Hook-up of Stock Market Returns with GDP Growth

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Abstract: -

In this present scenario the relationship between level of GDP Growth and the size of the stock market relative to the total economic output. Timing is one of the things that through investors off. In long term, stock market of any country always follows country GDP growth in same percentage like USA, India, Japan etc. The power of stock market to sniff out inflation point, interest rates, production rates in the economy or earning data. In general, most of economic companies and earnings fundamental are based on job growth, employ rate, consumer spending, industrial production, retail sales, confidence measurement etc. Stock market has remarkable tendency to figure this out when the phenomenon has start getting worst and is going to start getting better, where more consistency in economy. Understand where there are the components which we are wishing for is usually a point where the economic earning fundamental data is really strong market tries to figure out that this is good so understanding those relationships.

Keywords: - Stock market returns, GDP Growth, developing, under developing

Introduction: -

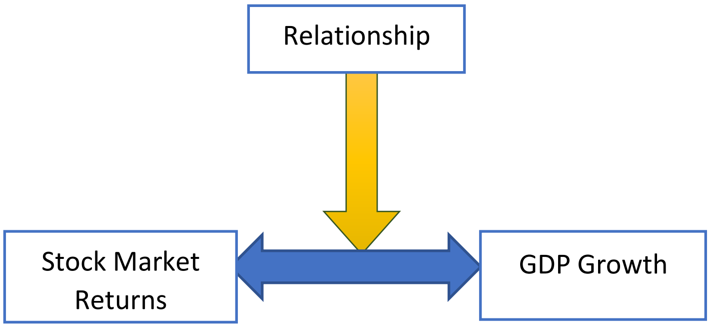
The tie-up of stock market returns with GDP growth is a commonly asked question amongst analysts and investors. While many claims there is a correlation, others believe that there is no correlation. In this research we will address some of the common assumptions, hypothesis and observations. The first stock market was the Antwerp stock market which was found in the year 1531. Financial development prospers steadily until nineteenth century. Since thereafter GDP Development and financial system development have leap-frogged one another.

GDP Growth = Stock Market Returns.

Companies profitability is usually based on underlying economy of the country, earning per share (EPS), which eventually helps in determining the prices of the company's stock. However, this only works incase country's economy is good, valuation remains constant, and only domestic companies are taken into consideration while listing on a countries stock market. Hence this example may not work in all situations, understanding the basic principles of stock market returns is essential for this experiment.

Objectives: -

- To understand the direct and strong relationship between the stock market returns on GDP growth.
- Analyze the determinants of stock market value



Advantages: -

- Employees make their bosses rich
- Debtors make banks rich.
- Consumers make businesses rich.
- Corruption makes politicians rich.
- Investors make themselves rich.

Literature Review: -

Quarter 2 GDP Growth dips further to 4.5% from past six- year low of 5% in June quarter.

In economy Mandi situation has been started which means three consecutive quarter shows economy in degrowth, which is the worst situation as it is like some observations are compelling that in the coming quarter within which there will be moderate growth rate than present state of affairs and some observations says actual growth is 1.5%.

Eventually growth rate is going to shrink more than this in next quarter and there by subsequent 2-3 quarters.

Now question arises here, what government is doing in this matter? Government in order to get fund are selling off their own government companies which in turn leads to reduction of government stakes, example: - Bharat Petroleum, Shipping Corporation of India and many more. The reason of selling off is differences occurring between government income and expenditure and requirement of money.

What is the impact on share market if government companies are transformed to private companies? Let’s take an example of Bharat Petroleum Corporation Limited (BCPL). Government is confessing that they are going to privatize BCPL where there after stage comes companies share gets into progressing growth.

At the time of converting government companies to private companies they will be concept called Value Unlocking where Market assumes that if this company is going to be privatize it will earn more profit and it’s that company’s investor will be more benefitted. It is in one way right perhaps this type of situations has been seen where after privatization companies performs very well, so government is taking this step. Total they are 48 companies within which few companies have started privatization, in case in coming quarters the growth rate declines compared to present scenario growth rate then in that situation government privatization starts getting sky scraping.

Even the darkest night will end and the sun will rise likewise economic degrowth for next few quarters and over they are bottom, later on thereafter if growth starts that will be so fast that we have not even though of it. Everything takes its own time same way government sells stakes those stakes real impact to reflect in market places take time once chances occurs market money start getting in, projects gets started, rest industries starts working these are reasons wherein market capitalization raises example- Obstacles in various sectors like in coal sector -17% growth that of previous quarter, 4.5% in automobile industries likewise in 7 core sectors only degrowth has taken place.

