
Relationship Between Inflation and Stock Market Returns in India

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ABSTRACT

The aim of this paper is to check the relationship between inflation and stock market returns in India. Several studies have been done to find the relationship between these two variables, inflation and stock returns in other countries and few studies in Indian context. Our aim is to use the latest data for India to analyse this relation. More specifically, this study tests whether the Fama's proxy hypothesis is valid in India or not. We have used monthly data on WPI inflation, Stock Returns and growth of IIP (as proxy for real economic activity) during 2005-2021 and followed a two-step procedure to check the relation. Further, the data has been split into pre-crisis and post-crisis period to check the validity of relation separately. Results indicate that in the post-crisis period, a significant relation exists and so we are accepting the proxy hypothesis (of Fama). But in pre-crisis period, we are accepting the Fisher hypothesis showing the independence of real stock returns from inflation.