

Indian Stock Market Growth VS Global Uncertainty: An Empirical Analysis

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ABSTRACT

The Indian stock market has demonstrated strong resilience despite ongoing global economic uncertainty caused by geopolitical conflicts, inflationary pressures, and monetary tightening. This study examines the relationship between Indian stock market performance and global uncertainty during the period 2024–2026. Using secondary data from government reports, financial publications, and academic literature, the study evaluates the role of domestic macroeconomic factors, foreign institutional investment flows, and policy stability. The findings indicate that while global uncertainty affects short-term volatility, India's strong domestic demand, robust institutional framework, and increasing participation of domestic investors contribute to sustained long-term growth. The study concludes that India is gradually achieving partial decoupling from global financial shocks.

Keywords: Indian stock market, global uncertainty, economic growth, market resilience, foreign institutional investment, emerging markets

INTRODUCTION

Global financial markets have experienced heightened volatility due to geopolitical tensions, rising inflation, and monetary policy tightening by institutions such as the Federal Reserve and the Reserve Bank of India. These developments have significantly influenced capital flows and investor sentiment across emerging markets.

Despite these challenges, the Indian stock market has shown remarkable growth. Benchmark indices such as the Nifty 50 and Sensex have continued to perform strongly, supported by domestic economic growth and policy reforms. According to Government of India reports, India's GDP growth exceeded 7% in recent years, positioning it as one of the fastest-growing major economies (Government of India, 2025).

This study aims to analyze how the Indian stock market has sustained growth amid global uncertainty and identify the key factors contributing to its resilience.

LITERATURE REVIEW

A growing body of literature examines the relationship between stock market performance and global uncertainty, particularly in emerging economies like India. The following studies provide empirical and theoretical insights relevant to this research:

First, Economic Policy Uncertainty has been widely studied as a determinant of stock market volatility. Bisiriyu et al. (2025) analyzed the relationship between global and domestic economic policy uncertainty and Indian stock market performance using ARDL and wavelet models. The study found that both global and domestic uncertainties negatively affect stock returns in the short run, while their long-term effects are relatively limited and sector-specific.

Similarly, Aggarwal and Saradhi (2023) examined the causal relationship between economic policy uncertainty and the Indian stock market using econometric techniques such as vector error correction models (VECM). Their findings revealed a long-run equilibrium relationship between stock market performance and both global and domestic uncertainty, indicating strong interdependence.

Kalra and Gupta (2023) further emphasized that economic policy uncertainty significantly influences stock market volatility and investor sentiment. Their study concluded that even minor macroeconomic fluctuations can trigger substantial changes in stock prices, particularly in emerging markets like India.

In addition, Sharma and Bangur (2024) conducted a comprehensive review of political uncertainty and stock market behavior, analyzing over 100 research articles. The study highlighted that political events and uncertainty increase market volatility and affect investor confidence, suggesting that uncertainty is a critical determinant of market dynamics.

Recent studies have also explored the asymmetric effects of uncertainty. For instance, Sharma and colleagues (2024) used a nonlinear autoregressive distributed lag (NARDL) model and found that increases in uncertainty have a stronger negative impact on stock markets than the positive effects of decreasing uncertainty.

Furthermore, Maharana et al. (2024) investigated volatility spillovers between Indian and global markets using a VAR-BEKK-GARCH model. The results indicated that global shocks significantly influence Indian market volatility, but the impact has weakened in the post-pandemic period, suggesting improved resilience.

Bhattacharjee et al. (2024) examined the persistence of stock market volatility during the COVID-19 pandemic and found that uncertainty significantly affected sectoral performance, with varying degrees of resilience across industries.

Additionally, Sengupta et al. (2024) analyzed tail risk in the Indian stock market and concluded that extreme global events such as financial crises and geopolitical conflicts can lead to significant downside risks, emphasizing the importance of risk management in emerging markets.

Finally, broader research on multi-source uncertainty by Zhang et al. (2024) highlights that modern financial markets are influenced by interconnected uncertainties, including economic, geopolitical, and financial risks, which collectively shape investor behavior and market outcomes.

Literature Gap

While existing studies confirm that global uncertainty affects stock markets, there is limited research focusing specifically on India's resilience during the recent 2024–2026 period of global instability. Most studies rely on pre-pandemic or early post-pandemic data, creating a gap that this study aims to address.

Objectives of the Study

1. To analyze the growth trends of the Indian stock market from 2024 to 2026
2. To examine the impact of global uncertainty on market performance
3. To evaluate the role of domestic economic factors in market resilience
4. To assess the influence of foreign and domestic investment flows

Research Methodology (Expanded)

This study adopts a descriptive and analytical research design to examine the growth of the Indian stock market in the context of global uncertainty during the period 2024–2026. The research relies on secondary data, which is appropriate for macroeconomic and financial market analysis where large-scale time-series data is required (Kothari, 2019).

The descriptive component focuses on identifying trends and patterns in stock market performance, while the analytical component evaluates relationships between global uncertainty and market behavior.

