

Impact of general elections on indian stock market finance essay



**ASSIGN
BUSTER**

Indian Stock Market deeply follows two set features of New Delhi circus- the budget and the general elections. This time is no exception. While recession has deeply affected the global economy and those who are given the best deals are also in relative tatters, general elections in India would not have any less profound impact on the Indian economy. Here is hoping that a big number of positives come out instead. Having said that, a rational study of the electoral mandate only seems logical.

In fact, Morgan Stanley believes that the outcome of elections would only be second to the global recession in terms of impacting the country. The institutions deem the poll results to be ahead of fiscal policies and corporate basics in unleashing a change in financial dynamics.

According to people in the know, roughly 10000 crore rupees would be spent on the general elections and it would bolster the stock market. Many are on a consensus that if somehow a business and reform-friendly coalition can make its way, then there would be no dearth of stock market bounties. In this regard, nothing can work out better than a single party majority. It has been witnessed many a times that reforms have been impeded by retrograde forces teaming up for a coalition government.

Normally pleasant fallout of the general elections would be higher liquidity that in any event is set to boost the stock market. It surely would be an aid in revival of the plastered economy. Theorists agree that victory for congress and BJP would be in favor of the stock market while Left front or a third party coalition would adversely affect the growth of the market.

Stock markets are furiously swirled by the momentum gathered through the outcome of general elections. It has been seen in the past. Perhaps it has to do with privatization, infrastructure boost and the lack of it. A reform-averse political group would impede structural reforms and hit the blue chip companies hard. It would be true for other stock units too.

It is noticeable that global market and FDI pool is bound to swell at the smell of a favorable mandate in Indian elections. In contrariety, it would be a gathering of cynics in the world corporate ring, once India suffers a fractured mandate. In essentiality, any such mandate would represent a higher risk for FDI investors.

World is fast moving towards anti-capitalism. Assets are being nationalized at an expeditious rate. There are plenty of religious and political turmoil. Pakistan remains a crux issue. Nuclear questions and defense sentiments are on a high. In such a time, there can be ramifications beyond reprieve. However, the general election has to be an answer to the political dilemma and here is hoping that the victor does not bleed the country further.

Stock market is an index, the reflection of our financial strength and people of India are anticipating a surge in its numbers post this election.

[www. webhush. com](http://www.webhush.com) >

Analysis : effect of election mania on Indian stock market

Indian Stock Market has seen lot of positive and negative trends in the Election month. Lot of volatility was seen in the market for past 5 weeks.

This process may continue until the election results are clearly visible. Many

<https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

traders have lost their money in this volatile market, but investors were big gainers, Here, EquityPandit. com brings its analysis for the direction of stock market in the upcoming days.

Read the full post for better understanding and book profits by predicting the direction of the Indian stock market in the Election time:

Election Year 1998-1999

Date

Event

Market Movement

Feb-16 to Feb-28

First to Fourth poll Voting

Up by 12%

March-6

NDA Won the Election

Up by 3%

Overall movement in Feb

Election Month.

Market was up by 12%

Oct-Nov 1999

NDA lost majority & Voting for new government begin.

Market was down by 13%

Nov-Dec 1999

NDA won again with full majority

Market was up by 23%

Election Year 2004

Date

Event

Market Movement

Apr-20 to May-10

First to Fourth poll Voting

Down by 6. 7%

May-13

Left Front Led UPA won the Election

Down by 6%

May-14

Left Front comments on Stock Market regulation

Black day for Market Down by 12% in a single day

Overall movement in May

Election Month.

Market was down by 13%

Jun-Jul 2004

UPA Govt. Start Economic reform

Market was up by 9%

Election Year 2009

Date

Event

Market Movement

April 16 to April 13

First to Fourth poll voting

Up by 11%

From the above statistics it is clear that it was tough to predict the market movement, during the Election month and it may continue after the results are been declared, if no one won with clear majority.

Also we can conclude following points from the above table:

1. The one thing the equity market hates the most, is uncertainty. The next week thus is likely to see maximum volatility with traders and speculators riding the momentum – the build up first, some profit booking and maybe a

sell-off before the big event. So Last Friday-sell-off may be the starting of the sell off.

2. Market never accepts the government with left front or third front government. So one thing is very clear, be prepared for big sell off, it that happened.

3. Market will be very comfortable if Congress or BJP will come with full majority. We may see this rally going towards 13500-14000, or we may say 20% kind of rally.

Conclusion:

1. Investor must stay away till the election results don't get declared.

Remember cash is the king and if you use it at right time, it will give massive returns in a short span.

