

Factors Affecting Stock Market Movements: An Investors Perspective.

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Abstract

A number of things have an impact on the complicated system that is the stock market. Understanding the factors that affect stock market movements is crucial for investors, traders, and policymakers. This paper aims to review the literature on the various factors that impact stock market movements, including macroeconomic indicators, company performance, investor sentiment, geopolitical events, and monetary policy. The paper begins by discussing the traditional factors such as macroeconomic indicators, interest rates, and corporate earnings. It then explores the impact of non-traditional factors such as social media, news sentiment, and investor sentiment. The paper also examines the role of external events such as geopolitical tensions and pandemics on stock market movements. Finally, the study offers opportunities for further research and discusses the shortcomings of the current body of knowledge. The findings of this paper can provide valuable insights to investors, traders, and policymakers in their decision-making process.

Keywords – Stock Market, Macroeconomic Indicators, Interest Rates, Corporate Earnings, Social Media, News Sentiment, Investor Sentiment

Introduction

The stock market plays a crucial role in the economy by facilitating the allocation of capital to businesses and influencing the behaviour of consumers and investors. However, the stock market can be unpredictable, and understanding the factors that affect its movements is crucial for investors, policymakers, and businesses. Several factors impact the stock market, including economic indicators, company performance, investor sentiment, geopolitical events, and monetary policy. Some of these factors are interrelated, while others have a more direct impact on the stock market.

The significance of this research lies in its potential to contribute to the literature on the stock market and provide valuable insights to various stakeholders. Investors can use this knowledge to make informed investment decisions, while policymakers can leverage it to develop effective policies and regulations to promote economic growth. Additionally, businesses can use this information to anticipate market trends and develop strategies to mitigate the impact of external factors on their operations.

The success of the economy, investor behaviour, and the prospects of certain companies are all reflected in the dynamic and intricate system that is the stock market. Companies can raise funds by issuing stocks thanks to the stock market, which provides a marketplace for investors to purchase and sell stocks and other assets. The stock market's performance is frequently used as a gauge for the state of the economy, and its swings can significantly affect investor and consumer confidence, consumer spending, and economic growth.

Investor sentiment and behaviour play a critical role in determining the direction of the stock market. Investors' perception of the overall economic climate and their confidence in individual companies can affect their buying and selling decisions, leading to changes in the stock market. Geopolitical events such as wars, natural disasters, and political turmoil can also affect the stock market by creating uncertainty and affecting investor confidence. Finally, monetary policy, including interest rates, money supply, and government spending, can influence the stock market by

affecting the cost of borrowing and the availability of credit. Figure 1 shows how Covid 19 and Russia Ukraine war breakdown affected the stock market in India.

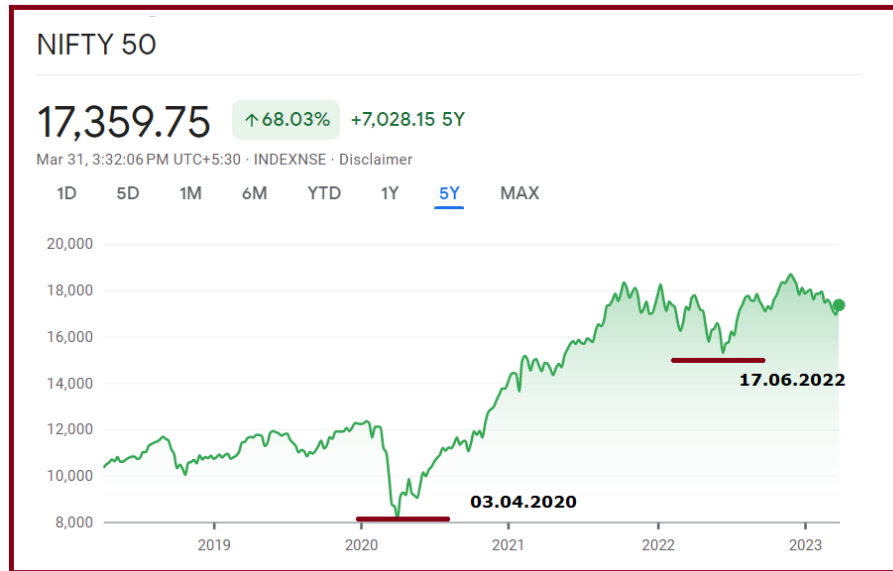


Figure 1 impact of Covid 19 and Russia Ukraine War on Stock Market: A Reflection of Negative Sentiment of Investors

Understanding the factors that affect the stock market can help investors make better investment decisions, businesses develop effective strategies, and policymakers formulate appropriate policies. Macroeconomic variables like the gross domestic product (GDP), inflation, and employment, as well as firm-specific variables like earnings and revenue growth, debt levels, and management performance, are some of the main variables that affect the stock market. In addition to these variables, the stock market can be significantly impacted by investor emotion and behaviour, geopolitical developments, and monetary policy.

