

Indian equity markets have been resilient over the last two decades irrespective of US Fed stance: Capitalmind Financial Services

- Rate increases are generally followed by a negative day, while decreases are generally followed by an up day.
- The Fed announced a 50bps rate cut 10 times in the last three decades, which has resulted in a median return of +1.6% for the Nifty. A 25bps cut has been followed by a more modest -0.5% median Nifty return.
- The most frequent Fed action has been an increase of 25 bps, which has been done 39 times over the last three decades.
- Since 2004, Nifty has done better or as well as the S&P500 (in local currency terms), during tightening as well as easing US interest rate scenarios.

September 18, 2024: According to a recent study by Capitalmind Financial Services, Indian markets have been resilient over the last two decades irrespective of Fed stance. It shows that Fed rate increases are generally followed by a negative day in Equity markets, which is followed by an up day. The study also reveals that Nifty has outpaced or, at worst, matched the S&P500 in local currency terms over the last two decades.

US Fed has had six alternating easing and tightening cycles over the last 34 years. For Indian markets, the most productive cycle was the US Fed's easing cycle from July 1990 to February 1994 where Nifty witnessed a gain of 310%, followed by the tightening cycle in June 2004 to September 2007 where it witnessed a gain of 202%. The only stretches of negative Nifty returns came during tightening cycles in February 1994 to July 1995 at -23% and March 1997 to September 1998 at -14%. **The median Nifty return on the day after the announcement (since the Fed announcement happens after India close) is -0.2%.**

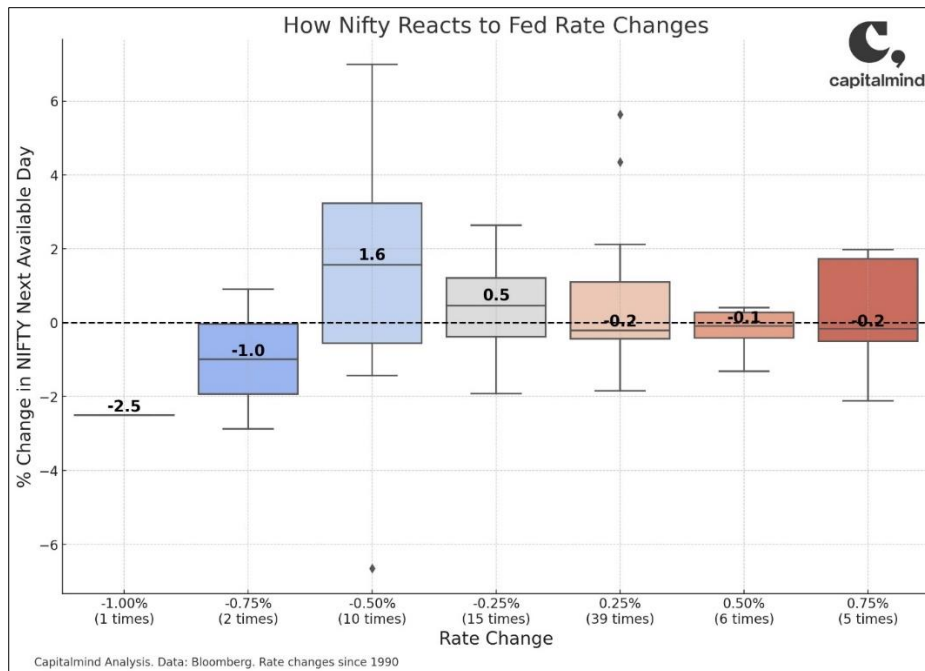
Fed Rate Cycles and Market Performance

In the last two decades, Indian market has been resilient in the face of Fed tightening and easing

Fed Cycle	From	To	Days	Cumulative Change	# of Changes	SPX %	Nifty %
Easing	Jul '90	Feb '94	1,302	-5.00	18	28	310
Tightening	Feb '94	Jul '95	517	3.00	7	18	-23
Easing	Jul '95	Mar '97	628	-0.75	3	42	13
Tightening	Mar '97	Sep '98	553	0.25	1	33	-14
Easing	Sep '98	Jun '99	274	-0.75	3	31	31
Tightening	Jun '99	Jan '01	553	1.75	6	-2	9
Easing	Jan '01	Jun '04	1,274	-5.50	13	-15	17
Tightening	Jun '04	Sep '07	1,175	4.25	17	33	202
Easing	Sep '07	Dec '15	3,011	-5.00	9	36	70
Tightening	Dec '15	Jul '19	1,323	2.25	9	44	43
Easing	Jul '19	Mar '22	959	-2.25	5	46	53
Tightening	Mar '22	Sep '24	915	5.25	11	29	50

Cumulative return in respective local currency
Table: Capitalmind • Source: Bloomberg

Anoop Vijaykumar, Investments and Head of Research, Capitalmind said “Of the 78 US Fed announcements in the last 34 years, Nifty has witnessed a positive change on 50 accounts on the following trading day of the announcement. 1995 was the only calendar year to witness both rate increases and decreases by the US Fed. Since the GFC in 2008, rates have been perennially low until 2016, when the Fed started raising rates after years of Quantitative Easing. However, COVID-19 called for drastic measures and rates were again reduced before the ensuing unprecedented inflation caused the Fed to raise rates quickly to levels not seen in over two decades.”



According to Capitalmind Financial Services study, in the last three decades, the most frequent Fed action has been an increase of 25 bps, which has been done 39 times. While, the Fed announced a 50bps rate cut 10 times in the last three decades, which has resulted in a median return of +1.6% for the Nifty. A 25bps cut has been followed by a more modest -0.5% median Nifty return. There are outliers as well, for example, the nearly 7% drop in October 2008 following a 50bps cut in the middle of the global meltdown during the GFC.

“Finally, while easing US interest rates are directionally positive for equities in general, we should keep in mind interest rates are just one variable in a complex adaptive system that determines the direction of Indian equity markets”, adds Anoop Vijaykumar.

About Capitalmind Financial Services Pvt Ltd: Capitalmind is a SEBI-registered Portfolio Management Service offering innovative investment strategies designed to generate superior returns for its clients. Leveraging a combination of quantitative analysis and qualitative research, Capitalmind delivers market-beating performance with industry-leading transparency and client service.

For more information, visit www.capitalmind.in.