Global Stocks Fall - From Wall Street to Dalal Street

.Why in news?

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- US stocks suffered their worst falls in more than 6 years.
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- This was after steep losses on Wall Street that slashed the Dow Jones Industrial Average (DJIA) by 4.6%.
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What is DJIA?

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- The **Dow Jones Industrial Average** (DJIA) or simply Dow Jones is a stock market index.
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- It is the price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ (an American stock exchange).
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- The Dow Jones Industrial Average fell 4.6% overnight, recently.
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- The developments in Wall Street found ramifications in Dalal Street.
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- Wall Street in the New York City is generally associated with the financial markets of the US as a whole.
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- Dalal Street in Mumbai houses the Bombay Stock Exchange and several related financial firms and institutions.
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What triggered this?

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- The US Labour Department reported that **employment** had risen more than expected in January.
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- This was with the biggest **wage gain** in more than eight-and-a-half years.
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- The workers commanding **higher salaries** fuelled apprehensions of a **rise in inflation**.
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- In turn, there was anticipation that the Federal Reserve may **raise interest rates** faster.
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- The markets were worried that it may push **investors** to move to **US Treasury bonds**.
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- This is because returns on Treasuries would look relatively more attractive than stocks at this juncture.
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- The US 10-year **Treasury yield** also surged to a level that is the highest since January 2014.
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- This was ultimately expected to **suck out liquidity** from the equity markets.
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- 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.
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What are the developments in India?

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

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i. rising bond yields in India and across the world

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ii. the possibility of higher inflation

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iii. fear of interest rate hikes (by RBI in India and by US FED as well)

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

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What would the impact be?

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- The interest rates hikes in the US could lead to **outflow of foreign portfolio investor funds** from emerging markets.

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- This is a concern for India, as funds would move out of the country to be parked in US Treasury bonds.

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- The continued inflow of retail money into Indian equities through Mutual Funds could act as a counterbalance to FPI outflows.

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- However, the imposition of the **LTCG tax** may disrupt that inflow of retail money.

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- **Retail investors** are concerned on **compliance issues**.

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- These include keeping track of days of investment and calculation of capital gains for payment of tax.

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- Resultantly, **new investors** coming into India may not reflect the positive trend as in the last 3 years.

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- Besides, fund outflows could have ramifications on the **current account deficit** (CAD).

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

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