



EVALUATING THE INFLUENCE OF THE 2019 LOK SABHA ELECTIONS ON INVESTOR SENTIMENT AND THE INDIAN STOCK MARKET

How did the 2019 Lok Sabha elections impact the Indian stock market?

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Abstract

Stock markets are a vital component of national economies and are susceptible to fluctuations influenced by various macroeconomic factors. This research paper provides a thorough analysis of the influence of Political, Economic, Social, and Technological (PEST) factors on stock markets. It then offers an in-depth evaluation of the impact of political factors, specifically elections, on stock markets by examining how events, news, and media coverage before, during, and after the 2019 Lok Sabha elections affected investor sentiment and, consequently, the Indian stock market.

Introduction

"Every election unleashes a market dance, where votes cast become the rhythm, and stocks sway to the tune of political winds."

The Stock Market is a highly networked marketplace where shares of publicly listed companies are multilaterally traded. The global stock market holds a rich historical background - it was initially established in the 1500s alongside the cities of London and Antwerp (Remesh and Gaba, 2023). The Indian share market, specifically the Bombay Stock Exchange (BSE), was founded in 1875 and is also the oldest stock exchange in Asia (Rawal, 2015). BSE started with only a few hundred traders however currently the numbers show incredible volume in the market with around 87 Million traders in the National Stock Exchange (NSE) (Oberoi, 2024).

Even though technical indicators play an important role in the market trends there is no doubt that the share prices are significantly affected by macroeconomic factors. Certain political, economic and social diversifications play a crucial role in indicating the volatility of the stock market. For instance, according to a *CNN business article* the American market (Nasdaq) saw a significant rise to an astonishing 5.5% market surge when the states elected their president in the 2020 elections (Egan, 2020). Focusing purely on political factors, the stock markets of democratic nations may be impacted by such factors to a greater extent accounting for factors such as populism. In light of the aforementioned, this research paper aims to answer the question: ***“How did the 2019 Lok Sabha elections impact the Indian stock market?”***

The aim of this paper is to analyse the stock market and the macroeconomic factors that influence it prior to conducting an in-depth case study on the Indian stock market and how it was impacted by the 2019 Lok Sabha elections.

Literature Review

For a stock market to operate adroitly, certain components must be considered. Such components include the concepts of exchanges and indices. These concepts simplify the diversified stocks in the market into categories which ease the identification and administration of shares. For instance, the Indian stock market comprises two exchanges which are the Bombay Stock Exchange (BSE) established in 1875 and the National Stock Exchange (NSE) established in 1994. Trade on these exchanges happens via an electronic open order book which matches the limit orders with the investors for fluid multilateral exchange of shares between anonymous investors. The Indian stock market is regulated and officiated by the Securities and Exchange Board of India (SEBI) formed in 1992 which can also pose penalties to the market investors in case of a breach (Chen, 2022). Indices can also be used as an essential component for investment management and comparison of stocks. In the Indian market, the dominant 2 indices include Sensex and Nifty. One can think of these concepts in the following way - the market of a country has exchanges for the regulation of the trade of stocks and those exchanges have indices under them which assist in investment management and set a benchmark for the comparison of stocks, these indices further consist of stock of certain companies which are bought and sold.

The Indian stock market in particular has witnessed an exceptional history as well as drastic evolution not only numerically but also on a technical front. One of such revolutionary changes in the Indian stock market is the change from an open outcry trading system to an electronic open trading system. This change has given the market phenomenal efficiency-based administrative advantages and has also decreased breaches in the market. During the time between the establishment of the Indian stock market by the East India Company and the current established market, there were some major events including a few scams and certain regulatory changes. Such significant regulatory changes include collective investment schemes which were officiated by SEBI. These schemes played a crucial role in inviting Foreign Institutional Investors (FII) to invest in Indian shares. From starting out as a stock

market established by a foreign company with just as few as 6 stock brokers, the Indian stock market has risen up the ranks and now comes in the top 5 country markets on the basis of market capitalization (Statista, 2024).

