

Evaluating Risks and Opportunities For The Indian Stock Market: Sustaining The Bull Run Amid Global and Domestic Economic Dynamic

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ABSTRACT

This paper investigates the risks and opportunities influencing the sustainability of India's ongoing stock market bull run amidst evolving global and domestic economic dynamics. It discusses factors such as global economic trends and domestic policy shifts impact market resilience. Special attention is given to identifying key risk factors that could potentially disrupt the bull market trajectory. The paper also delves into the upcoming significant events to monitor closely.

Key Words : GDP, CPI, GST, Repo Rate, Consumption, PSU, FIIs, SIP, Fiscal deficit, Inflation, G20, Unemployment, Elections, Liberalization, RBI, NSE, BSE.

Research Question: This paper will aim to discuss the potential risks and opportunities for the Indian stock market in the context of current global and domestic economic scenario, as well as the factors sustaining the Indian stock market's bull run, which is expected to continue in the coming years.

Objectives

- Analyzing the economic factors such as inflation rates, interest rate changes, and geopolitical tensions impact the Indian stock market.
- Understanding the opportunities and challenges for the Indian stock market in the coming years
- Discussing the upcoming important events and how the stock market will react to them.

INTRODUCTION

With India's economic growth remaining optimistic, it boasts a large and diverse consumer base. Driven by robust domestic consumption, government spending initiatives, and a gradual rebound in private investment, driven by a young population with increasing disposable incomes and urbanization. Government-led schemes such as Make in India and Digital India aim to foster manufacturing and technological innovation, further contributing to economic growth. The ease of doing business reforms in India has enhanced private investment, attracting both domestic and foreign capital across sectors like manufacturing, infrastructure, and technology.

While the growth story of India looks promising, it faces several challenges that could impact its growth story. One of the challenges is that fluctuating global interest rates can influence capital flows and currency valuations, requiring prudent monetary policy management by the Reserve Bank of India (RBI). The other challenge is volatile crude oil prices, which pose risks to India's current account deficit and inflation dynamics, necessitating energy security measures and fiscal discipline. Moreover, the uncertainty surrounding domestic elections can introduce short-term volatility, although policy continuity and reform momentum often prevail irrespective of political transitions.

Despite these challenges, India's growth prospects remain robust over the long term. Its large and youthful population, expanding middle class, improving infrastructure, and strategic geopolitical position contribute to its attractiveness as an investment destination. Moreover, ongoing structural reforms aimed at enhancing ease of doing business, addressing regulatory bottlenecks, and fostering innovation are laying the foundation for sustainable growth and wealth creation opportunities for investors. Recently, India became the 5th largest economy in the world with a GDP of \$3.7 trillion, and the National Stock Exchange became the 7th largest stock exchange in the world by total market capitalization.

Opportunities in the Indian Stock Market and Key Factors Driving the Bull Run:

- **Tax collection at all time highs(GST figures):** On July 1, 2017, the Modi government implemented GST, a nationwide indirect tax levied on businesses, with the goal of making India a unified market. replacing the complex web of central and state taxes. India collected Rs1.68 lakh crore as goods and services tax (GGST) in February, over 12.5 percent from the last year, showing continued momentum in economic activity. This growth was driven by a 13.9 percent rise in GST from domestic deals and a 13.9 percent increase in GST from imports of goods.

