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Are Macroeconomic variables and Stock Indices related?

The performance of Indian stock market (Nifty) in FY23 when compared with last year has not been up to mark. There are varied macroeconomic factors responsible for this dip, with inflation and central bank action dominating the sentiment. Add to this the uncertainty faced due to Russia-Ukraine conflict, kept the investors on the edge. The outflow from overseas funds also contributed to this dip. Supply constraints and other domestic factors added to the somber performance of market.

Amidst these developments in global economy, there were also impending fears of recession for some of the global economies. Indian economy too witnessed some spillover effects from global economic developments coupled with their own set of unique challenges. The effect of the same was visible on a range of macroeconomic variables as well as on the financial health of the companies. This study attempts to see if there is any relation between the performance of the market indices and the macro-variables.

How has Nifty performed in FY23 vis- a-vis other global indices?

Nifty index declined by 0.6% in FY23 after gaining by 18.9% in FY22. Despite some moderation, in comparison to other global markets, India has relatively performed better, especially with respect to countries like Singapore, Hong Kong, Korea and even US. However, global indices such as France, Germany and UK have outperformed Indian indices.

Table 1: Indian markets performance against other global indices

Country/Index	Return	Country/Index	Return
France	9.6%	Malaysia	(10.4%)
Germany	8.1%	Korea	(10.2%)
UK	1.6%	Hong Kong	(7.3%)
Japan	0.8%	US (Dow Jones)	(5.2%)
India (Nifty)	(0.6%)		

Source: Bloomberg, Bank of Baroda Research

Sub-Indices of Nifty Index

Even as Nifty has registered some moderation compared with last year, some of the sector indices showed improvement. This study attempts to link macroeconomic metrics like GDP, IIP growth, core sector growth with these stock indices. Table 2 gives the number of companies in various stock indices.

The outperformers:

Auto Index

The index has given a strong return of over 16% for FY23. The sector (automobile and ancillaries) has done well in terms of financial performance for last 2-quarters. The vehicle retail sales data from FADA have noted a robust growth of 20.9% for FY23.

Banking Index

Double digit growth of 11.6% for FY23 has been registered for banking index. The sector has seen a robust credit growth in FY23 at 15% against a growth of 8.6% in FY22.

Table 2: Number of Companies across Indices

Sector	No. of Companies	Change in 2022-23 (%)
Nifty	50	-0.6
Auto	15	+16.0
Banking	12	+11.6
PSU banks	12	+36.3
Consumption	30	+4.9
FMCG	15	+26.5
Infrastructure	30	+1.4
Energy	10	-11.7
IT	10	-21.0
Media	11	-28.6
Metal	15	-14.4
Pharma	20	-11.5
Realty	10	-16.4

Source: NSE, Bank of Baroda Research

PSU Bank

Within banking sector, the PSU Index has given a solid performance and has generated a return of 36.3% for FY23, compared with last year making these most lucrative investment against their private counterparts.

Consumption Index

In comparison to Nifty, the consumption index has performed better with a growth of 4.9% recorded for FY23. On expenditure side, for GDP calculation, PFCE is expected to grow by 7.2% (constant) in FY23.

FMCG Index

The FMCG index has witnessed a strong return of over 26.5% in FY23 compared with last year. The performance of industries within the sector has registered a steady bottom line growth for the last 2-quarters (Sep'23 and Dec'23).

Infrastructure Index

Marginal growth of 1.4% was registered by infrastructure index in FY23. As per the eight core sector classification output of steel and cement for the period of Apr-Feb'23 has improved by 7.5% and 9.7% respectively though lower when compared with FY22. Net profit for these industries was under pressure in the second and third quarters of the year.

Underperformers:

6 of the sectoral indices were underperformers registering negative growth over the year. Their performance also tended to get linked with the performance of the industries as well as the underlying developments that affected their prospects.

Energy

In comparison to Nifty, energy index witnessed negative growth of 11.7% in FY23. In the beginning of FY23, the heatwave conditions in the country was aggravated due to increased demand by both domestic and industrial sector, amidst coal shortage. India meets over 70% of its power demand through the thermal power route with coal being the major source.

Owing to the Ukraine-Russia conflict, global commodity prices had heated up during this period too. In addition, financial performance of power companies (especially DISCOMs) was under pressure with profits coming down in Q1FY23. There were other logistic issues (including transportation) too at play that had an impact on this sector, making this not only a demand challenge but also a supply one.

IT

IT index has underperformed for FY23, declining by 21% in FY23. The year has witnessed uncertainty and fears of global economic slowdown even the recession warnings were given for some European economies. These fears were unfounded as witnessed by the surge in export of services for the country on account fo this sector. .

Media

The media index registered a sharp contraction of 28.6% (negative return) for FY23 compared with last year. The bottom line growth too underwent negative growth for both Q2FY23 and Q3FY23.

Metals

Double digit negative return of 14.4% was seen for the metal index. The uncertainty of global markets had pushed global commodity prices higher. The industry had to bear the pressure of rising cost and the same was reflected with the financial performance of firms especially in the last 2 quarters witnessing their bottom line suffering as a result. Additionally, output of basic metals has moderated to 7.4% from 19.8% in FY22 (Apr-Feb). For fabricated metals, the output growth has contracted to 1.3% (Apr-Feb) from 12.7% last year.

Pharma

The Pharma index recorded negative return of 11.5% for FY23 on a YoY basis. Growth for pharma sector slipped in to negative territory in FY23 compared with positive growth registered in FY22 (Apr-Feb). Profits in Q3FY23 declined after increasing in the previous quarter (Q2FY23).

Realty

The real estate index for FY23 registered a negative growth of 16.4% for FY23. Infrastructure construction goods output slowed down to 8.1% in FY23 compared with double digit growth of 20.3% in FY22 (Apr-Feb).

Conclusion

FY23 was evidently a mixed bag from the point of view of the stock market. The bellwether index, NIFTY declined marginally. Across sectors there was differential performance driven partly by the growth performance as well as accompanying developments that could affect future prospects of these industries. As profitability in the non BFSI/IT segment was under pressure due to rising costs, the same did get reflected in the sectoral stock indices.

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