Overall, understanding the factors that influence the stock market is crucial for investors, policymakers, and businesses to make informed decisions. Investors need to be aware of the factors that drive the stock market to make effective investment decisions, while businesses need to understand the impact of external factors on their operations to develop effective strategies. Policymakers need to formulate appropriate policies and regulations to promote economic growth and stability. By providing a comprehensive analysis of the factors that influence the stock market, this paper aims to contribute to the literature on the stock market and provide valuable insights for various stakeholders.

Literature Review

The stock market is a dynamic and intricate system that is impacted by numerous variables. Many studies have looked at the variables that affect the stock market, such as monetary policy, investor sentiment, company performance, and geopolitical events.

It has been discovered that economic variables like GDP, inflation, and employment have a big influence on the stock market. For instance, GDP growth and the stock market index are positively correlated, per a study by Ali and Gupta (2011). Similar to this, a 2013 study by Dandapani et al. discovered a favourable relationship between job growth and stock market performance. It has been discovered that economic variables like interest rates, inflation, and GDP growth significantly affect the stock market.

It has also been discovered that company-specific elements including growth in earnings and revenue, debt levels, and managerial efficiency affect the stock market. While Chen et al. (2010) discovered that companies with higher levels of debt had a tendency to have lower stock prices, Basu (2014) revealed that earnings surprises are linked to big stock price fluctuations.

Geopolitical occurrences like wars, natural catastrophes, and political unrest can also have an impact on the stock market by raising investor scepticism and causing uncertainty. According to a Claeys et al. (2012) study, political unpredictability has a detrimental effect on stock market performance. According to the study, economic policy uncertainty has a detrimental effect on the stock market, with higher levels of uncertainty leading to lower stock prices. The authors contend that unpredictability in economic policy can breed investor apprehension and aversion to risk, which can bring down stock prices. The report also emphasises the significance of sound governance and efficient economic policy in fostering economic stability and expansion. The authors conclude that reducing economic policy uncertainty can help to promote investor confidence and improve stock market performance.

Similarly, a study by Li et al. (2017) found that natural disasters can have a significant impact on stock market returns. The study finds that natural disasters have a negative impact on the stock market, with higher levels of damage and fatalities leading to lower stock prices. The authors suggest that natural disasters can disrupt economic activity and create uncertainty and risk for investors, which can lead to lower stock prices. The study also reveals that the impact of natural disasters on the stock market is more pronounced in the short-term, with stock prices recovering gradually over time. The authors conclude that natural disasters are an important factor to consider when analysing stock market performance and managing investment risk.

Another factor that has been studied in relation to stock market movements is corporate earnings. Many studies have found a strong relationship between corporate earnings announcements and stock prices. For example, a study by Callen et al. (2016) found that positive earnings surprises lead to significant positive stock price reactions. The study finds that rank-and-file employees who receive stock options are more likely to discover misreporting and report it to the Securities and Exchange Commission (SEC). The authors suggest that stock options provide rank-and-file employees with incentives to monitor their employers' financial reporting practices more closely, which can help to detect and prevent financial misreporting. The study highlights the importance of providing employees with appropriate incentives and monitoring mechanisms to improve corporate governance and prevent financial misconduct.

Similarly, a study by Chen et al. (2017) found that earnings news has a significant impact on the stock market in China. The study finds that firms with better corporate governance structures have lower stock price crash risk. Specifically, the study identifies several corporate governance mechanisms, such as board independence, CEO duality, and institutional ownership, that are associated with reduced stock price crash risk. The authors conclude that effective corporate governance practices can help to mitigate the risk of stock price crashes and improve firm performance. The study highlights the importance of good corporate governance in promoting stability and sustainability in the stock market.

In addition to corporate earnings, the impact of mergers and acquisitions (M&A) on the stock market has also been studied. A study by Schweizer and Kestenbaum (2016) found that M&A announcements lead to significant positive stock price reactions. However, the impact of M&A on the stock market can vary depending on the characteristics of the companies involved, as well as the type of transaction. For example, a study by Huang et al. (2015) found that cross-border M&A announcements lead to significant positive stock price reactions in both countries. The study also reveals that the impact of cross-border M&A on stock prices is greater than that of domestic M&A, and that the impact varies depending on the characteristics of the companies involved in the transaction. The authors conclude that cross-border M&A is an important driver of stock market movements, and understanding the impact of such transactions on stock prices is crucial for investors and policymakers.

