

1. **equity market** (noun) – stock/share market. The market for trading equity instruments (like common stock shares).
2. **rally** (noun) – quick comeback, upturn, recovery (after a decline).
3. **drive** (verb) – prompt, propel, spur.
4. **primarily** (adverb) – mostly, mainly, most importantly.
5. **prospect** (noun) – expectation, likelihood, lookout.
6. **indices** plural of **index** (noun) – measure; guide, indication.
7. **appreciate** (verb) – increase, gain, grow/rise.
8. **sanity** (noun) – practicality, rationality, stability.
9. **shed** (verb) – discard, drop, abandon.
10. **in terms of** (phrase) – with regard to, regarding/concerning, in connection with.
11. **fuel** (verb) – stimulate, encourage, intensify.
12. **foreign portfolio investor** (noun) – Investors investing in financial assets, such as shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc in a foreign country.
13. **subsequent** (adjective) – following, ensuing, later.
14. **warrant** (verb) – justify, vindicate, validate/call for.
15. **exuberance** (noun) – high spirits, enthusiasm, energy.
16. **as of now** (phrase) – right now; from now on, currently.
17. **pick up** (phrasal verb) – improve, increase, get stronger.
18. **liquidity** (noun) – a measure of activity (i.e. the ability to buy or sell easily) in a market.
19. **undertake** (verb) – begin, start, embark on.
20. **big-bang** (noun) – (relating to big bang theory) the cosmic expansion which marked the origin of the universe.
21. **populist** (adjective) – relating to the politicians who claim that they are representing the common/ordinary people.
22. **uncertainties** (noun) – doubt, misgiving, qualm.
23. **prudent** (adjective) – wise, sensible, careful/ far-sighted.
24. **over-read** (verb) – to read to much.
25. **fluctuation** (noun) – change, variation, rise and fall.

Highs and lows of India's equity markets

The rally in stocks is driven primarily by investor sentiments, not market fundamentals

The prospect of the National Democratic Alliance led by Prime Minister Narendra Modi returning to power has got **investors in India's equity markets all excited**. Both the Nifty and the Sensex reached all-time highs on Monday as the indices appreciated 3.75% and 3.69%, respectively, the largest rise in percentage terms since September 2013. Though sanity returned on Tuesday with the indices shedding some of Monday's gains, in terms of the number of points gained Monday's rise was the largest in 10 years. This rally was after most exit polls released on Sunday predicted that the present NDA government would

easily cross the halfway mark required to form the next government. The rally on Monday, however, was fuelled mainly by purchases made by foreign investors. Foreign portfolio investors bought shares worth ₹ 1,734 crore on Monday, pushing the rupee up by almost 0.7% against the U.S. dollar. It is worth noting that foreign investors were net sellers of stocks in the earlier trading sessions, causing the indices to fall significantly from their previous high that was reached in April. So Sunday's exit polls may have caused many foreign investors to take a more positive view of the Indian markets. Domestic investors, on the other hand, sold shares worth ₹ 543 crore on Monday.

Monday's record rally in **stocks** should be seen as one that was driven primarily by investor sentiments rather than by market fundamentals. As with any purely sentiment-driven rally, things can take a turn for the worse if subsequent events fail to meet the market's expectations. There is very little in the form of market fundamentals to warrant the kind of exuberance shown by investors on Monday. Corporate earnings data released as of now for the January-March quarter suggest that earnings might actually witness a significant fall from what they were a year ago. Growth has also been slowing down in core sectors as consumer demand has failed to pick up and liquidity remains a concern across the economy. Still, investors may be hoping that things could get better in the coming years as a stable government at the Centre will be able to undertake economic reforms. While the fact remains that no big-bang reforms that could give a strong boost to economic growth have been implemented in the last five years, investors may still view the NDA government as less-populist than any other realistic alternative. Trade tension between the U.S. and China is another immediate risk that will determine the direction of equity markets, including India's, as China tries to find new markets for products that it can't sell to Americans. Given these various uncertainties, it would be prudent not to over-read the message in the stock market fluctuations.