

## Do Investor Sentiments have an Impact on the Stock Market? A Study on NIFTY 50 and other Sectoral Indices<sup>1</sup>

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### Abstract

In the study, we attempt to investigate the relationship between the returns from the Banking and IT sector listed on National Stock Exchange along with broader market index that is NIFTY 50 Index and the sentiments of investors. Banking and IT sector are one of the most prominent sectors in India, and its companies are having one of the largest contributions and weightage in NIFTY 50 Index respectively. The sample period selected for the study is from April 2010 to December 2020. The study explores the relationship with the help of Vector Auto regression (VAR) and Granger Causality Tests. It was identified that only 3 out of 7 proxies could influence the returns of NIFTY IT index, naming RSI, Advance Decline ratio and FII flows. This research addresses the dire need of undertaking investors' sentiments of forecasting share market returns in India.

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**Keywords :** Investor Sentiments, Behavioural Finance, Trading Volume, VAR, Granger Causality Test.

### I. Introduction

INVESTOR SENTIMENTS POSIT that any decisions made by the investors are often led by the emotions, especially for the risk in investment they are doing and the future cash flows of the company in which they are interested to invest. Other researchers have also explained it in a different dimension, that it is the inclination towards speculation about the optimism or pessimism for any given financial asset (Baker and Wurgler, 2006).

The rationale behind selecting these two sectoral indexes only is that the companies operating in this industry are having the most amount of

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### 5.1 Limitation

The limitation of the study are – there lacks a pivot study of the research that has been conducted, there are just two major indexes that are being covered in the research whereas there are many other indexes too, even there are handful of macro-economic variables that are taken and also the consider variables are secondary in nature and are not primary in nature.

Our contribution to the study too is significant, as it is one of its kind – as it is reviewing the sentiments of investors especially with a sector specific approach. It also signifies that by using new methods, the researchers for this particular literature can investigate new relationships. It also helps in emphasizing the investment strategy for the investors, which takes into accounts the behavioral and sentimental part too. Furthermore, there is a scope of also constructing a sentiment index that shall help us not only in predicting future market returns of broader index but also sector specific future returns.

The scope of the study is quite vast it shall also provide tailwind to other researchers who want to conduct primary research, wherein they can take cues from this study about which behavioral aspect they can target to. Furthermore, researchers can also conduct detailed sectors-wise research wherein they can include more proxies to investors' sentiments and also include more or all the sectors. One can also conduct international spill-over effect of sentiments from one country to another.

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