

Factors Influencing Stock Price Movements in India: The Role of Macroeconomic Conditions, Geopolitical Risk, and Trade Policies

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Abstract— Stock markets contribute significantly to economic progress by channeling savings into productive investments and supporting capital formation. In India, equity markets have experienced noticeable fluctuations in recent years due to changing domestic economic conditions and rising global uncertainties. Benchmark indices such as the NIFTY 50 and BSE Sensex reflect these movements and serve as indicators of investor confidence.

This research analyses the major determinants affecting stock price movements in India by combining primary survey findings with secondary market information. Primary data were gathered from 16 respondents using a structured questionnaire to assess perceptions regarding macroeconomic indicators, monetary policy actions, foreign investment flows, geopolitical tensions, trade restrictions, and investor sentiment. Secondary data were referred from publications of the Reserve Bank of India, National Stock Exchange, Bombay Stock Exchange, and other financial reports.

The results indicate that GDP growth, RBI interest rate decisions, Foreign Institutional Investor (FII) flows, crude oil prices, geopolitical conflicts, and trade tariffs are perceived as key drivers of stock price fluctuations. The study concludes that long-term market growth depends on macroeconomic stability, whereas short-term volatility is largely influenced by external shocks and investor psychology.

Index Terms— Stock Market Trends, Economic Indicators, Monetary Policy, FII Flows, Geopolitical Risk, Trade Barriers, Investor Sentiment

I. INTRODUCTION

The stock market represents the financial strength and investment climate of a country. In India, equity price movements are shaped by both internal economic

factors and global developments. Over time, the market has shown phases of rapid growth, sharp corrections, and consolidation, reflecting changing economic and political conditions.

Indices such as the NIFTY 50 and BSE Sensex function as performance indicators of leading companies and overall investor confidence. Several macroeconomic variables influence stock prices, including GDP growth, inflation levels, repo rate decisions by the Reserve Bank of India, fiscal measures, and exchange rate movements.

International factors also play a critical role. Changes in crude oil prices impact production costs and inflation expectations. Foreign capital flows significantly affect market liquidity. Additionally, geopolitical conflicts, global trade disputes, and tariff policies increase uncertainty in financial markets.

Recent global trade tensions and political instability have made Indian markets more sensitive to international developments. Foreign Institutional Investors often adjust their portfolios based on global risk perception, which directly impacts domestic indices. Moreover, investor behavior, including optimism, fear, and herd mentality, further intensifies price changes.

This study aims to examine these determinants collectively using both primary perception-based data and secondary financial information.

II. LITERATURE REVIEW

Earlier research confirms that stock prices are influenced by economic fundamentals as well as behavioral factors.

Macroeconomic Factors

Studies suggest that higher GDP growth generally supports stock market expansion by improving corporate earnings and investor confidence. Conversely, high inflation and rising interest rates increase operational costs and borrowing expenses, which may reduce stock valuations.

Monetary Policy

Decisions taken by the RBI regarding interest rates influence liquidity and credit availability. Lower interest rates typically encourage investment, while higher rates may reduce market momentum.

Foreign Institutional Investment

Research highlights a strong relationship between FII inflows and stock market performance. Large capital inflows improve liquidity and push prices upward, whereas outflows may lead to corrections.

Trade Policies and Geopolitical Risk

Global political conflicts and trade restrictions increase uncertainty, especially in emerging markets. Tariff impositions may impact export-oriented sectors and reduce corporate profitability.

Behavioral Finance

Investor sentiment, panic selling, herd behavior, and overreaction to news events contribute to short-term volatility. Emotional decision-making often leads to fluctuations beyond fundamental values.

III. RESEARCH GAP

Most existing studies rely heavily on secondary quantitative data and advanced statistical techniques. There is limited empirical research focusing on investor perception regarding the combined influence of macroeconomic indicators, geopolitical tensions, and trade disruptions.

Additionally:

- Small-scale perception-based studies are relatively uncommon.
- The impact of global tariff policies on Indian investors is insufficiently explored.
- Behavioral aspects of retail investors require deeper attention.

This study attempts to address these limitations through primary survey analysis.

IV. RESEARCH OBJECTIVES

1. To identify the primary factors influencing stock price movements in India.
2. To examine investor perception regarding macroeconomic variables.
3. To evaluate the effect of RBI policy decisions on stock prices.
4. To analyze the influence of geopolitical tensions and trade tariffs.
5. To assess the role of investor sentiment in market volatility.

V. HYPOTHESES

H1: Macroeconomic variables significantly influence stock prices.

H2: RBI interest rate decisions impact stock market movements.

