Relationship of Stock Market Indices and Individual stocks: A Descriptive Study

Laxmi Kapoor,
Asst. Professor, School of Management, Graphic Era Hill University,
Dehradun, Uttarakhand India 248002,
DOI:10.48047/pne.2018.55.1.65

Abstract

Indices of the stock market and particular stocks are intertwined in India. Stock market indices like the Bombay Stock Exchange Sensex and the NSE (National Stock Exchange) Nifty act as gauges of the state of the market. They provide a glimpse of the larger market by representing a selection of stocks, typically the most well-known and actively traded ones. Changes in stock market indexes frequently reflect the general mood and market trends. In general, rising indices signify that most of the stocks that make up the index are experiencing upward price fluctuations. The same is true when indexes drop; this indicates a market trend in the opposite direction. Contrarily, specific corporations that are listed on the stock exchange are represented by individual stocks. The performance of each of an investor's or trader's individual stock holdings is measured against stock market indices. They determine relative performance by comparing the returns on their equities to the performance of the index. Investors who wish to successfully navigate the Indian stock market must have a solid understanding of the relationship between stock market indices and specific stocks.

Keywords: Stock market indices, Bombay Stock Exchange Sensex, NSE Nifty, Market trends, Individual stocks, Relative performance.

Introduction

India's complex system of linking individual stocks to "stock market indices". Individual equities as well as stock market indexes can be impacted by elements including "macroeconomic variables, exchange rates, and gold prices." To make wise investment decisions and successfully traverse the dynamic Indian stock market, investors and analysts must comprehend and analyse these relationships.According to Tripathi and Seth (2014), "macroeconomic variables such as inflation,

exchange rates, and interest rates" have a major impact on stock market indices and individual stock prices in the Indian equities market. "Stock market indices" may fluctuate as a result of changes in these "macroeconomic factors" effects on market dynamics and investor mood. Furthermore, company-specific elements including "financial performance, industry trends, and management decisions" can affect how particular stocks move. Consumers' ability to buy things and businesses' production costs are both impacted by inflation. The value of money decreased as inflation increased, pushing up prices and possibly affecting business earnings. Stock prices dropped as a result. This underlined how crucial it is to consider both "macroeconomic factors and company-specific characteristics" when examining the "correlation between Indian stock market indices and particular stocks".

Changes in "currency rates" can have a significant impact on the "volatility of the Indian stock market," according to Agrawal et al. (2010). They showed the impact of exchange rate variations on domestic businesses' competitiveness, particularly those involved in international trade. "Exchange rate fluctuations" have a "impact on the stock price" in addition to having a "impact" on a corporation's "profitability, import expenses, and export opportunities". They stressed the "link between changing exchange rates and stock market performance" and the importance of keeping an eye on "exchange rate variations" while assessing the performance of particular firms and market indexes in India.

The "connection between Indian stock market results and gold price volatility" has been assessed by Mishra et al. (2010). They argued that investor behaviour is influenced by the volatility of the gold price, which causes investors to switch their investments from equities to gold. Increased gold price volatility creates uncertainty, affects investor confidence, and affects "stock market indices" Additionally, specific equities linked to the gold mining, jewellery, or related industries may be especially susceptible to changes in the price of gold. This underlined the need of taking into account how the volatility of the gold price affects "stock market indices and specific stocks" when analyzing the Indian equities market. The fluctuation in gold prices may have an impact on investor judgement and market mood more broadly. Depending on how closely they track gold prices, investors may decide to change the proportion of their portfolio they allocate to equities vs gold.

Investors must consider this relationship since individual equities in the gold sector could face more volatile price swings and price fluctuations in response to changes in gold prices.

Literature Review

Taneja (2010) indicated that there was a large and favourable correlation between market risk and size and stock returns. This suggests that stocks with higher market risk or those from smaller companies tended to provide larger returns in the Indian market. The value factor, which takes company valuation into account, did not, however, show a strong correlation with stock returns in the Indian setting. It gave analysts and investors insightful information on the variables influencing stock returns on the Indian stock market. Although market risk and company size are important factors in determining stock performance, it was indicated that the valuation element may not be as important in the Indian market. In order to build their portfolios or analyse specific stocks in India, investors need pay greater attention to determining market risk and taking the size of companies into account.