Let's have a look towards the 50 public sector companies in India – Oil and natural Gas Corporation (ONGC), Steel Authority of India Limited (SAIL), Bharat heavy electricals Limited (BHEL), Coal India Limited (CIL) and many more out of which Government is revealing that they going to privatize Bharat Petroleum Corporation Limited (BCPL). Now twist comes here, we have seen IDBI shares has been sold out by government to LIC which is again a government company this kind of activity cannot be called as privatization rather its strategic disinvestment.

Methodology: -

1)Illustration:

According to this model main source of the stock market returns is GDP growth. When an economy is developing, the public sector companies are more likely to observe a rise in profits and as result, earning per share (EPS) of the government companies will evolve as well, and ultimately stock price will be appreciated. If suppose; 1. When no global trading 2. Valuation ratio remains constant 3. Country's stock market is listed with only domestic companies 4. Payout ratio is reliable. Then this makes an exact match between actual price rise and actual GDP growth.

$$\text{Stock Market Returns} = \Delta \text{GDP} \;*\; \underbrace{\frac{\Delta \text{EPS}}{\Delta \text{GDP}}}_{\text{Profit Impact Of GDP Growth}} \;*\; \underbrace{\frac{\text{P/E 2019}}{\text{P/E 2013}}}_{\text{change in valuation}}$$

GDP=Gross Domestic Product

EPS=Earnings Per Share

P/E=price-to earnings

Δ = changes

2)Data collection sources:

This research is based on the India, so all the data used in this article are from India. GDP growth rates and stock market earnings were collected from the India. GDP growth rates and total corporate earnings were collected from NSE, BSE and S&P CNX Nifty. These are the most frequently used indices and considered as best representation of the stock market and for the Indian economy. In 1956, Bombay stock exchange was granted by government of India under the regulation of SEBI. In the year 1986, Bombay stock exchange was generated. BSE Sensex (Sensex = sensitivity Index), it helps in representing the index of 30 companies which is a measurement of the over performance of stock exchanges.

SEBI (Securities exchange Board of India):

Till late 1980's, BSE was being going through low volatility, unreliability, transparency. From the end of 1980's, new economic forces and crisis in currency demanded for the need of modernization of the financial system. SEBI was established by government in 1988.

NSE (National Stock Exchange): -

BSE was crashed due to Harshad Mehta scams in 1992 April. MR. Manmohan Singh was the financial minister of India, urged for the need of more stock exchange in challenge with BSE.

Thereafter NSE was established in November 1992, which was the first way of trading stock exchanges electronically in 2000.3 segments of NSE are as follows: -

a) Whole sale debt market (WBM)
b) Capital Market (CM)
c) Futures and option segment

In 1996, S&P CNX Nifty was launched by NSE of India. CNX Nifty (Nifty= National fifty) represents the index of 50 stocks

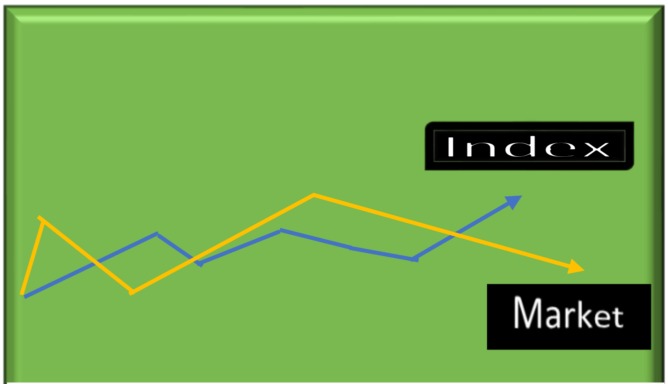
S&P BSE Sensex indices: -

Years	Low	High	Close	Price-Earning Ratio	Price-Book value Ratio
2016-2017	24523.20	29824.62	29620.50	20.62	2.84
2017-2018	29241.48	36443.98	32968.68	23.78	3.05
2018-2019	32972.56	38989.65	38672.91	23.71	3.03

So, buy right and hold tight until all seems right.