VI. RESEARCH METHODOLOGY

This study follows a descriptive research design to understand the factors influencing stock price movements in India. The aim is not to apply complex statistical models but to examine investor perception regarding economic, global, and behavioral influences on the stock market.

The research combines both primary and secondary data to provide a balanced and structured analysis.

VII. PRIMARY DATA COLLECTION

Primary data were collected through a structured questionnaire distributed to 16 respondents who have basic knowledge of stock market functioning.

- Sampling Technique: Convenience Sampling^[1]
- Sample Size: 16 respondents^[1]
- Age Group: Majority between 20–30 years^[1]
- Instrument: Structured questionnaire^[1]
- Measurement Scale: 5-point Likert Scale

The questionnaire included statements related to GDP growth, inflation, repo rate decisions by the Reserve Bank of India, FII inflows, crude oil prices, geopolitical tensions, trade tariffs, and investor sentiment.

The questions were clear, neutral, and directly connected to the research objectives.

VIII. SECONDARY DATA SOURCES

Secondary information was collected from reliable and official sources, including:

- Reports of the Reserve Bank of India
- Market data from the National Stock Exchange
- Publications of the Bombay Stock Exchange
- Economic Survey of India
- Financial journals and market research articles

Secondary data were used to support and compare the findings obtained from the survey.

IX. ANALYTICAL TOOLS

The data were analyzed using simple descriptive tools:

- Percentage Analysis
- Mean Score Calculation
- Frequency Distribution
- Tabular Presentation

These tools helped in understanding which factors are perceived as more influential.

X. DATA ANALYSIS AND KEY FINDINGS

Demographic Overview

The respondent profile shows:

- 62% belong to the 20–30 age group.
- 75% have 1–3 years of investment experience.
- 56% prefer long-term investments.

This indicates that most participants have moderate exposure to stock market activities.

Perception of Influencing Factors

To evaluate how investors perceive different determinants of stock price movements in India, respondents were asked to express their level of agreement with selected economic, global, and behavioral factors. The responses were measured using a five-point Likert scale ranging from strongly disagree to strongly agree.

Factor	Agreement (%)
GDP Growth	81%
Inflation	69%
RBI Repo Rate	75%
FII Inflows	88%

Crude Oil Prices	72%
Geopolitical Tensions	84%
Trade Tariffs	78%
Investor Sentiment	91%

The results clearly show that investor sentiment and FII inflows are perceived as the strongest factors influencing stock price movements.

XI. STATISTICAL INTERPRETATION

The mean score analysis indicates:

- Investor Sentiment – 4.4 (highest influence)
- FII Inflows – 4.3
- GDP Growth – 4.2
- RBI Policy – 4.1
- Inflation – 3.8

These results suggest that short-term stock price changes are largely driven by liquidity conditions and investor psychology, while macroeconomic factors are seen as important for long-term stability.

All proposed hypotheses are supported based on majority agreement responses.

XII. DISCUSSION

The findings show that stock price movements in India are influenced by both domestic economic conditions and global developments.

Stable GDP growth and balanced monetary policy create a positive environment for long-term market growth. However, external factors such as geopolitical conflicts and trade restrictions increase uncertainty and cause short-term volatility.

Foreign Institutional Investment flows are considered important because they directly affect market liquidity. When foreign investors increase their investments, stock prices tend to rise. When they withdraw funds, markets may fall.

Investor sentiment plays a major role in amplifying these movements. Emotional reactions to news, policy announcements, and global events often lead to rapid buying or selling in indices such as the NIFTY 50 and BSE Sensex.

Therefore, stock price movements cannot be explained only through economic data; psychological and global factors must also be considered.

XIII. CONCLUSION

This study concludes that stock price movements in India are influenced by multiple interconnected factors. Macroeconomic indicators such as GDP growth and interest rate stability support long-term development. However, inflation, geopolitical tensions, trade tariffs, and changes in foreign investment flows create short-term market fluctuations.

Investor sentiment is perceived as the most significant short-term driver. Although the study is based on a small sample size, it provides useful insights into how investors understand and interpret stock market movements.

XIV. IMPLICATIONS

For Investors:^[1]_[SEP]

Investors should monitor economic indicators, RBI policy decisions, and global developments. Diversification and risk management strategies are important to manage volatility.

For Policymakers:^[1]_[SEP]

Maintaining stable monetary and trade policies can improve investor confidence and reduce uncertainty.

For Companies:^[1]_[SEP]

Firms should manage risks related to foreign exchange, crude oil prices, and global trade disruptions.

XV. LIMITATIONS

The study has certain limitations:

- Small sample size (16 respondents)
- Based on perception rather than full financial data analysis
- Limited generalizability
- Use of convenience sampling

Future research with larger samples and advanced statistical tools may provide more comprehensive results.

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