

## **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**