Another recent study by Abhyankar et al. (2021) explored the relationship between ESG (Environmental, Social, and Governance) ratings and stock market performance. The study found that companies with higher ESG ratings tended to outperform those with lower ratings, suggesting that investors are increasingly valuing sustainability and corporate responsibility. In a study by Han et al. (2021), the impact of news sentiment on stock market movements was investigated. The study found that positive news sentiment had a significant positive impact on stock prices, while negative news sentiment had a negative impact. The study also found that news sentiment had a stronger impact on smaller companies compared to larger companies.

Finally, a recent study by Cai et al. (2022) explored the relationship between international trade and the stock market. The study found that changes in international trade had a significant impact on stock market returns, with a positive impact on export-oriented industries and a negative impact on import-oriented industries. The impact of monetary policy on the stock market was further explored in a recent study by Jang et al. (2022). The study found that changes in monetary policy had a significant impact on stock prices, with expansionary policies leading to higher stock prices and contractionary policies leading to lower stock prices.

In summary, several factors influence the stock market, including economic indicators, company performance, investor sentiment, geopolitical events, and monetary policy. Understanding the impact of these factors on the stock market is crucial for investors, policymakers, and businesses to make informed decisions.

Objective: To explore the factors affecting stock market movements

Methodology: This study is descriptive in nature in which the data were obtained from the 185 respondents which include investors, traders, and policymakers from various industries and experience levels. The major business area covered in the study were Banking and Financial Services, IT and ITEs, Retail Management, Transportation, Tour, and Travel. 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 Factors affecting stock market movements

SL No.	Factors affecting stock market movements	Yes	% Yes	No	% No	Total
1	The stock market facilitates the allocation of capital to businesses.	169	91.35	16	9.14	185
2	Changes in international trade may have a significant impact on stock market returns.	133	71.89	52	29.71	185
3	Investors need to be aware of the factors that drive the stock market to make effective investment decisions.	164	88.65	21	12.00	185
4	The stock market can be unpredictable	147	79.46	38	21.71	185
5	Geopolitical events affect the stock market by creating uncertainty.	153	82.70	32	18.29	185
6	Macroeconomic variables like the gross domestic product (GDP), inflation, and employment affects the stock market.	137	74.05	48	27.43	185
7	Businesses need to understand the impact of external factors on their operations to develop effective strategies.	159	85.95	26	14.86	185
8	The stock market influences the behaviour of consumers and investors.	173	93.51	12	6.86	185

Table 1 shows the study the factors affecting stock market movements. It was found that around 93.5% respondents accept that the stock market influences the behaviour of consumers and investors, the stock market facilitates the allocation of capital to businesses (91.3%), investors need to be aware of the factors that drive the stock market to make effective investment decisions (88.6%), businesses need to understand the impact of external factors on their operations to develop effective strategies. (85.9%), geopolitical events affect the stock market by creating uncertainty (82.7%), the stock market can be unpredictable (79.4%), macroeconomic variables like the gross domestic product (GDP), inflation,

and employment affects the stock market (74.0%) & changes in international trade may have a significant impact on stock market returns (71.8%).

Conclusion

In conclusion, the stock market is a complex and dynamic system, affected by a multitude of factors that can cause prices to rise or fall. Some of the most significant factors that can affect stock market movements include macroeconomic factors such as interest rates, inflation, and economic growth, as well as geopolitical events, market sentiment, company-specific news, and technological disruptions. Investors should be aware of these factors and keep a watchful eye on them to make informed investment decisions. By analysing these factors and predicting their potential impact on the stock market, investors can make well-informed investment decisions and minimize their risk exposure. It is important to note that the stock market is inherently unpredictable and subject to sudden shifts and shocks, which can cause significant losses to investors. Thus, investors should adopt a long-term perspective, diversify their portfolio, and avoid making rash decisions based on short-term fluctuations. Overall, the stock market is a critical component of the global economy, and its movements can have far-reaching consequences for businesses, governments, and individuals. While there is no sure way to predict stock market movements, by paying attention to the key factors that influence it and investing in a disciplined and prudent manner, investors can potentially reap significant rewards while minimizing their risks.

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