

A Descriptive Study on Volatility in the USA Stock Markets and its Implications on Indian Stock Markets with Special reference to Students of Management

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The USA stock market is the oldest stock market in the world, dating back to the 18th century. It is known for its volatility, which can be influenced by a wide variety of factors, including economic indicators like GDP, inflation, and employment numbers, as well as geopolitical events, corporate earnings reports, and global economic trends. Other factors influencing the volatility are bond yields, commodity and oil prices and political events. Being the leading economic power in the world, it is natural that USA market trends heavily influence the Indian stock markets. This paper will analyse the volatility in the US stock markets and its implications on the Indian stock markets.

Keywords: Volatility, USA stock market, GDP, inflation, and employment, global economic trends

INTRODUCTION:

The USA stock market is a collection of public markets where publicly traded companies can buy and sell their shares of stock. The largest and most well-known stock exchange in the USA is the New York Stock Exchange (NYSE), but there are other major exchanges like the Nasdaq, Chicago Stock Exchange, and BATS Global Markets. The stock market is an important component of the US economy, and it plays a crucial role in the allocation of capital to companies that need it for growth and expansion. Investors can buy and sell shares of publicly traded companies in the stock market, and the value of these shares is determined by supply and demand. The USA stock market is known for its volatility, and it can be influenced by a wide variety of factors, including economic indicators like GDP, inflation, and employment numbers, as well as geopolitical events, corporate earnings reports, and global

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economic trends. The stock market can also be impacted by government policies; such as changes to tax laws or regulations that affect specific industries. Despite the inherent risks involved in investing in the stock market, it has historically provided strong returns over the long-term, and it remains a popular way for investors to build wealth and achieve financial goals.

The USA stock market has a long history, dating back to the late 18th century. The New York Stock Exchange (NYSE), the largest and most well-known stock exchange in the US, was founded in 1792 under a buttonwood tree on Wall Street in New York City. However, the stock market as we know it today has evolved significantly since its early days, with the introduction of electronic trading, the rise of new stock exchanges like the Nasdaq, and changes in regulations and market practices. Keeping the above facts in mind this paper tends to

- a) To analyse the reasons for volatility in the US stock markets.
- b) To study some of the major events and crises affecting the US markets in recent times.
- c) To examine the impact of US stock markets on Indian Stock Markets.

METHODOLOGY:

This study employs a methodology rooted in secondary data analysis to investigate various aspects of the USA stock market. Firstly, comprehensive literature review is conducted to gather existing knowledge on the historical evolution, structure, and functioning of the USA stock market, including its major exchanges such as the New York Stock Exchange (NYSE) and Nasdaq. Subsequently, secondary data from reputable sources such as academic journals, government publications, financial reports, and market analyses are collected and analyzed. Data cleaning and validation processes are implemented to ensure the reliability and accuracy of the information. Statistical and qualitative analysis techniques are then applied to the data to address the research objectives.

The findings are interpreted within the context of the research questions and objectives, providing insights into the dynamics and interconnections of the USA stock market with global financial systems. Ethical considerations regarding the appropriate use and citation of secondary data sources are adhered to throughout the research process. Finally, the results are synthesized and presented in a coherent research report, contributing to the understanding of the USA stock market's role, behavior, and impacts on domestic and international financial markets.

Ten Reasons for Volatility in USA Stock Markets

The ten main reasons for volatility in USA stock markets, along with a descriptive analysis of each is as under:

Economic indicators: The stock market is sensitive to economic indicators such as GDP growth, inflation, and unemployment. Positive economic data can lead to increased optimism among investors and cause stocks to rise, while negative data can lead to pessimism and cause stocks to fall.

Interest rates: Changes in interest rates can have a significant impact on the stock market. Higher interest rates can increase borrowing costs for companies and individuals, which can reduce spending and lower stock prices. Lower interest rates, on the other hand, can stimulate borrowing and spending, leading to higher stock prices.

Geopolitical events: Political instability, conflicts, and tensions between countries can create uncertainty and cause volatility in the stock market. For example, the 9/11 terrorist attacks and the 2020 US Presidential election both caused significant fluctuations in the stock market. The ongoing war between Russia and Ukraine is another example.

Corporate earnings: The stock market is heavily influenced by corporate earnings reports, which provide insight into a company's financial health and future prospects. Positive earnings reports can drive stock prices higher, while disappointing reports can cause stocks to plummet.

Global economic trends: The USA stock market is not immune to global economic trends, and events such as recessions, currency fluctuations, and trade disputes can impact stock prices.

Investor sentiment: Investor sentiment can be a major driver of volatility in the stock market. Fear and uncertainty can lead to panic selling and sharp drops in stock prices, while optimism and confidence can lead to a buying frenzy and push stock prices higher.

Government policies: Changes in government policies, such as tax laws, regulatory changes, and stimulus measures, can have a significant impact on the stock market. For example, the 2017 Tax Cuts and Jobs Act boosted corporate earnings and helped drive the stock market to record highs.

Corporate scandals: Corporate scandals and controversies can shake investor confidence and cause stock prices to fall. For example, the Enron scandal in 2001 and the Wells Fargo scandal in 2016 both had a significant impact on the stock market. The Hindenburg report on bad market practices by Jack Dorsey's Block Company is another example.

Natural disasters: Natural disasters such as hurricanes, earthquakes, and wildfires can disrupt supply chains and cause widespread damage to infrastructure and property, which can impact corporate earnings and lead to volatility in the stock market.