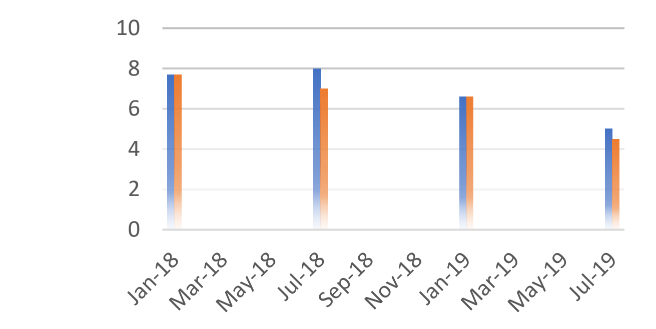
Result:

Practically market is weak and index is at peak. This is very surprising that to going few shares, look at individual prices of all nifty50 shares, few shares are performing good resulting in taking to nifty index to its peak. So, have to caution, don't be impulsive in buying of shares.



Market is weak but index is at peak

Economy slow down-Decline in growth of our economy. Our economy is majorly based on oil and gold. They are two reason for increase in price of gold one is US currency China trade war and second is Our currency is depreciating to US Dollars. Example: - rupee depreciation Rs. 68 to Rs. 72, almost 5-6% of depreciation had happened. We are the people who are living in trade deficit country in which net export is negative which is dumping net GDP. Presently where we are seeing 4.5% GDP growth majorly because of government spending's, less government spending during election period



	Jan-18	Jul-18	Jan-19	Jul-19
Quarter 1	7.7	8	6.6	5
Quarter 2	7.7	7	6.6	4.5

In middle it seems that mandi situation it about to end, good time is going to come. They will be 3 types of investors: -

- Maximum- Maximum of maximum payoff- speculator type of investors expect maximum profits
- Maximin- Minimum of maximum profits - conservative type of investors expects maximum of minimum profits
- Min of maximum Regret- Balance type of investors

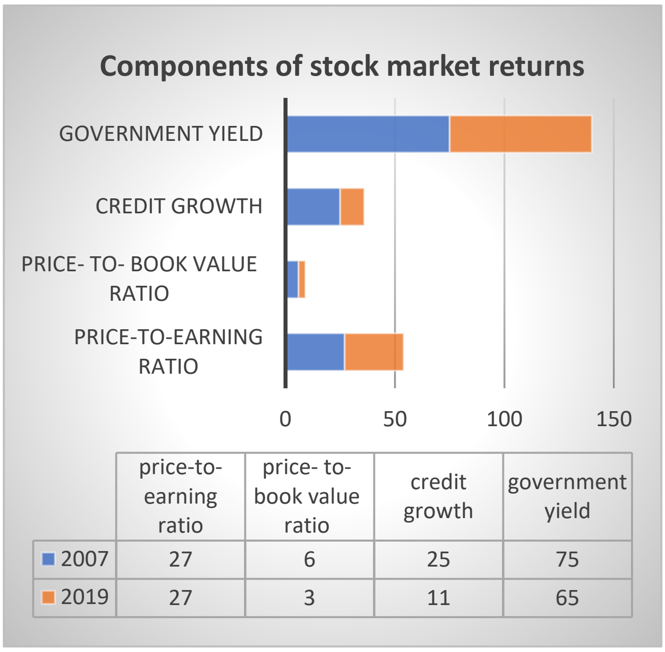
  At present situation, under that balanced investor strategy should be followed up where we get minimum losses and in times of profits will get maximum profits or if market gets unfavorable in that kind of circumstances we will be at safe zone.

Slowing in growth of GDP due to factors like exogenous and endogenous. But now from side of government, Reserve bank of India sides surplus money will be transferred, this helps in reviving in economy. Friendly policies by government are necessary in real estate policies, automobile industries policies. Before last week it was observed that before last week government is not ready to listen anything hopefully from last week by announcement passed by financial minister from which chances are observed in building up of confidence because in the second quarter of June 2019 private consumption level growth was less than 31% which show a negative sign and is majorly because people are getting insecure particularly rural people where there is no growth of income there they are not ready to spend more. If spending's are less automobile consumption will also be less this impact on GDP. That's why we expect the monsoon season which was passed of out, in few parts excess rainfall happened because of excess rainfall 2-3 months somewhere can be spoiled by water level increase. They are possibilities that agriculture sector can get positive and if agriculture sector gets positive consumptions then it can support all the other sector because today also 60-70% of population is dependent on agriculture sector. If agriculture gets developed automatically it will help in affecting positivity in GDP.

In democracy there is a necessity of strong opposition lets understand why? If there is no strong opposition the government thinks whatever there are doing is right and the pressure should be built by opposition, that pressure should not only be concern with benefits of economy and country.