- **Gross Domestic Product growth above estimates:** In Q3 of 2023-24, India's GDP at constant (2011-12) prices surged to ₹43.72 lakh crore, marking an 8.4% growth from ₹40.35 lakh crore in Q3 of the previous fiscal year. At current prices, GDP reached ₹75.49 lakh crore, up 10.1% from ₹68.58 lakh crore year-on-year, as reported by the NSO. Jahangir Aziz from JP Morgan highlighted that achieving 5.5% growth for FY24 amid severe global headwinds would signify an exceptional year for India. Prime Minister Narendra Modi emphasized India's significant GDP growth, affirming it as a testament to India's economic strength and potential to enhance livelihoods and foster a developed nation.
- **Control in CPI and Inflation:** Inflation in India is substantially lower than it was a year ago, owing significantly to the RBI's monetary policy stance. In an article written by Rajeswari Sengupta, she stated CPI inflation fell to 5.1 percent in January 2024, the lowest in three months. Core inflation came down to only 3.6 percent in January, its lowest rate since the start of the pandemic.
- **Strong demand for loans despite the high repo rate:** Despite the high repo rate to control inflation, there is strong demand for loans. The current repo rate exceeds the comfort level of the industry, but it is not affecting consumer sentiment. An article by ET Prime stated that even as inflation is now well within the central bank's comfort zone, the monetary policy committee (MPC) decided to hold the policy repo rate at 6.5% as transmission of the cumulative policy rate hike is still underway.
- **Public sector undertakings turnaround:** The PSU index demonstrated a remarkable 45% outperformance over the Nifty, driven by robust earnings and enhanced efficiency within state-owned enterprises (PSUs). This surge was accompanied by a substantial increase in market capitalization, rising from Rs 34.7 lakh crore to Rs 50.5 lakh crore, marking a Rs 15.8 lakh crore increment. Moreover, the profits of PSUs also saw significant growth, bolstering investor confidence and highlighting the sector's resilience and strategic advancements in operational effectiveness and financial performance.
- **Political Stability:** Modi's third term has demonstrated political stability in India, which attracts more foreign investors and enhances the country's growth. Stock markets favor stability, and the BJP's performance over the last two terms has significantly contributed to India's accelerated economic growth. The consistent policies and reforms under Modi's leadership have created a favorable investment climate, boosting investor confidence and fostering a robust economic environment conducive to economic development.

- **SIPs above 17k crore per month:** Monthly flows in the mutual fund industry through systematic investment plans (SIPs) have crossed the ₹17,000 crore mark, reflecting a significant increase over the past few years. This growth trend is expected to continue in the coming years. The Association of Mutual Funds in India (AMFI) reported that as of January 31, 2024, there were 79.2 million active SIP accounts, demonstrating a strong commitment from individual investors. This surge in SIP investments indicates a growing preference for disciplined, long-term investment strategies among retail investors, contributing to the stability and growth of the Indian mutual fund industry.
- **16 crore+ demat accounts:** The number of demat accounts in India has surpassed 16 crore, signaling a significant rise in retail participation in the stock market. This surge reflects growing household confidence and an increased risk appetite among investors. Over 1 lakh new investors are entering the market daily, indicating robust interest and engagement in equity investments. Projections suggest that India will add 100-150 million new investors this decade. According to the Bombay Stock Exchange (BSE), as of February 9, 2024, the number of registered investors stood at nearly 161 million. This trend underscores the democratization of financial markets and the broadening base of retail investors.
- **Decrease in Fiscal deficit:** The Indian government aimed to reduce its fiscal deficit and successfully achieved a lower-than-expected deficit for this financial year. By anticipating increased GST collections, the government managed to lower gross borrowings, thereby easing its debt repayment burden. This prudent fiscal management reflects India's commitment to maintaining economic stability and sustainability, fostering investor confidence, and supporting long-term growth prospects. Improved GST revenue plays a crucial role in bolstering the government's fiscal health and financial resilience.
- **G20:** India's G20 presidency boosted foreign investment, promoted liberalization, improved foreign relations, and addressed climate change. It provided a platform for India to engage with major economies, sharing its experiences and perspectives. This enhanced collaboration and policy alignment fostered a conducive environment for investment. Additionally, the presidency elevated India's profile on the global stage, showcasing its leadership in addressing global challenges and reinforcing its role as a key player in the international community.

Challenges Ahead for the Indian Stock Market:

- **High Unemployment rate:** India's rapid population growth presents a critical challenge as economic expansion fails to generate sufficient employment opportunities. The adoption of artificial intelligence and enhanced workforce efficiency further exacerbates this issue, limiting job creation despite overall economic growth. This mismatch between demographic expansion and employment generation underscores a pressing concern for India's socio-economic landscape. As technology advances and productivity improves, the traditional labor-intensive sectors struggle to absorb the burgeoning workforce, necessitating strategic interventions in education, skill development, and economic policies to align growth with job creation and mitigate potential social and economic disparities.
- **Negative global cues:**
 1. The global economy's recent downturn, triggered by high interest rates aimed at curbing inflation and economic overheating, has plunged major economies into recession. This situation has created a challenging environment marked by reduced consumer spending, diminished business investments, and heightened financial market volatility worldwide. Central banks' stringent monetary policies have exacerbated economic slowdowns, impacting sectors reliant on borrowing and investment.
 2. The Russia-Ukraine crisis has inflicted additional strain on global business operations. Escalating input costs, particularly in energy and commodities, have elevated production expenses for firms globally, leading to squeezed profit margins. The geopolitical tensions stemming from this crisis have also intensified uncertainty and market volatility, complicating strategic planning and investment decisions for Indian businesses
- **Inflation:** Inflation tends to act as a negative trigger for the stock markets. Rising Inflation in India has increased the household income and impacted the savings. The higher rate of interest to control inflation erodes the market liquidity impacting the sentiment of the investors. Inflation even erodes the purchasing power of household savings.
- **FII(Foreign Institutional Investors) Withdrawal:** FIIs persist in selling off Indian stocks despite substantial outflows recently. This trend is largely driven by attractive yields in global treasury markets, prompting FIIs to capitalize on profits from Indian equities and shift investments towards bonds. The primary catalyst for this divestment is perceived high valuations within the Indian stock market, prompting cautious investor