An Analysis of How Political, Economic, Social, and Technological (PEST) Factors Influence the Stock Market

As mentioned in the introduction, macroeconomic factors can have a big influence on the stock markets of a country. This influence can be better understood within the PEST framework which has been analysed below

Political advancement and changes play a significant role in market volatility. Certain decisions taken by the government, schemes introduced by the government and also foreign relations can greatly influence the market. One such political factor that can majorly affect the market is political stability. According to several studies, it has been proven that political instability has an antipathetic impact on the market which decreases investor confidence and leads to a decline in the market. An evident example could be that of Pakistan, where there has been an unstable government since independence and that has led to a pessimistic marketplace causing declined market trends in the nation (Mai, Nawaz Saleem and Kamran, 2023). In the same way that political instability causes a decline in the market, political stability increases investor confidence and leads to positive volatility in the marketplace. Certain government policies and regulatory changes can also cause movement in the market (Hall, 2024). One such instance could be if the government invests in a particular sector of work, that sector is said to be developing and hence sees positive volatility and upward growth. On the other hand, the sectors sidelined by the government tend to remain underdeveloped and that leads to underconfidence among investors causing a bearish investor sentiment towards such stocks.

Economic changes also play a crucial role in influencing market trends. Macroeconomic factors such as the GDP of a country do influence the volatility of a market. The GDP and the stock market of a country move hand in hand - as the gross production of a country increases, the confidence in the marketplace also escalates. This is the reason why developing countries with an increasing GDP possess volatile and confident markets (Taulbee, 2000). One other macroeconomic factor that majorly influences the market is inflation. Inflation causes underconfidence in the market as the investor sentiment showcases a bearish intent. The investors think that due to the increase in the price of goods and services, the companies won't spend more money even if it is for a purposeful investment towards growth. This mentality among traders causes them to sell their shares and causes a downward trend in the marketplace (Root, 2010). Usually, the volatility in the market is also influenced by decisions made by the central bank. Such decisions involve changes in interest rates. For instance, in India, the RBI uses monetary tools to stabilize inflation such as control of interest rates. Raising interest rates to combat inflation can cause a higher borrowing cost, reducing corporate profit and dampening investor sentiment. However, when the interest rates are lowered, the companies are able to borrow money and utilize capital for development causing confidence in the market and leading to investors promoting a bullish marketplace (ICICI, 2023).

Furthermore, social factors play a vital role in dictating the market movements. Demographics crucially influence the volatility of the market. Policymakers keep such factors in mind while formulating certain regulations to make socially relevant policies which only promote an optimistic market. One such factor is financial literacy which plays a key role in market participation as only the population that has basic knowledge about finance are able to participate in the market. A fair amount of literature also showcases the bizarre involvement of religion affecting the market trends, this is due to a high level of trust and cultural reasons. Social unrest can also majorly affect the market. According to an “IMF staff” working paper, after reviewing 156 global social unrest events during the 2011-2020 period, it was found that in most democratic nations, riots and other inconveniences only cause a negligible decrease in the market (Barret and Chen, 2021). However, other authoritative government setups have an evident decline in market trends.

Finally, technological advancements also cause evident changes in the market as highlighted in an article by Patel (2023). Global markets have normalized the use of technology in order to increase convenience and security. The use of online stock brokers and trading platforms has made trading extremely convenient and efficient. The use of AI-driven tools has also made understanding market trends way easier for traders. The latest technology also provides real-time accurate pricing for stocks which leads to onpoint buying or selling decisions. The latest advancements provide faster transactions, hence trading in volume and several transactions in a short span of time has been made easier. One of the most essential advantages that these advancements provide is accessibility. These technological changes have made trading feasible for the masses. The population in remote rural areas also get access to the stock market without being in the exact location of the stock exchange. This increases the volume of stocks being traded. Such advancements have completely disrupted the broker-to-broker physical manner of the marketplaces as now everything has completely shifted to digital trading portfolios and trading platforms.

