Surge in Financial Markets Index

Why in news?

Recently amidst the rise of COVID cases, rise the value of stock market index comes as a big surprise.

Is the stock market detached from ground reality?

- Usually market is positively linked to economic growth in long periods of 10-20 years which cannot be the same for the short term period.
- Over the last one year, there has been no linkage between the economy and the market movement.
- Currently, there is a huge gap between the ground reality- people focus on protecting them from coronavirus, corporates are diverting their industrial resources towards the manufacture of oxygen.
- Despite this, rise in Sensex is surprise but the market and the ground reality will soon catch up.
- If the healthcare situation does not come under control, foreign portfolio investment outflow will gather pace in the coming days.

Why is the market rising?

- The quarter-4 of 2021 results gives a big positive hope for the markets and investors expect a bright scenario two months ahead.
- Absence of a nationwide lockdown, limited impact of lockdowns announced by the states and vaccination programme has created an optimism in the market.
- The infection and mortality among people who have been vaccinated is low and following vaccination of 35-40 crore people will result in free travel and near opening up of the economy.
- The vaccination will be an additional security for industries to continue operations and avoid a full-scale lockdown.
- There is a sense that it is a pain of one to two months and normalisation will be faster.
- Banks, which are considered a proxy for the economy, did not face asset quality crisis as expected.

- Also, the fact that most countries with resources are coming to India's help has boosted sentiment.
- Over the last few days, US has removed restrictions on export of vaccine raw materials, countries are helping India with oxygen concentrators, ventilators, vaccines and other materials.

Who is buying in the market?

- The current strength in the market is being provided by domestic institutional investors (DIIs) — mutual funds and insurance companies among others.
- In April (until date), DIIs have invested a net of Rs 9,669 crore as against a net outflow of Rs 11,101 crore by FPIs.
- Market data shows that for the first time in seven months, DIIs has overtaken the FPIs in net investment in Indian equities.
- FPIs are concerned over the rise in Covid cases around the world (especially in India) and therefore exercise caution.
- But market participants say domestic investments are strong due to various factors and hopes that the impact on the economy will not be as hard as last year.

What should be the strategy now?

- While FPIs have been selling from the Indian markets, there are some who feel they may increase the pace of the sell-off if the healthcare situation does not come under control soon.
- If there is a sharp outflow of FPI money due to worsening healthcare situation, there could be a correction in the markets.
- However, if situation improves in forthcoming weeks, markets may gain confidence and renewed strength.
- Experts say investors should not look to speculate in the market at this time, the existing investments should continue and fresh investments for the long term can be made.
- Stock investments should be in high-quality companies that are better equipped to handle the current crisis and are expected to increase their market share in the current environment.
- Profit booking can be an option for those who are in need of funds and who want to keep high liquidity with themselves.
- For those who don't need the money for the next one or two years, they can stay with their existing investments.

Source: The Indian Express

