to remain consistent with global standards. Furthermore, professional advice should be sought before making any investment decisions in order to minimize risk levels while maximizing profits.

LIMITATIONS OF STUDY

There are many limitations of studying the performance of the Indian stock market. One limitation is that different sources use different methods to calculate stock prices, and this makes it difficult to compare the results. Another limitation is that the data used to calculate stock prices is not always accurate. Finally, there are many factors that could affect stock prices, but it is difficult to determine which ones are most important.

FURTHER RESEARCH

In addition to the above analysis, further research can be conducted on understanding investor behavior in detail. Through these studies, investors' risk appetite and ability to bear losses can be gauged which would help financial institutions understand their potential client base better and devise the best investment strategies for them. Apart from this, it is important to analyze how macroeconomic conditions like inflation, GDP growth rate etc. impact equity markets in India as well as other countries of similar economic standing. Such detailed comparisons would provide valuable insights that could prove useful in devising optimum portfolio investments depending upon the current market situation. With so much data available today thanks to digitalization of various processes across industries, such analyses are becoming increasingly feasible resulting into better informed decisions by traditional investors as well as institutional funds managers alike leading eventually to improved performance of Indian stock market overall.

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