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IMPACT OF MACROECONOMIC FACTOR ON STOCK MARKET PERFORMANCE

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ABSTRACT:

The stock markets and world economics have been a talking point almost every day on the news channels and every media stream. The current status of the economies around the world and their stock markets are influenced by various factors that are internal or external to such economies. The relationship between macroeconomics and the stock market has to be studied at great length to understand how they influence the latter. This will help investors and traders analyze the markets and react accordingly to create a successful portfolio.

Keywords: Stock Market, Portfolio Management, Macroeconomics, investors.

Introduction:

The performance of stock markets is influenced by a wide range of factors, among which macroeconomic variables play a crucial role. Macroeconomic factors, including Gross Domestic Product (GDP) growth, inflation, interest rates, unemployment, exchange rates, and government fiscal policies, shape the overall economic environment in which stock markets operate. Understanding the relationship between these macroeconomic indicators and stock market performance is essential for investors, policymakers, and economists alike, as it provides valuable insights into market behavior, investment strategies, and economic forecasting. Stock markets are often seen as a reflection of the economy's health, where changes in macroeconomic conditions can lead to fluctuations in stock prices, investor sentiment, and market stability. For instance, periods of economic growth are generally associated with rising corporate profits and higher stock prices, while economic downturns or recessions can lead to market declines. Similarly, interest rate changes by central banks can either stimulate or dampen market activity, as higher interest rates tend to reduce the appeal of stocks in favor of bonds or other fixed-income investments. This study seeks to explore how key macroeconomic factors impact stock market performance, identifying the specific channels through which these variables influence investor decisions and market trends. By examining historical data and economic theory, the study aims to shed light on the complex relationship between the economy and financial markets, offering insights that can assist investors in making more informed decisions in an ever-changing global market environment.

The objectives of this study are:

1. To analyze the impact of macroeconomic factors on stock market trends.
2. To understand how interest rates, inflation, GDP growth, exchange rates, and unemployment levels influence stock market performance.
3. To examine the relationship between macroeconomic variables and investor behavior.

Literature review:

- **Fama, E.F. (1981) –** Stock returns, real activity, inflation, and money
  Found significant relationships between macroeconomic activity and stock returns.

- **Chen, N.F., Roll, R., & Ross, S.A. (1986) –** Economic forces and the stock market Identified key macroeconomic variables (industrial production, inflation, etc.) affecting stock returns.

- **Geske, R., & Roll, R. (1983) –** The fiscal and monetary linkage between stock returns and inflation Showed that macroeconomic policy significantly affects stock prices.

- **Maysami, R.C., & Koh, T.S. (2000) –** A vector error correction model of the Singapore stock market Analyzed how interest rates, inflation, and exchange rates influence stock performance.

- **Mukherjee, T.K., & Naka, A. (1995) –** Dynamic relations between macroeconomic variables and the Japanese stock market Used co-integration analysis to show long-term relationships between macroeconomic variables and stock returns.

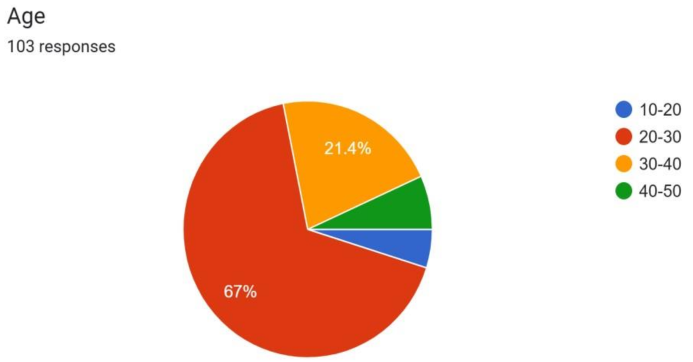
- **Mishra, A.K., Das, N., & Pradhan, B.B. (2010) –** Macroeconomic variables and stock market indices in India Found strong evidence that macroeconomic factors affect stock market indices.

Research Methodology:

This study will adopt a quantitative research approach to analyse the impact of macroeconomic factors on stock market performance. The methodology will include data collection, statistical modelling, and empirical analysis to establish relationships between key macroeconomic indicators and stock market performance.

- **Primary data:** The data is collected by the survey method. The survey has done through a questionnaire by Google form
- **Secondary data:** The sources of secondary data are articles, research paper and online sites, websites etc….
- **Sample size:** The sample size for this research is 104 people.
- **Sampling method:** The method is simple random sampling by considering the responses from Vadodara city only.
- **Statistical tools used for analysis:** Graphical method and percentage method have been used for analysis data.

