

Global Stocks Fall - From Wall Street to Dalal Street

.Why in news?

\n\n

\n

- US stocks suffered their worst falls in more than 6 years.

\n

- This was after steep losses on Wall Street that slashed the Dow Jones Industrial Average (DJIA) by 4.6%.

\n

\n\n

What is DJIA?

\n\n

\n

- The **Dow Jones Industrial Average** (DJIA) or simply Dow Jones is a stock market index.

\n

- It is the price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ (an American stock exchange).

\n

- The Dow Jones Industrial Average fell 4.6% overnight, recently.

\n

- The developments in Wall Street found ramifications in Dalal Street.

\n

- Wall Street in the New York City is generally associated with the financial markets of the US as a whole.

\n

- Dalal Street in Mumbai houses the Bombay Stock Exchange and several related financial firms and institutions.

\n

\n\n

What triggered this?

\n\n

\n

- The US Labour Department reported that **employment** had risen more than expected in January.
\n
- This was with the biggest **wage gain** in more than eight-and-a-half years.
\n
- The workers commanding **higher salaries** fuelled apprehensions of a **rise in inflation**.
\n
- In turn, there was anticipation that the Federal Reserve may **raise interest rates** faster.
\n
- The markets were worried that it may push **investors** to move to **US Treasury bonds**.
\n
- This is because returns on Treasuries would look relatively more attractive than stocks at this juncture.
\n
- The US 10-year **Treasury yield** also surged to a level that is the highest since January 2014.
\n
- This was ultimately expected to **suck out liquidity** from the equity markets.
\n
- All these triggered a fall in stocks, leading to a plunge in Dow Jones by 4.7%, its largest single-day point drop in history.
\n

\n\n

What are the developments in India?

\n\n

- Sensex scaled to new peaks almost on a daily basis in India until the presentation of the recent Budget.
\n
- However, the post budget scenario started to take a turn.
\n
- The Budget slapped a 10% **long-term capital gains (LTCG) tax** on equity gains of over Rs 1 lakh (Click [here](#) to know more).
\n
- The budget also projected a higher **fiscal deficit**.
\n
- Resultantly, investors dumped stocks across the board and the **Sensex fell**.
\n
- This was also driven by the **undermined market sentiment** due to:

\n

\n\n

\n

- i. rising bond yields in India and across the world
- ii. the possibility of higher inflation
- iii. fear of interest rate hikes (by RBI in India and by US FED as well)

\n

\n\n

\n

- The fall in stock market was further **accelerated** by the recent plunge in Wall Street.

\n

\n\n

What would the impact be?

\n\n

\n

- The interest rates hikes in the US could lead to **outflow of foreign portfolio investor funds** from emerging markets.
- This is a concern for India, as funds would move out of the country to be parked in US Treasury bonds.
- The continued inflow of retail money into Indian equities through Mutual Funds could act as a counterbalance to FPI outflows.
- However, the imposition of the **LTCG tax** may disrupt that inflow of retail money.
- **Retail investors** are concerned on **compliance issues**.
- These include keeping track of days of investment and calculation of capital gains for payment of tax.
- Resultantly, **new investors** coming into India may not reflect the positive trend as in the last 3 years.
- Besides, fund outflows could have ramifications on the **current account deficit** (CAD).

\n

- This is because India has been balancing CAD through higher inflows.
\n
- The possible outflows and a widening CAD may lead to more complications for **government finances**.
\n
- Also, hundreds of companies that have lined up **Initial Public Offering market** will have to rework their plans.
\n
- The **disinvestment** of public sector companies could also get hit.
\n
- Evidently, in the last year, a number of PSUs had floated IPOs, raising thousands of crores for the government.
\n

\n\n

\n\n

Source: Business Line, Indian Express

\n

