

# Impact of Foreign Institutional Investors and Inflation rates on Stock Market Performance in India

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**Abstract:** *The relationship between inflation rates in the Indian stock market from 2014 to 2024 and Foreign Institutional Investors (FII) is examined in this research. Using quarterly data and statistical techniques including correlation analysis and the Augmented Dickey-Fuller (ADF) Unit Root test, it investigates their combined influence on market performance. Poor Correlations FII and Sensex are The relationship between FII inflows and Sensex movements is very weakly negative (-0.08584), suggesting that FII inflows have little effect on stock market performance. The correlation between inflation rates and the Sensex is 0.12846, which is modestly positive, indicating that inflation has little effect on stock performance.*

**Keywords:** Foreign Institutional Investors, Inflation Rates, Stock Market Sensex

## I. INTRODUCTION

The stock market in India is a significant as a component of country's financial system, enabling firms to obtain funding and offering a marketplace for investors & Foreign Institutional Investors (FIIs) are entities or funds based outside India that Invest money on the country's markets for financial products, like bonds, stocks. Inflation is the at which the overall amount of the price of products and services rises over an economy's lifespan.

## II. OBJECTIVES

- To assess the impact of inflation in the stock market performance and analyze the connection the relationship between the stock market and FII performance.
- To see Inflation rates and FII Together Affect Stock Market Performance.
- To evaluate how the rate of inflation affects returns on the stock market.

## III. LITERATURE REVIEW

**Pooja Singh (2014)** This study looks at the connection between the Indian stock market and macroeconomic indicators market. study using Granger's causality test, multivariate stepwise regression, and Pearson's correlation. The study examines the average monthly closing costs for the CNX 100 and BSE 100 from January 2011 to December 2012, accounting for the following explanatory variables: wholesale price index (WPI), money supply (IIP), money supply (M3), trade deficit (TD), interest rates (IR), trade deficit (TD), overseas institutional investment (FII), exchange rate (ER), and gold rate (GP).

**Dr. Vikram K. Joshi (2016)** Any stock market index particular country has become an exceedingly important indicator due to its high susceptibility to both internal and foreign macroeconomic factors. the Indian stock market and the results show that there is long-term exchange rate as well as causality in both directions (ER), money supply (MS), and BSE Index (BS), additionally long-term unidirectional causality between CPI, IIP, and net FII with CPI, MS, and ER.

## IV. RESEARCH METHODOLOGY

Correlation approach was employed in the research. the past ten years, starting in 2014 to 2024 are covered by the research.

**SAMPLING**

The study's sample is the quarterly closing prices from FII March to December, together Usingthe Sensex and inflation rates.

**STATISTICAL TOOLS:**

**CORRELATION:** It shows the Positive & Negative relationship between two variables **ADF UNIT ROOT TEST:** To see the level of significance from none to intercept and trend.

**HYPOTHESIS:**

**H0:** As the link between FII, INFLATION RATE, and SENSEX is not significant.

**H1:** The correlation between FII, INFLATION RATE, and SENSEX is statistically significant.

**V. DATA ANALYSIS & INTERPRETATION**

**Correlation Analysis:**

FII & Sensex:

<b>Data</b>	<b>FII</b>	<b>Sensex</b>
<b>FII</b>	1	-0.08584
<b>Sensex</b>	-0.08584	1
<b>Data</b>	<b>Inflation Rates</b>	<b>Sensex</b>
<b>Inflation Rates</b>	1	0.12846
<b>Sensex</b>	0.12846	1

Above table shows the positive and negative correlation relationship between each variable between FII, INFLATION RATES & SENSEX

**ADF UNIT ROOT TEST:**

The unit root test shows the None, Intercept & Trend level of significance and it shows the ADF Value is more or less than Mackinnon value.

Constraints(Lag 0)	ADF Value	Mackinnon Critical Value	Probability
None (Level)	-5.270073	1% (-2.622585) 5% (-1.949097) 10%(-1.611824)	0.0000
Intercept(Level)	-5.249060	1% (-3.600987) 5% (-2.935001) 10%(-2.605836)	0.0001
Trend and Intercept(Level)	-5.398930	1% (-4.198503) 5% (-3.523623) 10%(-3.192902)	0.0004
None 1 <sup>st</sup> Difference	-9.710457	1% (-2.624057) 5% (-1.949319) 10%(-1.611711)	0.0000

**VI. RESULTS & DISCUSSIONS**

**KEY FINDINGS**

**FII and Market Sentiment:** Even with the weak link, investor mood and market liquidity are nevertheless influenced by FII activity

**Inflation's Limited Impact:** The Sensex and inflation have a moderate positive association, indicating that inflation is not a major factor influencing market performance on its own.

#### **VII. CONCLUSION**

The analysis finds that exists very little Adverse Relationship between FII and Sensex & Weak Positive Correlation between Inflation and Sensex & the Stationarity in Variables and the lastabout Volatility in FII and Inflation Rates.

#### **LIMITATIONS**

The Endeavor has a 10-year maximum duration. The research solely employed secondary data. The stock market is always changing, so these results could not hold true in the future.

#### **REFERENCES**

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