

Stock market Carnage: Looking back

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Background

The Dow had hit an all-time high of 25,000 at the beginning of January, and crossed 26,000 during the month. The 10-year Treasury yield crossed 2.7% on 30th January reaching the highest level in nearly four years.

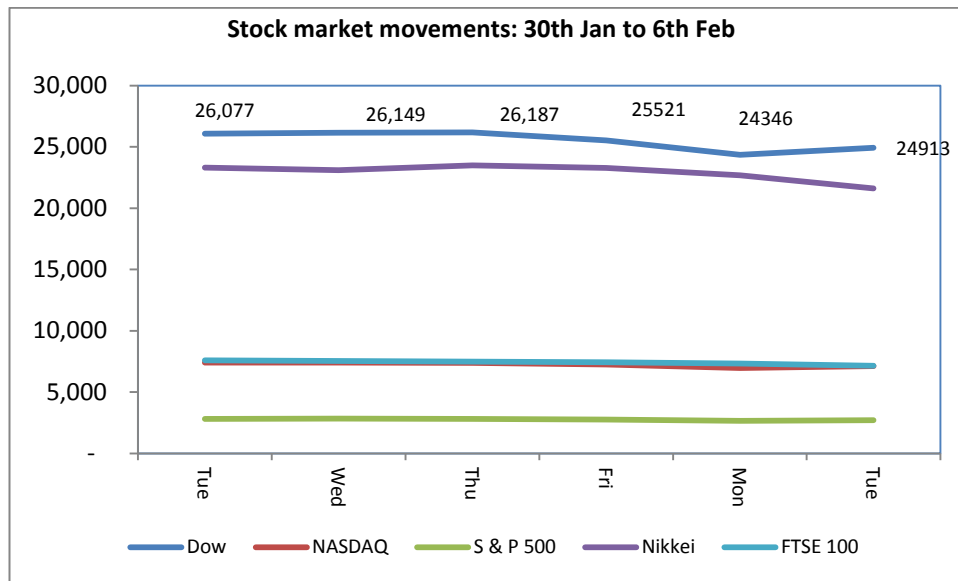
Friday the 2nd was the turning point when the Dow fell by 666 points, or 2.5% which was the highest decline since the fallout from Brexit in June 2016. The 10 year yield further rose and touched 2.85%. The sell-off continued into this week and entered correction on Tuesday morning before making a recovery. US stocks have now lost \$1tn in value in the first five days of February. The correction witnessed on Tuesday has been interpreted by some market participants as the restoration of confidence of investors in the economy. It is still uncertain as to how these indices will move in the coming days. This is important because all markets were affected by this sell-off contagion. Interestingly as this happened at a time when the Union Budget introduced LTCG the dual impact did make it difficult to separate the impact of the two events for us in India.

What drove this global decline?

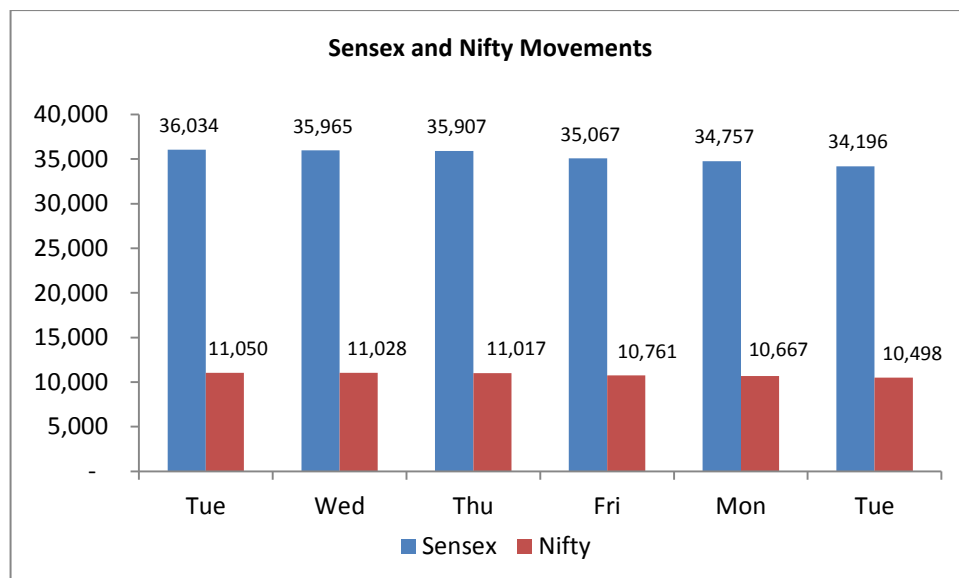
1. Market perceived to be overvalued relative to fundamentals.
2. Concerns on inflation has led to speculation that the Federal Reserve could raise interest rates at a faster pace
3. 10-year Treasury touched 4-years high of 2.85% on fears of inflation increasing.
4. A member of the Fed's interest-rate setting committee had suggested that rates could increase by more than 75 bps this year if the economy maintains its fast rate of growth and wages continue to rise strongly.
5. Algorithmic trading has been one of the factors which accelerated the decline.

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How have global indices moved?



The Indian response



Comparative picture

	Dow	NASDAQ	S & P 500	Nikkei	FTSE 100	Sensex	Nifty
Feb 6th over Jan 30	-4.9	-3.7	-4.5	-8.0	-4.7	-4.8	-4.7

(PN: global indices and Indian markets have a lag: Tokyo open before India and the others after our markets close)

- On a relative basis, Indian markets have declined by as much as the Dow or S & P 500.
- Budget impact on the market movements may be less significant than was conjectured earlier.