Further the criticisms made by Rajiv Kumar sir and Niti Aayog vice chairman has also raise the concern of public forum and government has taken it very seriously this is the only reason for fast track. Prime Minister interventions are taking place in financial ministry which is al good for raising economy.

Comparison on few numbers typically on price-to-earnings ratio on December 2007 and today December 2019 its 27 their people think market is over valued but if we look towards past 12 months price- to-book value of 2007 they use to trade total market on 6% and in 2019 it has fallen down to 3%. Credit growth in 2007 is 25% and in 2019 11%. Government yield in 2007 was 75% and in 2019 65%. In coming situation in order to support GDP from side of reserve bank of India aggressive rate cutting is possible. Today the repo rate is 5.4%, and it won't be any surprising issue it falls below 5% and its impact will be on business interest rate on loans.



	price-to-earning ratio	price- to-book value ratio	credit growth	government yield
2007	27	6	25	75
2019	27	3	11	65

From government side its clear indication can come that for growing demand interest rates has to be decrease RBI aggressiveness can take this all, non-performing assets quarter to quarter getting decreased this is one of the good things. Public sector industries are going to merge, how smoothly they merge into is important. Total credit growth expects to be Rs-3 to 5 lakh crores due to cascading impact that many loans should be disburse. All the below factors should be kept in mind that a) how consumption patterns can change b) whether they don't keep on postponing. Agricultural output is running well or not, prices are rising, this help in evolving rural market, from there consumption can also come into economy. Wish all these things can be well folded which will give positive impact on market. But economic indicator that is before GDP growth only market gets revive because predictions will be made before hand by the market and according to them market will be running. This is one of the best opportunities to develop portfolio.

No one are born as a great trader; everyone learns by trading!

Conclusion: -

The presents study is a try to investigate the short term and long-term relationship of stock market development and economic growth taking into consideration the size and liquidity of India. The impact of GDP growth is empirically tested on stock market returns as a dependent variable of economic growth. The stabilizing of stock market is highly important for catering the needs of business operations, working capital needs and requirements of industries. Since the stock market of India are declining and diminishing in past few years, this decline will however be accompanied with industrial and manufacturing growth of the country.

Finally, there are some limitations on this paper. The study used only GDP growth as determinant for determining the changes in stock market returns, forecast on other factors like causes of business cycles, merger and acquisition, dilution, effects of demand and supply on rate of exchange.

Recommendations:

Sometimes it seems like there is a big scam behind all this and the retail investor are being trapped and once these operator turn the situation the market will fall like anything then we will be flashed with stocks of all types of companies and we will find the share prices going down like anything.

- Check whether we have invested in PPF Sukanya Samriddhi schemes ENPS or not. It is one of the safest schemes. It also has tax benefits by which returns get increased.
- Get emergency funds ready. Inspect whether in savings account 6 months expense balances are there or not incase market falls working capital scarcity will be at contrary.
- Check fixed deposit is balanced with 1 year of expenses so that it can fulfill working capital requirements can business can maintain its stability without stopping in middle due to scarcity.
- Observe whether complete money is not invested in equity because now a day's equity is at lope side increase.
- Check in debt fund 50% of money to be invested which should not be more that 100000 rather invest in other debt funds

equally so that complete fund should not be invested in only one place. If big investor 100000 and above, in such circumstances select 10 best places and invest equally so that we don't depend on only one source.

- At time of selecting debt funds don't select all guilt funds or corporate funds whose returns will be affecting due to changes in interest rates rather invest in short term funds, low duration funds, liquid funds.
- Invest 50% in equity funds, 40% should be invested in mutual funds. Mutual funds like share should be of index funds like nifty fifty, Sensex funds, large cap funds like blue chip and remaining 10% on specific stocks.

In this way overall plan that is financial plans will be strong, more profitable ready for any kind of situations either good or bad.

So, it is advised always move ahead with caution, keep booking of profits the moment you earn, don't be greedy don't always think it will only rise further. This is my advice not forcing ultimately you are the investors but before taking any action always do your own research, don't believe on anyone, don't believe on what Warren Buffett etc. are saying before taking any decision always do your own research, think from your mind and then take the best decision. In trading news gives rise to volatility not directions.

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By this I tell U Bubye, HAPPY INVESTING!

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I am a kind of person who is always responsible and committed to my work and does thing with wholeheartedly. I enjoy doing things which adds value to my life and respect a person who is discipline and have respect for others.

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