Data Sources

The study utilizes multiple secondary data sources to ensure reliability and validity:

- Government publications such as the Economic Survey of India and reports from the Press Information Bureau (Government of India, 2025)
- Reports from financial institutions including the Reserve Bank of India and International Monetary Fund (IMF, 2025)
- Reports from consulting firms such as Deloitte (Deloitte, 2025)
- Academic journals and peer-reviewed research articles
- Financial news sources such as Reuters (2026) and The Economic Times (2026)

These sources provide comprehensive insights into macroeconomic indicators, capital flows, and market performance.

Variables Considered

The study considers the following key variables:

- **Dependent Variable:** Stock market performance (Nifty 50, Sensex trends)
- **Independent Variables:**
 - Global economic uncertainty
 - Foreign institutional investment (FII) flows
 - Interest rates and inflation
 - Oil prices and geopolitical risk
- **Control Variables:**
 - Domestic GDP growth
 - Policy stability
 - Domestic institutional investment (DII) flows

Analytical Techniques

The following analytical techniques are used:

- **Trend Analysis:** To examine stock market growth patterns over time
- **Comparative Analysis:** To compare India with other emerging markets
- **Event-Based Analysis:** To evaluate market reactions to global shocks such as geopolitical conflicts and monetary policy changes
- **Descriptive Statistical Interpretation:** To summarize market behavior and volatility patterns

RESULTS AND ANALYSIS (EXPANDED)

Growth of the Indian Stock Market

The Indian stock market has demonstrated consistent growth between 2024 and 2026, supported by strong macroeconomic fundamentals. According to Deloitte (2025), Indian equity markets have expanded significantly in valuation since 2019, driven by rising corporate earnings and increased investor participation. India's GDP growth, which remained above 7% during this period, played a crucial role in supporting market expansion (Government of India, 2025). Additionally, rising household income and consumption demand contributed to corporate profitability, thereby strengthening equity markets.

Another important factor is the increasing financialization of savings, where households are shifting from traditional assets such as gold and real estate toward equities (IMF, 2025).

Impact of Global Uncertainty

Global uncertainty has had a measurable impact on the Indian stock market, particularly in the short term. Factors such as geopolitical conflicts, fluctuations in crude oil prices, and monetary tightening by global central banks have led to increased volatility.

For example, tightening monetary policies by institutions such as the Federal Reserve resulted in capital outflows from emerging markets, including India. Reuters (2026) reported significant foreign institutional investor (FII) outflows during periods of heightened uncertainty.

However, empirical studies suggest that while global shocks create short-term disruptions, their long-term effects on the Indian market are limited due to strong domestic fundamentals (Bisiriyu et al., 2025).

Role of Domestic Investors

Domestic institutional investors (DIIs) and retail investors have emerged as key stabilizing forces in the Indian stock market. Increased participation through platforms such as Zerodha has significantly broadened the investor base.

Unlike earlier periods when Indian markets were heavily dependent on foreign capital, the rise of DIIs has reduced vulnerability to external shocks. During periods of FII outflows, DIIs have often acted as counterbalancing agents, maintaining market stability (Maharana et al., 2024).

Policy Support and Economic Stability

Government policies and institutional support have played a vital role in strengthening market confidence. Structural reforms such as the implementation of GST, increased infrastructure spending, and digital financial inclusion have contributed to economic stability.

The Reserve Bank of India has also played a crucial role by maintaining monetary stability, controlling inflation, and ensuring liquidity in the financial system (RBI, 2025).

Additionally, India's regulatory framework has improved transparency and investor protection, making it an attractive destination for both domestic and foreign investors.

Sectoral Insights

Different sectors have responded differently to global uncertainty:

- **Information Technology (IT):** Highly sensitive to global demand and currency fluctuations
- **Banking and Financial Services:** Influenced by interest rates and domestic credit growth
- **Energy Sector:** Impacted by global oil price volatility
- **Consumer Goods:** Relatively stable due to strong domestic demand

This sectoral variation highlights the importance of diversification in investment strategies.

DISCUSSION

The findings indicate that the Indian stock market exhibits a **dual response** to global uncertainty:

- **Short-term:** Increased volatility, capital outflows, and sector-specific declines
- **Long-term:** Sustained growth driven by domestic factors

This supports the concept of partial decoupling, where India is not entirely immune to global shocks but is less affected compared to other emerging markets.

The increasing role of domestic investors, combined with strong macroeconomic fundamentals, has fundamentally changed the structure of the Indian stock market. Unlike earlier decades, external shocks no longer dictate long-term market trends.

Furthermore, the results align with previous research suggesting that emerging markets with strong domestic demand and policy stability are better equipped to withstand global uncertainty (Zhang et al., 2024).

CONCLUSION

This study concludes that the Indian stock market has demonstrated significant resilience during the period of global uncertainty from 2024 to 2026. While external factors such as geopolitical tensions and monetary tightening influence short-term market movements, the long-term growth trajectory remains strong.

Key factors contributing to this resilience include:

- Strong GDP growth and macroeconomic stability
- Increasing participation of domestic investors
- Effective policy measures and institutional support
- Reduced dependence on foreign capital

India is increasingly being viewed as a stable and attractive investment destination among emerging markets. The findings suggest that the Indian stock market is transitioning toward a more self-sustaining growth model, capable of withstanding global economic shocks.

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