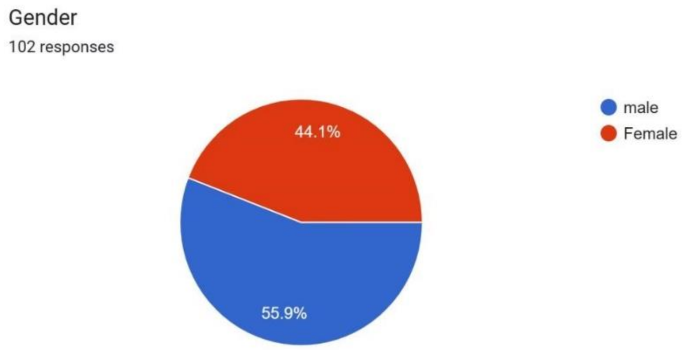
1. **Age group**



Interpretation

The pie chart illustrates the age distribution of 103 respondents. The largest age group, representing **67%**, falls within the **20-30 years** category, indicating that the majority of participants are young adults. The **30-40 years** age group makes up **21.4%** of the respondents, showing moderate representation. Meanwhile, the **10-20 years** and **40-50 years** age groups account for only small portions of the responses, highlighting limited participation from both younger and older individuals. Overall, the data reflects a strong skew towards younger adults, particularly those in their 20s, which could indicate that the survey topic or outreach efforts resonated more with this demographic.

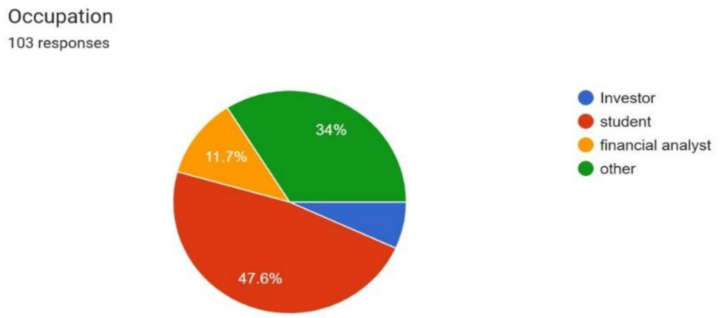
2. **Gender**



Interpretation

The pie chart illustrates the gender distribution of **102 respondents**. **55.9%** of the respondents are **male**, while **44.1%** are **female**. This indicates a slight male majority, but overall, the gender distribution is fairly balanced. This balanced participation ensures that perspectives from both genders are well represented, which can contribute to more comprehensive and inclusive insights from the data collected.

3.occupation



Interpretation

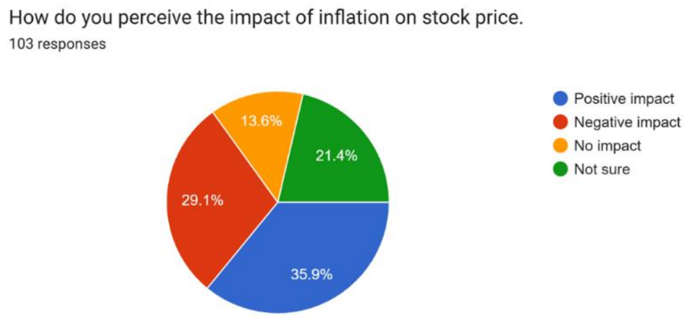
The pie chart presents the occupational distribution of **103 respondents**. **Students** form the largest segment, making up **47.6%** of the participants, indicating that the survey attracted significant Interest from individuals currently pursuing education. The **'Other'** category accounts for **34%**, representing respondents with diverse professional backgrounds not specifically listed in the options. **Financial analysts** contribute **11.7%** of the responses, showing some engagement from professionals in the financial sector. The smallest group is **investors**, suggesting that direct investors were the least represented in the sample. Overall, the data highlights strong participation from students and a diverse mix of other professions, which could influence the overall perspective and insights gathered from the survey.

4.year of experience in stock market performance

Interpretation

The pie chart represents the **years of experience in stock market investing** among **102 respondents**. The majority, **48%**, have **1-3 years** of experience, indicating that nearly half of the participants have some initial familiarity with the stock market but are still relatively new. **32.4%** of respondents have **less than 1 year** of experience, showing a significant proportion of beginners. Meanwhile, **13.7%** have **3-5 years** of experience, and a small percentage falls into the **more than 5 years** category, indicating that experienced investors form only a minor portion of the sample. This data highlights that the majority of respondents are in the early stages of their investment journey, with limited long-term exposure to the stock market