Analysis of the 2019 Lok Sabha Elections and Their Impact on the Indian Stock Market

Understanding the significant impact of the 2019 Lok Sabha elections on the Indian stock market is only possible once the key characteristics of the elections are understood. In line with this, the political background is firstly essential to understanding the state of the stock market during the elections as it describes the political parties, their representatives and their ideologies which play a major role in influencing the economy of the nation directly leading to volatility in the stock market. The major political parties involved were the Bharatiya Janata Party (BJP) and the Indian National Congress (INC). Other regional parties such as The Aam Aadmi Party (AAP), and Janata Dal (JDU) along with several other parties were also involved. Both these major parties were part of certain alliances - the BJP was a part of the National Democratic Alliance (NDA) and the INC was a part of the United Progressive Alliance (UPA).

Both of these influential parties had their respective pillars that citizens of India looked forward to having as elected representatives. Such pillars included Narendra Modi for the BJP and Rahul Gandhi for the INC. The potential cabinet for BJP was to include big names such as Nirmala Sitaraman, Arun Amit Shah, Rajnath Singh etc. The INC also had a prepared list of representatives such as Priyanka Gandhi, Sonia Gandhi, Manmohan Singh etc. Such names played a major role in influencing the public voting system as a great number of citizens would vote for a certain party on the basis of the leaders that the certain party comprises.

Furthermore, other than the characteristics of the 2019 elections itself, the previous election results can not only act as a great source of reference but can also showcase the change in the voter's ideology and mindset which can bring a drastic change in the economy as well. BJP won the previous 2014 elections as they attained a majority with 282 seats out of 543, while the INC procured only 44 seats. This significant victory replaced the previously dominant party - INC - which was the ruling party before BJP. BJP carried a completely different mindset and the fact that the Indian population favoured BJP over the INC was rather bizarre. The political landscape that BJP created over the next five years really supported the party's chances in the next Lok Sabha elections. There was an evident preference created towards BJP which clearly showcased its dominance as a political organization, hence BJP were also the favourites in the lead up to the 2019 Lok Sabha elections.

Shifting the focus towards the movements in the Indian stock market at the time of the 2019 Lok Sabha elections, the analysis can be conducted on three levels; the pre-election impact, the impact during the elections and the post-election effect. This has been done below:

The pre-election impact: Certain events and news prior to the elections tend to significantly impact investor sentiment and trends. The Electorate Commission (EC) of India had decided that the elections would proceed in seven phases and the assembly state elections for the states of Arunachal Pradesh, Odisha and Sikkim would go on simultaneously (PTI, 2019; Scroll, 2019). 23rd May was the vote counting day declared by the EC. During the previous elections of 2014, PM Modi made promises about increasing the job opportunities and employment rates for the extravagant youth masses present in the country, however, according to the CMIE, the unemployment rate in February 2019 stood at 7.2%, up from 5% in February 2017. Such instances made political analysts question PM Modi's Re-Election chances (Kumar, 2019). There was, however, an optimistic intent shown by the investors as well. According to the *Global Attitudes Survey* conducted by the PEW research centre, 65% of the Indian population thought that the financial situation of India had improved over the past 20 years. The report stated that the majority of the population was satisfied with how democracy had been working under PM Modi, however, the same survey also stated that 73% of the population was disquieted by the increase in the unemployment rates (Devlin, 2019). Demonetisation was also a controversial decision taken by the government but it was proven feasible as time progressed.

2018 ended with Sensex being at 36,068 and NIFTY closed at 10,850 points. Before the elections started, Sensex reached 38,607 points and NIFTY closed at 11,597 points (Sharma, 2018). The overall market growth during the five years for BJP was evidently optimistic. This can be exemplified by the fact that at the very start of BJP's government formation, Sensex sat at 25,375 points and NIFTY closed at 7,563, however, towards the end of the five years both indices saw a 52% and 57% surge respectively (Kumar, 2019). The prior election period could, therefore, be considered optimistic for the stock market to a certain extent considering the rather bold economic decisions taken by the government during their reign.

