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SECTOR ROTATION WITH LEADING MACROECONOMIC INDICATORS

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ABSTRACT

In this study, an attempt has been made to examine whether the theory of sector rotation has been empirically valid in the Indian equity market, during the period April, 2000 to March, 2020. The time period has been divided into many sub-periods according to the real GDP growth rate and the annualized returns of eleven stock market indices have been analyzed in different periods. Going forward, leading macroeconomic indicators, which coincide with overall economy, have been taken and their association with stock market indices have been analyzed through statistical measures to assess any possible forecasting. In the first part of the study, cyclical and non-cyclical sectors have been found to beat the benchmark index during periods of growth and stagnancy, respectively, but no particular ordinality was observed. Amongst the leading economic variables, M3 Money Supply was found to have high degree of association with some indices, namely Sensex, Healthcare, CDGS, Consumer Durables and IT, but no linear relation was observed.

KEYWORDS: *Sector Rotation, Real GDP Growth Rate, Stock Market Indices, Leading Macroeconomic Indicators, ADF Test, Granger Causality Test, Pearson Correlation.*

REFERENCES:

1. Capital markets work on the principle of discounting the future, each phase of capital market cycle precedes the related phase of economic cycle and different industries emerge as best performers in different phases.
2. The contribution of these sector towards an economy should determine their nature in that particular economy.
3. The aim of this study is to examine whether the conclusion from the theory of sector rotation holds relevance in Indian equity market.