According to Pal and Mittal (2011), the impact of "macroeconomic variables" on the "Indian capital markets" was examined. They aimed to comprehend how various "macroeconomic factors" impacted the performance of the Indian stock market. They considered variables such as "GDP growth, inflation, interest rates, and exchange rates" to assess their effect on stock market returns and volatility. They stated that these "macroeconomic variables" have a considerable impact on the Indian stock markets.For instance, GDP growth influences stock market returns favourably, demonstrating that a growing economy tends to increase stock values. As shown by the inverse relationship between inflation and stock market returns, higher inflation and interest rates may have a detrimental effect on stock values. "Exchange rates" also had a significant effect since they affected how competitive and profitable enterprises engaged in international trade could operate.

Dutta et al. (2012) used a variety of financial and market-related variables, such as company-specific aspects, market indicators, and economic indicators, to evaluate stock performance on the Indian stock market. These factors were used to make predictions about whether a stock would have positive or negative returns. By using logistic regression, they were able to identify a number of important factors that had an important effect on stock performance. These predictors included

financial ratios, market turbulence, liquidity indicators, and economic measurements like GDP growth and inflation. The intention of it was to give market players and investors a tool to predict how specific stocks will perform over the long term in the Indian market by include these characteristics. The relationship between "oil prices and Indian stock market indices" has been shown by Sukcharoen et al. (2014) using a "copula approach." An approach called the "copula approach" makes it possible to analyze how different variable dependence structures relate to one another. They examined "the relationship between oil prices and stock market indices. They saw a clear correlation between oil prices and the indices of the Indian stock market, which represented "changes in oil prices". Changes in the price of oil" have the potential to have an impact on market dynamics, investor sentiment, and the profitability of enterprises in the energy sector. Therefore, understanding the relationship between oil prices and stock market indices is essential for making informed investment decisions and creating economic policies in India.

The "effect of macroeconomic fundamentals on stock prices in India" was noted by Pramod Kumar and Puja (2012). In order to comprehend how changes in these fundamentals can affect the performance of certain equities, they looked at the relationship between "macroeconomic indicators and stock market indices". Macroeconomic measures including "GDP expansion, inflation, interest rates, currency exchange rates, and industrial production". They claimed that the stock prices in India were significantly impacted by these "macroeconomic realities". It was showed that "GDP growth" had a favorable link with stock prices, indicating that a thriving economy has a beneficial impact on stock market performance. Greater "inflation and interest rates" can negatively affect "stock market indices," as evidenced by the "inflation and interest rates" having a negative link with stock prices. The importance of comprehending and predicting stock market movements in India utilizing "macroeconomic fundamentals" was underlined. Analysts and investors need to be aware of these factors to assess potential risks and opportunities in the stock market. Policymakers can also use this information to guide their decisions and implement measures that support an environment that is favorable to the stock market from an economic perspective.

A variety of financial and market-related data, such as "historical prices for stocks, trading activity, financial ratios, and macroeconomic indicators" were used by Patel et al. (2015) to anticipate stock

and stock price index movement in the Indian stock market. They created forecasting techniques to foretell the behavior of certain equities and stock price indices using machine learning. As to their indication, they showed a promising level of reliability in forecasting share and price benchmark behavior in the Indian market. They emphasized the potential value of machine learning methods in enhancing portfolio management and investment decision-making approaches.

In order to focus on the relationship between "macroeconomic factors and stock market performance" in India, Kuwornu and Owusu-Nantwi (2011) adopted the "Full Information Maximum Likelihood (FIML)" estimation approach. The performance of "stock market indexes and particular stocks in India" as well as "macroeconomic variables" like "GDP growth, inflation, interest rates, exchange rates, and industrial production" were found to be strongly correlated. They stressed the need of considering these "macroeconomic elements" when analyzing the Indian stock market because changes in these variables can have an effect on stock prices. Utilising a "social network analysis approach," Roy and Sarkar (2011) showed major stock indices from other nations and their "effects on the Indian stock market". They noticed that particular stock indices from around the world had a large impact on the performance of stock market indexes and individual equities in India. Investors and regulators must have a full understanding of the connections and influence patterns among various indexes in order to anticipate and respond to market swings.Goudarzi and Ramanarayanan (2011) focused on "modelling asymmetric volatility" by analysing the Indian market, they were able showed this unequal volatility.

