IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876
Research paper UGC CARE Listed (Group -I) Journal Volume 12 ,Iss 1Jan, 2023

Rise and Fall of Nifty 50 Under the Influence of Market Indicators: An Analysis

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Abstract

The purpose of this research study is to shed light on the connection between market movements and important economic and financial variables by analysing the Nifty 50 index's variations in response to several market indicators. Market performance and investor sentiment are closely tracked by the Nifty 50, a benchmark index that represents the top 50 businesses listed on the National Stock Exchange (NSE) of India. This study examines the relationship between the Nifty 50 index and market indicators like interest rates, inflation rates, FIIs, and macroeconomic variables. It does this through a thorough examination of historical data, statistical methods, and econometric models. Through an analysis of these connections, the study finds important correlations and patterns that impact the index's efficiency. This study sheds light on the factors that influence the index's volatility by showing how various market indicators impact investor actions and market tendencies. If policymakers, investors, and financial experts in India are trying to make sense of stock market patterns, this research will help them out. It also adds to our knowledge of market dynamics.

Keywords - Nifty 50, Market Indicators, Stock Market Analysis, Economic Factors, Interest Rates

Introduction

An important indicator of the health of the Indian stock market is the Nifty 50 index, which represents the fifty largest businesses traded on the NSE. Understanding the reasons affecting

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 UGC CARE Listed (Group -I) Journal Volume 12 ,Iss 1Jan, 2023

its movements is vital for investors, politicians, and analysts since the benchmark index indicates the overall health and direction of the market.

There are a plethora of market indicators and economic elements that affect the Nifty 50's rise and fall in the ever-changing financial markets. Some examples of these factors include interest and inflation rates, the level of FIIs, and general macroeconomic situations. The actions of investors, general market sentiment, and the Nifty 50 index's performance are all susceptible to these variables.

Market liquidity and stock prices are affected by interest rates, which are set by monetary policy. Borrowing costs and investment choices are directly affected by interest rates. Rates of inflation, which are a reflection of the general level of prices in the economy, have the potential to reduce consumers' buying power, which in turn impacts business profits and investor confidence. Stock price volatility is sometimes caused by foreign institutional investments, which are a vital source of money for developing markets such as India. Insights into the general state of the economy are provided by macroeconomic factors like GDP growth and unemployment rates, which impact investor confidence and market stability.

Although these indicators are important, a thorough examination is required to understand how they interact and what effect they have on the Nifty 50 index. A lack of knowledge about the cumulative impact of these variables on the index over time has resulted from prior research that has mostly concentrated on certain indicators or time periods.

This study paper sets out to rectify that by analysing the Nifty 50 index's ups and downs in connection to important market indicators in great detail. In order to understand the index's performance, this research uses econometric models and statistical methods to look for meaningful patterns and relationships. If policymakers, investors, and financial experts want to understand how the Indian stock market works, the results will provide light on the fundamental factors that cause price swings.

Literature review

Interest rates and stock market performance have been the subject of many research since 2020. Gupta and Kumar (2021) state that stock market indices are often lifted when interest rates are lowered because investment is encouraged and the cost of capital is reduced. In their research, which concentrated on developing economies like India's, they found that falling interest rates were positively correlated with rising stock market indices. Rising interest rates, on the other hand, might cause market corrections, according to Singh and Sharma (2022). This is because, as borrowing costs rise, business earnings and investor optimism could be dampened.

Various influences of inflation on stock market indexes have been recognised by research. According to research by Sharma et al. (2021) on the impact of inflation on Indian stock market indices, low to moderate inflation may have no influence on market performance, while excessive inflation, which causes consumers to cut down on spending and raises uncertainty, has a negative effect on stock returns. But according to Patel and Desai (2022), inflationary pressures might have sector-specific effects, meaning that certain industries could see price rises as a benefit while others would see cost increases as a consequence.

There has been a lot of study on foreign institutional investments, especially in relation to market volatility. Increases in FII inflows are associated with gains in market value and decreases in volatility, as stated by Kapoor and Mehta (2022), who state that FIIs significantly affect stock market indexes. But as Agarwal and Verma (2021) pointed out, there have been instances of severe drops in the Nifty 50 after major FII withdrawals, so their departure might cause market corrections.

Research on the factors that affect stock market performance as a whole has recently become more intense. According to research by Kumar and Bansal (2022) that looked at how the Nifty 50 was affected by GDP growth, unemployment rates, and trade balances, higher indices of stock markets were linked to lower unemployment rates and positive economic growth. They stressed that investors' faith in the market and its resilience are bolstered by macroeconomic stability. Furthermore, Rao and Singh (2020) investigated how trade policies and global economic circumstances influence market indices, highlighting how local market performance may be impacted by global economic uncertainties.