2. Traders mostly loose their money in this type of market as fluctuation is always a killer for traders. So quality and timing of calls makes the difference. Just remember, as an investor you can earn as much as 100-150% in a span of two month but not as a trader because this rally surprises everybody. One week back EquityPandit. com had a discussion with few brokerage houses and they all were shock by this up move. Most of them generated losses, as they went short at a level of 11000-11500. Trading is always effective in a pure bull or bear market, but not an intermediate market like this.

3. If you will see the investment figures of DII (Domestic Investors), it is very clear they booked the profit slowly and steadily without any panic. Also

history suggest that big players stay away during such event and come up with big bull or bear depending upon the poll results.

[www. equitypandit. com/2009/.../analysis-effect-of-election-mania-on-indian-stock-market/](http://www.equitypandit.com/2009/.../analysis-effect-of-election-mania-on-indian-stock-market/) –

Election time stock returns

It appears that the stock market show a strong correlation with the national events like the elections. If we go by the past data for stock market price movements from 1980 onwards, there seems to be on an average, 4% gain in 3 months before the elections of Lok Sabha in India.

This average value s at 4% because it was in 2004 when there was a very small return of 0. 7% in 2004 and a -2. 1% in 1989 elections. On all the other occasions, the 3 months return from the stock markets before the elections has been much higher, as much as 13. 5%.

Though the gains in 2004 and 1980 were less than 1% returns in the three-month period before the polls, they were still positive.

The only time it went into negative territory was in 1989 due to the Bofors controversy.

What is the reason for good positive returns from the stock market during the election times?

As per EconomicTimes, From the investors' point of view, sectors such as media, FMCG and auto look favourities in the run-up to the elections as polls are known to boost consumption. “ Readership of newspapers goes up during elections and so does news channels' viewership. Also, though it is <https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

not legally allowed, Sales & profits of alcoholic beverages shoot up during elections; and with increase in money supply, more pronounced in rural areas, personal care products are also likely to benefit. Auto sales usually go up (marginal increase) as SUVs are used for election campaigns, personal transportation and security of politicians.

Even this year, since March 16 – exactly one month to the elections – the index has already risen by 2.5%. But will the market sustain the momentum postelection? Analysis since 1980 shows that a month after the polls, the bellwether index posts an average rise of 3.5%. On six out of the eight times since 1980, investors have made gains.

So is it the time to take the bet? Well, it all works randomly, so take your own shots and hope for the best!

INDIA CARNIVAL:

Election is like big carnival in India with entire population from all walks of life gets swayed by it. There are colors and flood of money flowing.

Everything comes to stand still. School, colleges and offices close on voting day.

In India election process is held in multiple phases. 2009 election will be one month extravaganza coming to an end by 16th may 2009, when one will be able to know about the victor and the vanquished. The outcome of the election will also determine the development trajectory of the India incorporate.

ELECTION OUTCOME AND INVESTOR:

<https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

India, the world`s largest democracy with an electorate of more than 700 million voter, goes to the poll in April -May 2009. We believe 2009 election will throw up the hung parliament with fractured mandate. As long as BJP or a Congress led alliances is in power, investor will likely be reassured of stability in terms of government as well as policies.

If a Third Front comes to power, it will create uncertainties in the mind of investor on the development and policies front. Any Third Front government won`t be getting investors vote of confidence.

CURRENT SCENARIO:

Indian election is taking place in back drop of global economic turmoil. The domestic growth stories of the past years have vanished. Capitalism is under siege and private assets are being nationalized worldwide. India has domestic issues like growing terrorist attacks, law and order situation, religious fundamentalism on rise, problem in neighboring country Pakistan and many more that will be the key issue that will dominate the election.

The world will be closely watching the development. The composition, Utterances and deeds of the next administration will be critical to the direction the nation takes and how the outside world views the country. Will the next government carry forward the broad policy direction which began in 1991 and push forward with the unfinished reform agenda?

http://www.sharetipsinfo.com/bse-vs-nse_clip_image004_0000.gif

ELECTION AND STOCK MARKET:

Returns from the past seven to eight elections have no exact set pattern.

The returns in the run

up to the elections have been lackluster. Market generally in all the occasion has shown range bound trading or sideways movement. Twelve month return post elections have been positive on four occasions and marginally negative on two occasions. Years when government took bold steps or the mandate swayed in favor of one party has raised the hope of investors and hence good returns were seen. 1984, 1989 and 1991, the market rallied in the first year of the government.