Objective:

To measure the relationship of stock marketing indices and individual stocks

Methodology:

This study is descriptive in nature in which the data were obtained from the 200 respondents to find the relationship between stock marketing indices and individual stocks. A checklist question

was used to analyze and interpret the data. In a checklist question respondents choose "Yes" or "No" for all the questions.

Data Analysis and Interpretations:

Table 1 Relationship of Stock Marketing Indices and Individual Stocks

SL No.	Relationship of Stock Marketing Indices and Individual Stocks	Yes	% Yes	No	% No	Total
1	Company-specific elements including "financial performance, industry trends, and management decisions" can affect how particular stocks move	182	91.00	18	9.00	200
2	Increased gold price volatility creates uncertainty, affects investor confidence, and affects "stock market indices	186	93.00	14	7.00	200
3	Market risk and company size are important factors in determining stock performance	174	87.00	26	13.00	200
4	GDP growth influences stock market returns favourably	179	89.50	21	10.50	200
5	Higher inflation and interest rates may have a detrimental effect on stock values	170	85.00	30	15.00	200
6	"Exchange rates" also had a significant effect since they affected how competitive and profitable enterprises engaged in international trade could operate	181	90.50	19	9.50	200

7	Changes in the price of oil" have the potential to have an impact on market dynamics	189	94.50	11	5.50	200
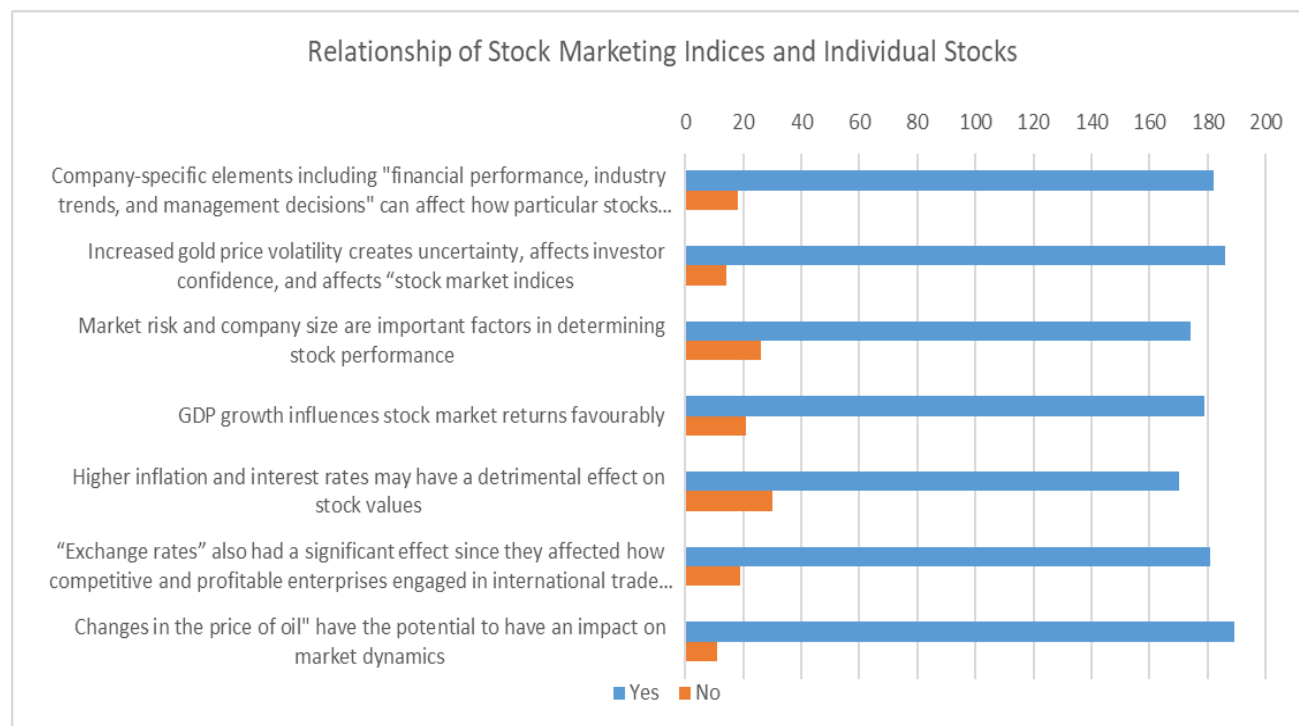
Figure 1 Relationship of Stock Marketing Indices and Individual Stocks