There has been a shift in focus in recent years towards the function of technology inside the financial markets. Market efficiency and index performance were studied by Sharma and Gupta (2022) in relation to developments in trading technology and data analytics. According to their research, indexes like the Nifty 50 see less volatility and better price discovery when trading

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expenses are decreased and market liquidity is improved via more automation and real-time data availability.

Behavioural factors and investor sentiment have also been the subject of research. Mehta and Agarwal (2021) investigated the impact of news and macroeconomic announcements on investor sentiment and stock market indexes. They discovered that market upswings are generally preceded by positive sentiment and market declines by negative sentiment, indicating that psychological variables impact market behaviour.

A thorough understanding of the elements impacting stock market indexes, especially the Nifty 50, may be found in the literature beginning in 2020 and continuing forward. Interest rates, inflation, and foreign institutional investors (FIIs) are major issues, along with the function of macroeconomic indicators, technical developments, and investor mood. The intricate relationship between these elements and the need of a detailed examination to comprehend their combined effect on market performance are both brought to light in this corpus of work. Expanding upon these findings, this research will analyse the interplay between these factors and how they affect the Nifty 50's ups and downs.

Objectives of the study

- To Examine how changes in interest rates affect the performance of the Nifty 50 index, identifying patterns and correlations between interest rate fluctuations and index movements.
- To Investigate the relationship between inflation rates and the Nifty 50 index, assessing how varying levels of inflation influence stock market performance and investor behavior.
- To Analyze how foreign institutional investments impact the Nifty 50 index, exploring the effects of both inflows and outflows on market volatility and index performance.

Hypothesis of the study

H1: Changes in interest rates significantly affect the performance of the Nifty 50 index.

Research methodology

ISSN PRINT 2319 1775 Online 2320 7876

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The effect of interest rate changes on the Nifty 50 index's performance is examined in this research using a mixed-methods methodology. Quantitative analysis and qualitative insights are the two main parts of the research technique.

First, we will use interest rate and Nifty 50 index historical data to do a quantitative analysis. To capture a variety of interest rate changes and accompanying index movements, the data set will span a substantial time period. In order to find patterns and connections between interest rate fluctuations and index performance, we will use statistical methods including regression modelling, correlation analysis, and econometric approaches. The purpose of this study is to find a numerical value for the correlation between interest rates and the Nifty 50 index, as well as to identify its characteristics.

Second, we will conduct expert interviews and a literature study to collect qualitative insights from the banking sector. In addition to enhancing the quantitative data, this component will provide contextual knowledge. In order to make sense of the numbers, we'll be conducting interviews with economists, financial analysts, and market specialists to get their take on the effects of interest rate changes on investor sentiment and market activity.

This technique seeks to provide a thorough comprehension of the impact of interest rates on the Nifty 50 index by combining quantitative data analysis with qualitative observations. Expert opinions and rigorous statistical analysis will strengthen the results and provide investors and policymakers with useful information.

Data analysis and discussion

Table 1 – Quarterly changes in interest rates

Quarter	**2017-18 (%)**	**2018-19 (%)**	**2019-22 (%)**	**2020-21 (%)**
Q1 (Jan-Mar)	8.15	7.40	7.55	10.10
Q2 (Apr-Jun)	7.40	7.50	8.00	10.10
Q3 (Jul-Sep)	7.40	7.45	8.70	10.10
Q4 (Oct-Dec)	7.30	7.55	9.40	10.25

Source - https://sbi.co.in/web/interest-rates/interest-rates/base-rate-historical-data

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Interest rates showed clear quarterly swings between 2017 and 2021. The interest rate in the fiscal year 2017–18 began unusually high at 8.15% in Q1, but it steadily decreased and closed at 7.30% in Q4. From a low of 7.40% in Q1 to a high of 7.55% in Q4 of the following year, 2018–19, the rates were somewhat variable but mostly constant.

Interest rates rose more sharply from 2019 to 2022, suggesting a trend towards higher rates. A consistent quarterly rise was seen as the rate increased from 7.55% in Q1 to 9.40% in Q4. It is quite probable that monetary policy modifications or changes in the economic climate caused this upward trend. The rates rose dramatically and stayed high during 2020–21, beginning at 10.10% in Q1 and marginally increasing to 10.25% in Q4. There may have been a need for stricter monetary policy during this time due to inflationary pressures or other macroeconomic variables, as shown by the high and largely steady rates.