During the elections: The elections saw a surprising turnout with just about 67.1% of the country's population voting in the Lok Sabha elections. Indian voters also broke the record for the highest turnout in 2019 by receiving 62 million citizen voters (Jain, 2019). Certain sections of society reacted differently towards the five year period for BJP and this led to a varied outcome in the elections as highlighted in an article by Bansal (2019) - the Other Backward Classes (OBC) category showed majority interest in voting for BJP and the other reserved categories such as Scheduled Castes (SC) and Scheduled Tribes (ST) also favoured PM Modi getting re-elected with 41% and 49% interest respectively. However, on the religious side, Muslims were seen favouring the opposition with a 90% inclination towards INC and other parties.

The election exit polls, released on May 19, 2019, also play a crucial role in dictating investor sentiment and market volatility. They showcased the procurement of 306 seats by the NDA and 120 for the UPA which suggested another five years for PM Modi (Das, 2024). The prediction of a strong majority for the BJP-led NDA was indeed a signal of political stability, which is generally favourable for markets and this optimism translated into a positive stock market reaction - Sensex and the Nifty rose 3.7 per cent and 1.35 per cent, respectively, on the next day of the exit poll outcome (Vyas, 2024).

The post-election effect: Following the election results on May 23, 2019, when it was confirmed that the BJP had won a strong mandate, the markets again saw a surge. However, this was quickly followed by a phase of profit booking, leading to a temporary decline in stock prices. Profit booking occurs when investors sell their stocks to lock in gains after a period of price appreciation. This is a common phenomenon in markets, especially after a significant rally. Some of the key impacts of the elections on the stock market are highlighted below (Pachal, 2019):

- Sensex crashed by 1,314 points after hitting a record high of 40,125 level in the intra-day trade. The index finally settled at a 299-point drop at closing time.
- Nifty 50 also breached the 12,000 mark to hit 12,041 as the day's high however it did drop to 11,657 points closing at 81 points down.

The Nifty FMCG index emerged as the poorest performer among the sectoral indices on the NSE for the day, slipping by 1.73%. It was closely followed by the Nifty Metal index, which saw a decline of 1.48%. The Nifty Bank index, after hitting the 31,000-level mark earlier in the trading session, ended the day down 118 points at 30,409, primarily weighed down by HDFC Bank. HDFC Bank's shares slipped 2.32% to settle at Rs 2,350 per share, contributing significantly to the index's overall downturn.

The combination of initial euphoria and subsequent profit booking led to increased market volatility in the days following the election results. While the overall sentiment remained positive, the market experienced fluctuations as investors balanced optimism with caution.

Conclusion

As analyzed in this research paper, stock markets are a vital component of the financial system and contribute significantly to economic growth and stability. However, fluctuations in the market can be influenced by various macroeconomic factors. This paper specifically aimed to examine how political factors impact the stock market by analyzing investor sentiments and market fluctuations before, during, and after the 2019 Lok Sabha elections.

Political stability usually benefits a nation's stock market, while political instability tends to have the opposite effect. India, a democratic nation with two major stock exchanges—the BSE and NSE—experienced significant market movements during the 2019 elections. The research identified three distinct phases in market behaviour. First, in the pre-election period, the context of previous elections and the performance of the incumbent government greatly influenced market conditions. With the BJP's victory in the 2014 elections and the Modi government's notable financial achievements during its term, sentiment leading into the 2019 elections was largely positive. Second, during the elections, India saw its highest voter turnout, and exit poll results predicting a strong likelihood of BJP's re-election led to significant market gains. Investors were optimistic about the expected political stability. However, this initial surge in the market encouraged a high level of profit booking, leading to a downward trend after the election results were confirmed.

Therefore, it can be concluded that elections are key political events that bring substantial movement and price swings in the market, which can be bullish, bearish, or both, depending on investor sentiment. This sentiment is influenced by a combination of fundamental factors, such as the anticipation of a stable government, and technical factors, like profit booking. In the case of the 2019 Lok Sabha elections, while the BJP's return to power initially boosted market confidence and drove a bullish trend, subsequent profit booking led to a temporary decline in individual stocks and indices. Understanding these factors is crucial for interpreting market trends and investor sentiment during periods of political uncertainty.

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