Infomerics Ratings

Infomerics Valuation And Rating Pvt. Ltd.

SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

Dr. Manoranjan Sharma
(Chief Economist)

PERFORMANCE AT THE HUSTINGS, IMPLICATIONS FOR THE MARKETS

13 May 2024

Introduction

Despite the plethora of election prophecies, opinion polls, surveys, size of the sample, representative nature of the sample, and soothsaying, there is always an element of subjectivity about the imminent election results. The uncertainty about the election results stems from the difficulty in getting it right in a nation of the size and complexity of India and currents and cross-currents of electoral politics. Further, as has been said down through the years, a week is a long time in politics.

To my mind, there is, however, little doubt about a victory for the BJP under the circumstances marked by a fragile index of opposition unity and the TINA (there is no alternative) factor. Accordingly, a BJP victory seems to be a given. My assessment is that the BJP will romp home comfortably. The only issue here seems to be the margin of the BJP's victory.

My sense is that a BJP victory and consequential continuity and stability in policy and programmes have already been factored in by the market. However, in the extremely unlikely event of the BJP not making the cut, there could be a steep fall in the markets.

This issue of risk averseness assumed significance in the context of the Sensex falling by over 1,000 points on 9 May 2024 while the Nifty dived below the 22,000 level due to across-the-board selloff amid general election uncertainties caused by low voter turnout in the third phase, profit booking in some cases and concerns of capital gains tax.

Foreign institutional investors sold over rs. 22,857 crore of equities till May 9, 2024 because of volatility and uncertainty stemming from the Lok Sabha elections and the forthcoming final Union Budget. The decision of the US Federal Reserve to postpone rate cuts until year-end has led market participants to anticipate sustained impacts on foreign inflows into Indian and emerging markets.

The market capitalisation (mcap) of BSE-listed companies eroded by Rs 7,34,513.48 crore to Rs 3,93,34,896.14 crore ($4.71 trillion). There were also persistent foreign fund outflows and heavy selling pressure in HDFC Bank, Larsen & Toubro and Reliance Industries weighed on investor sentiment.

With economic globalization gaining steam, it's clear that India, which is the world's fifth largest economy (and the fastest growing major economy at that!) would continue to be an important investment destination over the long haul and, therefore, despite occasional dips, the growth saga of both the Indian economy and the stock market would continue though there are some valuation concerns with the present valuations being 20 times one-year forward earnings. Such earnings are more than one standard deviation above the long-term average, both in absolute terms and relative to emerging markets. However, the trajectory of earnings revisions remains relatively stable and is trending better than the long-term average.

While the poll-related market volatility could continue, we now see limited market volatility in the run up to the elections unless there is a game-changing development either on the global or the domestic scene in the about three weeks left for the election results.