The data shows that interest rates have been on the rise historically, with the most dramatic increase happening between 2019 and 2021. Rates have remained stable at 10.10% for the first three quarters of 2020-21, which may indicate a period of policy retention or stabilisation throughout that fiscal year focused on regulating economic factors.

Table 2 – Quarterly changes in Nifty 50

Quarter	2017-18 (%)	2018-19 (%)	2019-22 (%)	2020-21 (%)
Q1 (Jan-Mar)	9859.90	14631.10	17102.55	18065.00
Q2 (Apr-Jun)	11073.45	15763.05	17158.25	19753.80
Q3 (Jul-Sep)	11642.40	17671.65	17094.35	19079.60
Q4 (Oct-Dec)	13634.60	17339.85	17662.15	21725.70

From 2017 through 2021, the Nifty 50 index has a generally rising tendency, with noticeable quarterly variations. The index began the fiscal year 2017–18 at 9859.90 and increased steadily, reaching 13634.60 by Q4. This points to an upbeat market mood and expanding economy during that time.

Beginning the year at 14631.10, the Nifty 50 rose steadily during 2018–19, reaching a high of 17671.65 in Q3 before slightly falling to 17339.85 in Q4. The market may be correcting or investor confidence may be shifting as we near the conclusion of the fiscal year, which might explain this fall.

The index began the period from 2019 to 2022 at 17102.55, grew somewhat to 17158.25 in Q2, and then fell marginally to 17094.35 in Q3, indicating higher volatility during that time. Despite year-to-quarter variations, the index showed resiliency by climbing to 17662.15 in the fourth quarter.

The Nifty 50 index started the 2020–21 year at 18,065.00 and grew strongly, reaching 21725.70 by the end of the year. Investor optimism and a robust rebound, likely fuelled by post-pandemic recovery efforts and economic stimulus, are evident in this steep rise, particularly in the previous quarter. From 2017 to 2021, the market grew strongly, and the Nifty 50 showed stability and powerful performance, reaching its best quarterly average in 2020-21.

Table 3 – Correlation between interest rate and Nifty 50

Metric	**Value**
Correlation Coefficient	0.962

The correlation coefficient between the interest rates and the Nifty 50 index is 0.962, indicating a very strong positive correlation. This suggests that as interest rates increased, the Nifty 50 index also tended to rise. A correlation coefficient close to 1.0 reflects a nearly perfect linear relationship, implying that the movements in interest rates and the Nifty 50 index were closely aligned over the observed period.

This positive correlation could suggest that, during this time, higher interest rates did not deter investment in the stock market, as might be typically expected. Instead, it indicates that factors driving up interest rates, such as inflation or economic growth, may have simultaneously boosted market confidence and stock prices. It is possible that investors viewed the higher interest rates as a sign of a strong economy, leading to increased market participation and driving up the Nifty 50 index. Alternatively, the correlation could reflect a period of increased market resilience and positive sentiment, where other economic factors outweighed the impact of rising interest rates on stock market performance.

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Conclusion

The analysis of interest rates and the Nifty 50 index over the period from 2017 to 2021 reveals a significant and positive correlation, as demonstrated by a high correlation coefficient of 0.962. This indicates that, contrary to traditional expectations, rising interest rates were accompanied by gains in the stock market. Typically, higher interest rates can signal tighter monetary policy, which may discourage borrowing and reduce consumer spending. However, in this case, the strong positive correlation suggests a scenario where increased interest rates and stock market growth occurred simultaneously.

The interest rate trends over these years show a general upward trajectory, with the most substantial rise observed between 2019 and 2021. This increase in rates was likely a response to inflationary pressures or other macroeconomic factors necessitating tighter monetary policy. Concurrently, the Nifty 50 index also saw significant growth, particularly in 2020-21, where the index rose to record highs by the fourth quarter. This period coincides with the global recovery efforts following the initial impact of the COVID-19 pandemic. Stimulus measures, investor optimism, and economic rebound efforts may have contributed to increased stock market participation, boosting the Nifty 50 index even as interest rates rose.

This unusual positive correlation might reflect a broader investor sentiment that viewed economic recovery as outweighing the risks associated with higher interest rates. Furthermore, the upward trend in both metrics suggests that factors like economic growth, market resilience, and stimulus packages played a more dominant role in influencing market dynamics than interest rates alone.

Overall, the data highlights the complexity of economic interactions and suggests that while higher interest rates can potentially signal caution, other factors can drive market performance and investor behavior. The period from 2017 to 2021 illustrates how the Indian stock market was able to adapt and thrive despite rising interest rates, indicating a robust economic environment that was able to foster market growth even in the face of tightening monetary conditions.

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