sentiment. As FIIs navigate global economic uncertainties and inflation concerns, they prioritize secure returns offered by bonds over the perceived risks associated with potentially overheated equity valuations in India, contributing to ongoing net outflows from the Indian stock market.

- **Credit Card Defaulters:** The number of credit cards in India has increased fivefold over the past decade, but there is a concerning rise in credit card defaults. According to India Today, defaults on credit cards totaled Rs 4,072 crore in 2022-23, surpassing the previous year's Rs 3,122 crore by more than Rs 950 crore. This worrying trend has also caught the attention of the Reserve Bank of India (RBI). Following a record high in credit card spending in October 2023, RBI Governor Shaktikanta Das mentioned that the central bank is closely monitoring personal and unsecured loan segments to detect signs of financial strain. Notably, many individuals are resorting to personal loans to repay their credit card debts, reflecting the growing financial stress in this sector.

Upcoming events to watch out for:

- **US Elections 2024:** The influence of the United States on global financial markets is often likened to a ripple effect: economic difficulties and political developments there can profoundly affect sentiments worldwide, including in stock markets. As the Republican primaries approach, forecasts suggest Donald Trump may secure the nomination, potentially influencing fluctuations in the dollar based on election probabilities. Additionally, concerns over U.S.-China tensions loom large, with potential ramifications for stocks due to heightened trade barriers. Analysts caution that increased tariffs could exacerbate inflation, strengthen the dollar, and adversely impact currencies like the yuan, euro, and Mexican peso.
- **Fed rate cuts directly affecting FIIs investment:** Anticipations of minor rate cuts by the Federal Reserve in the upcoming months could trigger a shift in global investment dynamics. Lower interest rates on US bonds and securities would likely diminish their attractiveness, prompting FIIs to seek higher returns elsewhere, such as in Indian markets. This potential influx of FII investments could bolster liquidity and drive up demand for Indian equities, offering FIIs a comparative advantage in terms of returns. The expected rate cuts in the US underscore India's attractiveness as a viable investment destination, poised to benefit from increased FII participation amidst evolving global monetary policies.
- **Impact of coalition government:** The coalition government formed by the National Democratic Alliance (NDA), led by the BJP, aims to position India as the world's third-

largest economic powerhouse. However, the coalition's stability faces risks due to potential disagreements among alliance partners on policy issues, which could impact governance and policy implementation. Despite these challenges, market analysts foresee continued market rallies post-election, particularly benefiting rural sectors such as FMCG, agrochemicals, and agri-equipment poised for growth under stable governance.

- **Unemployment Numbers:** Unemployment remains a pressing issue that poses a persistent challenge to India's economy. India's unemployment rate has recently declined, and the same is expected in the future. Unemployment numbers play a major role in market sentiment. The changing trends in labour demand and employment rates call for thoughtful policy measures to address the prevailing economic challenges and ensure sustainable growth in rural and urban areas. It underscores the need to expand economic diversification to foster job creation and enhance India's economic robustness.

CONCLUSION

Research has concluded that sustaining the bull run in the Indian stock market amid global and domestic economic dynamics requires a comprehensive approach. Positive factors such as increased GDP, record-high tax collections, and political stability boost investor confidence, further supported by India's successful G20 leadership. However, challenges like high unemployment, persistent inflation, and FIIs withdrawing funds underscore the need for vigilant risk management. The upcoming US elections and potential Fed rate cuts are pivotal external events to monitor, as they could significantly influence global market sentiment and capital flows. Additionally, domestic economic indicators, particularly unemployment figures, will play a crucial role in shaping future market trajectories. Balancing these risks and opportunities will be key to maintaining momentum and fostering long-term growth in the Indian stock market.

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