After 1996 a significant change has been on the political front in India i. e.; beginning of coalition era. The returns in these times were very moderate as the mandate was clear. The other reason could be Asian crisis, nuclear test, Kargil war, Dotcom bust.

Election event when market showed significant movement:

YEAR

EVENTS

1984

Indira Gandhi got assassinated; Rajiv Gandhi came to power with overwhelming majority. Market gave thumbs up.

1989

VP Singh became the PM. A massive drive against corruption in the government was taken in good way by the investor.

1991

Congress came to power after the assassination of Rajiv Gandhi. Market reacted positively.

NEGATIVES FOR MARKET 2009:

Earning downgrade in next 2-3 quarter.

The ongoing government is like a caretaker government with no fresh proposal and budget will be placed by the new government in power.

Stability and ability of the government cannot be judged at this point.

Fiscal deficit is high at 5% of the GDP.

Indo -Pak relationship hits new low.

Terrorist attack.

Index heavy weight like RPower, Suzlon, JP Associates plunged by more than 75% from the peak. Many of these stock compositions of the index do not have 5 years standing in the market.

POSITIVE FOR MARKET 2009:

Sensex trading at 9x to the expected 2009 earnings.

Falling commodity price will ease input cost of the industries.

<https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

Government policies to boost the economy.

Inflation at record low.

Lower crude price.

As interest rate in developed economy is record low, India could attract investment.

CONCLUSION:

As the new government settles down and the reform that was taken up by the previous government is carried forward, we believe market will again resume its bull run in the second half of the 2009. We also believe the era of coalition is here to stay and market will not be affected as long as it is seen that the coalition is stable and there are no expectation of major policy reversal.

However if the Third front comes to power, the market is likely to taste another low.

Our small endeavor will help you understand market in better way.

<http://www.sharetipsinfo.com/election-stockmarket.html>

Upbeat stock market scores high

Indian stock market is inching closer to its past glory, riding high on the wave of better-than-expected growth of country's gross domestic product; scaling new heights in the wake of re-election of Manmohan Singh-led UPA (United Progressive Alliance) government at the centre; and driving strength

<https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

from its pronounced agenda of economic reform and disinvestments. As President of India, Pratibha Patil unleashed her government's vision and roadmap for the next five years in the lower and upper houses of Indian Parliament on 4th June, 2009, the Sensex rallied past 15, 000-level for the first time in the past nine months in a symbol of rising confidence and bolstered sentiments in the market as well as in economy.

Clear mandate in favour of UPA plays a pivotal role: The re-induction of the UPA government at the centre has been more fruitful for the market as compared to its first stint in 2004, when - owing to the absence of a clear mandate in General Election and subsequent dependence on Left parties to form the Government was seen as an obstacle to economic growth and liberalization. As a result the Government was welcomed by a 564 points fall in the Sensex on May 17, 2004 to close at 4505 from its previous level of 5069. In a sharp contrast, UPA victory, and Congress's emergence as a stronger alliance leader this time was given a clear thumbs up by the market as Sensex and Nifty broke all records to hit the upper circuit breaker, with stock market surging by 17 per cent in a single day. The bulls run continued as the index moved from 12, 000 levels to 15, 000 levels within a span of just 14 trade sessions.

With the Government charting out its plan to pump in massive resources in a plethora of core sectors, including, telecom, roads, ports, health, education and rural development, in addition to initiating firm disinvestment policy, market sentiment continues to remain strong over the last three weeks.

Many stocks in the BSE-500 category, belonging to the sectors like realty, infrastructure and finance, have risen beyond 100 per cent in the last 15
<https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

trading sessions, as the hope of financial sector reforms and increased government spending in infrastructure prevails over the investors' mindset. According to Alex Mathew, Head of Research at Geojit BNP Paribas Financial, " The agenda of the new UPA Government to revive the economy by allowing increased investment into infrastructure sector and other stressed sectors pepped up the market,".

Disinvestment hope peeps up market: After experiencing a subdued interest between 2003 and 2007, the listed PSUs were ushered in with renewed focus after the UPA win in General Election 2009. The BSE PSU index climbed up 39.5 per cent since the announcement of the verdict, surpassing the 24 per cent rise in BSE-500 and 20 per cent jump in Sensex level during the same period of time. As UPA Government is expected to push through sales of centre's stake in listed PSUs, the stocks of these government undertakings saw a substantial rise over the last couple of weeks. Stocks of the companies, which have 92-99 per cent government holdings, including MMTC, NMDC and RCF registered strong gains, with returns of 45 per cent to 104 per cent.