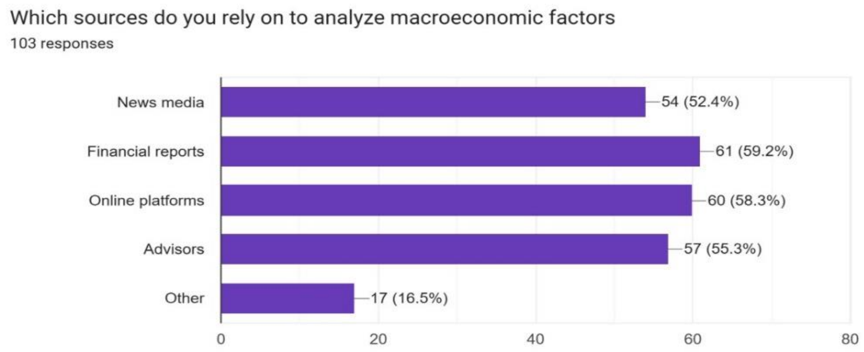
5 How do you perceive the impact of inflation on stock price



Interpretation

The chart illustrates the distribution of respondents' experience in stock market investing. A **significant portion (48%)** has **1 to 3 years** of experience, indicating that nearly half of the respondents are relatively new but not complete beginners. About **32.4%** have **less than 1 year** of experience, representing a substantial group of newcomers. A smaller share, **13.7%**, has **3 to 5 years** of experience, while an even smaller percentage has **more than 5 years** of experience. Overall, the data highlights that most respondents are in the early stages of their investing journey, with limited long-term expertise.

5. **Which source do you rely on to analyse macroeconomic factors**



Interpretation

The chart indicates that **financial reports (59.2%)** are the most commonly relied-upon source for analyzing macroeconomic factors, closely followed by **online platforms (58.3%)** and **advisors (55.3%)**. **News media** is also a significant source, used by **52.4%** of respondents. Only **16.5%** of respondents rely on **other sources**, showing that most investors prefer more traditional and established sources for understanding macroeconomic conditions.

Findings

The survey had relatively balanced gender participation, with a slight male majority (55.9% male, 44.1% female), ensuring diverse perspectives in the analysis.

The largest respondent group was students (47.6%), indicating strong engagement from individuals still in education. The 'Other' category (34%) suggests varied professional backgrounds, while financial analysts (11.7%) and investors formed the smallest group.

Most respondents (48%) had 1-3 years of experience, while 32.4% were beginners with less than a year of investing experience. Only a small segment (13.7%) had 3-5 years, and an even smaller portion had more than 5 years of experience, suggesting that the majority are in the early stages of investing.

Weekly investing (40.2%) was the most common habit, followed by occasional investors (26.5%). Monthly investors comprised 20.6%, while only 12.7% invested daily, indicating that most respondents prefer regular investments over daily trading.

Financial reports (59.2%) were the most preferred source, followed closely by online platforms (58.3%) and advisors (55.3%). News media was also widely used (52.4%), while only a minority (16.5%) relied on other sources, demonstrating a strong preference for established financial resources

Most respondents rated their fiscal policy knowledge as moderate to high, with 35.3% at level 4 and 31.4% at level 3. 22.5% expressed strong confidence (level 5), while only 2% rated themselves at level 1. This suggests that the majority feel reasonably informed about fiscal policy factors.

While a large portion of respondents (37.9%) remained neutral about fiscal policies' impact on stock market performance, 34% agreed and 26.2% strongly agreed that government fiscal policies influence the market. A very small percentage disagreed, indicating that most investors acknowledge at least some degree of fiscal policy influence.

Limitations of the Study

The limitations of this study are listed as follows:

1. 1.Complex Interdependencies– Macroeconomic factors are interconnected, making it difficult to isolate their individual effects on stock market movements.
2. Data Limitations – Historical data may not always be accurate or comprehensive, leading to potential gaps in analysis.
3. Market Sentiment & Behavioural Biases – Investor psychology and sentiment can sometimes override macroeconomic fundamentals, making predictions less reliable.
4. External Shocks– Unexpected events like geopolitical tensions, pandemics, or financial crises can disrupt stock markets in ways that macroeconomic models may not anticipate.
5. Lag Effect – The impact of macroeconomic changes on stock markets may not be immediate, making it challenging to determine cause-and-effect relationships.

Conclusion

The performance of stock markets is deeply intertwined with macroeconomic factors, such as inflation, interest rates, GDP growth, unemployment levels, and monetary policies. While these factors provide valuable insights into market trends and investor behavior, the relationship is not always straightforward. External shocks, market sentiment, and behavioral biases often add layers of complexity to this analysis. Understanding these dynamics enables investors and traders to make informed decisions and create resilient portfolios. However, it is essential to recognize the limitations in predicting market outcomes solely based on macroeconomic indicators. A balanced approach that integrates macroeconomic analysis with other factors, such as company fundamentals and global events, is vital for navigating the ever-evolving financial markets.

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