Table 1 and Figure 1 show the relationship of stock marketing indices and individual stocks. It was found that around 94.5% respondents accept changes in the price of oil have the potential to have an impact on market dynamics, Increased gold price volatility creates uncertainty, affects investor confidence, and affects stock market indices (93.0%), Company-specific elements including financial performance, industry trends and management decisions can affect how particular stocks move (91.0%), Exchange rates also had a significant effect since they affected how competitive and profitable enterprises engaged in international trade could operate (90.5%), GDP growth influences stock market returns favorably (89.5%), Market risk and company size are important factors in determining stock performance (87.0%) and Higher inflation and interest rates may have a detrimental effect on stock values (85.0%).

534

Conclusion

In India, it is crucial to understand how stock market indices and specific equities relate to one another. Stock market indexes, such as the Nifty 50 and the BSE Sensex, act as gauges of overall market performance and offer a comprehensive view of the mood of the market. Their movements reflect the combined performance of the constituent stocks because they are made up of a variety of top-performing stocks from different industries. On the other hand, certain corporations that are listed on stock exchanges are represented by individual stocks. The "stock market indices" reflection of the general market sentiment, however, frequently has an impact on the movement of specific equities. A positive or negative trend in the market indexes can have a knock-on effect on specific equities, which means that the fluctuations in these indices might affect investor behavior. The prices of individual stocks might rise when market indexes are trending upward since it frequently results in greater investor confidence and good mood. In contrast, a downward trend in the market indexes may be accompanied by a drop in investor confidence and a consequent drop in the price of certain stocks. In India, stock market indices and specific stocks have a mutually beneficial relationship. Individual stock performance is affected by the general market mood reflected in stock market indices. For investors and market players to make wise investment decisions, they must keep track of both market indices and specific equities.

References

- Tripathi, V., & Seth, R. (2014). Stock market performance and macroeconomic factors: The study of Indian equity market. Global Business Review, 15(2), 291-316.

- Agrawal, G., Srivastav, A. K., & Srivastava, A. (2010). A study of exchange rates movement and stock market volatility. International Journal of business and management, 5(12), 62.

- Mishra, P. K., Das, J. R., & Mishra, S. K. (2010). Gold price volatility and stock market returns in India. American Journal of Scientific Research, 9(9), 47-55.

- Taneja, Y. P. (2010). Revisiting fama french three-factor model in indian stock market. Vision, 14(4), 267-274.

- Pal, K., & Mittal, R. (2011). Impact of macroeconomic indicators on Indian capital markets. The journal of risk finance, 12(2), 84-97.

- Dutta, A., Bandopadhyay, G., & Sengupta, S. (2012). Prediction of stock performance in the Indian stock market using logistic regression. International Journal of Business and Information, 7(1), 105.

- Sukcharoen, K., Zohrabyan, T., Leatham, D., & Wu, X. (2014). Interdependence of oil prices and stock market indices: A copula approach. Energy Economics, 44, 331-339.

- Pramod Kumar, N. A. I. K., & Puja, P. (2012). The impact of macroeconomic fundamentals on stock prices revisited: An evidence from Indian data.

- Patel, J., Shah, S., Thakkar, P., & Kotecha, K. (2015). Predicting stock and stock price index movement using trend deterministic data preparation and machine learning techniques. Expert systems with applications, 42(1), 259-268.

- Kuwornu, J. K., & Owusu-Nantwi, V. (2011). Macroeconomic variables and stock market returns: Full information maximum likelihood estimation. Research journal of finance and accounting, 2(4), 49-63.

- Roy, R. B., & Sarkar, U. K. (2011). Identifying influential stock indices from global stock markets: A social network analysis approach. Procedia Computer Science, 5, 442-449.

- Goudarzi, H., & Ramanarayanan, C. S. (2011). Modeling asymmetric volatility in the Indian stock market. International Journal of Business and Management, 6(3), 221.