The market welcomes the proposal of disinvestment because it acts a booster for the economy, generating funds to improve the fiscal deficit. At a time when soaring subsidy bills and government-sponsored stimulus measures have widened the fiscal deficit, with economic slowdown adversely affecting revenue receipt, disinvestment is definitely one viable method to reduce fiscal burden. The fiscal deficit for FY-09 at a staggering Rs 3,30,000 crore, is around 21 per cent of the total market capitalisation of the BSE PSU index. Market is expecting that proceeds from the disinvestment will come <https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

back into the Budget to partially fill in the fiscal deficit. In addition, IPOs from unlisted government undertakings could rejuvenate the IPO market, further leading to a strengthened stock market.

Eight of the sixteen PSUs/banks which used the IPO market to mobilize resources in the last half a decade, including Power Grid Corporation, REC, PFC, Indian Bank proved strong enough to outshine the BSE Sensex. The recent batch of PSU offers during 2007 and 2008 has been able to deliver reasonable returns for the investors, even amidst the financial meltdown and credit crunch. Even in the bull market, IPOs from the public sector enterprises, unlike their corporate counterparts, were priced modestly, thus leaving money for the investors.

In some cases, discounts to prevailing market prices were offered to retail investors. As a combined effect of all these factors, most of the PSU stocks, divested even during the bull run in 2007 or early 2008 delivered positive premium.

FII's propel surge in Indian stocks: As the emergence of a stable government at the centre has boosted market sentiment, the bull momentum created a few weeks ago continued to drive the markets to new height in every week. To a large extent, renewed interest of foreign institutional investors (FIIs) is responsible for the upward movement of Sensex. After drawing out a massive Rs 52, 987 crore from the Indian stock markets in 2008, which saw the Bombay Stock Exchange benchmark Sensex plummeting 51 per cent, FIIs turned net buyers during the last week of March.

In the run-up of General Election, FIIs continued to put money in Indian stocks in the month of April, and invested over US\$1 billion in domestic market, owing to the impressive results delivered by large enterprises-that beefed up confidence of foreign investors. Add to this, the re-election of reformist UPA government at the power, and one can see India back on FII radar with a big bang. Gokul Laroia, managing director of Morgan Stanley Asia said that “ India funds a large portion of its growth through external resources. Investors are very positive on the country after big issues such as the election verdict exceeded expectations”.

As per latest estimates, FIIs have invested around US\$1 billion in Indian stocks in every week of May, as total inflow of FII fund to the country crossed US\$4 billion so far in 2009. Global investors have brought in nearly to US\$200 million in India-focused equity funds in the first week of June, while the overall Asia-dedicated funds witnessed the biggest inflows of as much as US\$1. 54 billion, a report says.

According to data compiled by international fund tracking firm, EPFR Global, India equity funds received an inflow of US\$199 million in the first week of June, which is the highest amount seen in the last 55 weeks. As per statistics available with the market regulator Securities and Exchange Board of India (Sebi) till May-end, FIIs have bought shares worth Rs 1, 96, 021 crore in 2009, while they sold equities valued at Rs 1, 75, 547 crore. The net investment of FIIs in Indian stocks touched US\$4. 2 billion (around Rs 20, 473 crore), with prime portion of inflows coming in the golden month of May. In addition to the India-specific factors which revived FIIs’ interest in the stock market, experts believe that the increased FII inflow in India is part of the <https://assignbuster.com/impact-of-general-elections-on-indian-stock-market-finance-essay/>

overseas bullish investment strategy of institutional investors in many emerging markets after a lull period of over a year.

Future outlook: According to financial services major Morgan Stanley, the Indian stock market is likely to outshine its global peers and the benchmark Sensex could touch the 19, 000-level by the end of this year.

“ A global market sell-off remains a key risk to absolute performance in Indian equities though we think Indian equities will likely outperform,” the Indian strategy report of Morgan Stanley said.

There is 40 per cent probability of a bull run in which case the BSE Sensex could hit the 19, 000 mark by the end of 2009, the report confirmed, adding that there is only 10 per cent probability of a bear run in which case the Sensex could dip to 8, 600 levels. As says Ridham Desai, Managing Director, Morgan Stanley Equity Research, that when the world is awash with liquidity, India is getting its share of it through FIIs, as sectors like auto, infrastructure, banks are expected to do well during the year. With improvement in consumer confidence index in India by 0. 8 per cent in April and rise in employment confidence by 3. 1 per cent, first time in last 10 months, India looks for a sustained rally in the markets in coming months.

<http://news.indiamart.com/news-analysis/upbeat-stock-market-21936.html>