Technological advancements: Advances in technology can disrupt industries and create winners and losers in the stock market. For example, the rise of e-commerce has had a significant impact on traditional retail stocks, while the growth of social media has led to new opportunities in the technology sector. The dot com bubble burst and the US banking crisis of 2008 were two major events that had a significant impact on the US stock market.

The Dot Com Bubble Burst 2000 & Banking Crisis 2008

The dot com bubble burst occurred in the late 1990s and early 2000s, as investors poured money into internet-based companies with little regard for traditional valuation metrics. As a result, many internet companies with little or no profits saw their stock prices skyrocket. However, the bubble eventually burst in 2000, as many of these companies were unable to sustain their growth and went bankrupt. This caused a significant drop in the stock market, with the Nasdaq Composite Index losing over 75% of its value. Similarly, the US banking crisis of 2008 was a result of the subprime mortgage market collapse, as many lenders had issued loans to borrowers with poor credit histories who were unable to make their mortgage payments. This led to a wave of defaults and foreclosures, causing a crisis in the housing market. As a result, many large financial institutions faced huge losses, and some, such as Lehman Brothers, went bankrupt. This had a major impact on the stock market, with the Dow Jones Industrial Average losing over 50% of its value in just over a year.

Effects of the Crises

The effects of these events on the stock market were significant. In the case of the dot com bubble burst, the Nasdaq Composite Index lost over 75% of its value, wiping out billions of dollars of investor wealth. The banking crisis of 2008 caused widespread panic among investors, leading to a significant drop in stock prices. The crisis also had a ripple effect on the wider economy, causing a recession and high unemployment rates. In both cases, the stock market eventually recovered, although it took several years for the market to return to pre-crisis levels. The dot com bubble burst led to a period of greater scrutiny and caution among investors, while the banking crisis of 2008 led to tighter regulations and greater oversight of the financial sector.

Inflation Crisis Post Covid Pandemic

In recent months, the USA has experienced an inflation crisis, with prices of goods and services rising at a rapid pace. The main drivers of inflation have been supply chain disruptions caused by the COVID-19 pandemic, as well as increased demand as the economy has reopened. The impact of the inflation crisis on the stock market has been mixed. On one hand, rising inflation can lead to higher interest rates, which can increase borrowing costs for companies and reduce consumer spending, leading to lower stock prices. On the other hand, some companies may be able to pass on higher costs to consumers in the form of higher prices, leading to increased profits and higher stock prices. In general, the stock market has been volatile in response to the inflation crisis, with investors closely monitoring economic data and government policy responses. The Federal Reserve has signalled that it may raise interest rates sooner than previously expected to combat inflation, which has led to some sell-offs in the stock market. However, the market has also responded positively to strong corporate earnings reports, which suggest that companies are able to weather the inflationary pressures. Overall, the inflation crisis remains a key risk factor for the stock

market, and investors are closely watching for signs of how it will impact the economy and corporate profits in the coming months.

Impact on Indian Stock Markets

The impact of volatility in USA stock markets on Indian markets can be significant, although it depends on a variety of factors. Firstly, it's important to note that the Indian stock market is influenced by a wide range of factors, including domestic economic and political conditions, global commodity prices, and geopolitical events. However, the USA stock market is one of the most important global stock markets, and its performance can have a ripple effect on other markets around the world. When there is volatility in the US stock market, it can lead to a flight of capital from emerging markets like India as investors look for safer havens. This can lead to a decline in Indian stock prices, particularly for companies that are heavily dependent on foreign investment. Additionally, a decline in the US stock market can lead to a decline in global economic sentiment, which can negatively impact India's exports and overall economic growth. However, there can also be positive impacts of volatility in the USA stock market on Indian markets. For example, if investors perceive India to be a relatively safe haven during times of global volatility, it could attract more foreign investment and lead to an increase in Indian stock prices. Additionally, if there is a decline in commodity prices as a result of a decline in the USA stock market, it could benefit India, which is a net importer of commodities. Overall, while it's important to monitor the performance of the USA stock market, it's also important to consider other domestic and global factors that can impact the Indian stock market.

Findings

Major findings that were discovered in this paper is that the USA markets volatility depends on a number of factors such as economic, geopolitical, government policies, corporate earnings etc. A number of economic crises have occurred recently which have impacted the US markets. However, the markets have always bounced back in two to three years to give growth in the long term. The impact of US markets is significant on the Indian markets. Indian stock market is dependent to a large extent on foreign inflows of funds specially from USA. India must eventually reduce dependency on foreign funds as also broaden its market to achieve market stability and increase retail user friendliness.

Conclusion

In conclusion, volatility is a defining characteristic of the USA stock market. It is driven by a wide range of factors, including economic indicators, government policies, geopolitical events, and investor sentiment. While volatility can be challenging for investors, it also presents opportunities for those who are able to navigate the market effectively. Over the years, the USA stock market has experienced several major events that have caused significant volatility, such as the dot com bubble burst, the 2008 banking crisis, and the recent inflation

crisis. These events have had major impacts on the stock market, with some resulting in steep declines in stock prices and others leading to opportunities for growth and profits. Despite the challenges posed by volatility, the USA stock market remains an attractive investment opportunity for many investors, offering the potential for long-term growth and returns. To navigate the market effectively, investors must remain vigilant, stay informed about market trends, and maintain a diversified portfolio to mitigate risk.

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