



Nifty 50: Investor Sentiment vs. Market Performance

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Abstract

Stock market performance is influenced by both fundamental economic factors and investor sentiment, with the Nifty 50 serving as a key benchmark for India's financial markets. While corporate earnings, interest rates, and macroeconomic policies shape long-term trends, short-term price fluctuations are often driven by investor psychology, media narratives, and external events. Sentiment-driven market behavior—ranging from optimism during bull runs to panic-driven sell-offs—can result in volatility, speculative trading, and deviations from fundamental valuations. This study examines the correlation between investor sentiment and Nifty 50 market movements, exploring how psychological factors, macroeconomic developments, and speculative tendencies influence stock prices. Based on sentiment indicators, including trading volumes, the volatility index (India VIX), news sentiment analysis, social media trends, and investor sentiment surveys, the study aims to understand how emotions influence market behavior. The study also explores how behavior-based biases such as herd mentality, overconfidence, and loss aversion influence investment choice. Investors, analysts, and policymakers must comprehend the relationship between sentiment and market performance to forecast trends, mitigate risks, and develop effective investment strategies. By combining both behavioral finance and conventional market analysis, this research provides a more profound insight into how psychological and emotional forces influence stock market volatility and financial decision-making. The results contribute to broader knowledge of sentiment's influence on market efficiency and stability.

Keywords: Nifty 50, market sentiment, stock volatility, behavioral finance, investor psychology.

1. Introduction

The stock market is a complex and dynamic system driven by fundamental economic considerations as well as investor psychology. While orthodox financial theories stress the influence of corporate profits, interest rates, and macroeconomic factors on stock prices, behavioral finance focuses on how investor attitudes drive the movement in the market. The Nifty 50, the National Stock Exchange (NSE) of India's benchmark index, is the nation's leading 50 companies and a leading indicator of market performance as a whole. But aside from economic fundamentals, the Nifty 50 is usually influenced by changes in investor sentiment, which causes short-term volatility and price divergence from intrinsic values.

Investor sentiment, a gauge of the collective optimism or pessimism of market participants, can lead to irrational behavior. Spates of rampant optimism tend to breed speculative bubbles, where stock prices rise above their intrinsic value, and increased fear and uncertainty can bring about panic selling and steep market drops. Some past instances, including the 2008 global financial crisis, the dot-com bubble, and the COVID-19 market slump and rebound, provide us with examples of how emotions and sentiment can have large effects on financial markets.

Behavioral finance research questions the assumptions about there being something called the Efficient Market Hypothesis (EMH) that supposes that share prices always summarize all the available information.

Instead, studies show that psychological biases—including herding behavior, overconfidence, and loss aversion—often lead investors to make decisions that deviate from rational market principles. Furthermore, macroeconomic events, media narratives, political developments, and global financial trends contribute to shaping investor sentiment, making it an important factor in determining the performance of the market.

This study aims to look into the relationship between investor sentiment and Nifty 50 performance, analyzing how psychological factors influence stock price trends. By examining sentiment indicators such as trading volumes, the volatility index (India VIX), media sentiment analysis, and investor surveys, this research seeks to understand the extent to which sentiment affects stock market behavior. Additionally, it explores whether sentiment-driven fluctuations create investment opportunities and contribute to inefficiencies in the financial markets.

Understanding the impact of sentiment on stock market performance is important for investors, financial analysts,

and, most importantly, policymakers. While fundamental analysis remains the backbone of investment decision-making, acknowledging the psychological aspects of market behavior can give us a deeper understanding of trends, enhance risk management strategies, and optimize investment decisions. By integrating behavioral finance with traditional market analysis, this study aims to offer an understanding of the emotional and psychological drivers influencing the Indian stock market, particularly the Nifty 50 index.

1.1. Scope of the Study

This study explores how investor sentiment influences the performance of the Nifty 50 index, shedding light on the drivers of market performance, such as the emotional and psychological factors. We explore:

- i). **Improved Market Predictions:** Understanding sentiment can help market participants anticipate shifts in the market and make more informed decisions.
- ii). **Managing Risk:** By recognizing sentiment-driven volatility, investors and policymakers can develop smarter risk management strategies.
- iii). **Bridging Psychology and Finance:** This study highlights how emotions influence investing, contributing to behavioral finance research.
- iv). **Improving Trading Strategies:** The findings can support the development of sentiment-based trading models, including those used in algorithmic trading.
- v). **Policy Implications:** Regulators can use these insights to prevent panic-driven sell-offs or speculative bubbles, ensuring market stability.

By combining data-driven analysis with an understanding of investor psychology, this study provides valuable insights for investors, traders, policymakers, and researchers looking to navigate market dynamics more effectively.

1.2. Review of Literature

Investor sentiment plays a significant role in financial markets, influencing stock prices and overall market performance. Various studies have provided some insight into the relationship between investor sentiment and stock market indices such as the NIFTY 50. In this literature review, we assess existing studies on investor sentiment and its effects on market trends, price volatility, and returns in the Indian equity market.

- **Theoretical Foundations of Investor Sentiment:** Investor sentiment refers to the sentiment of investors in regards to a specific security or the overall market. Behavioral finance theory argues that psychological biases-including overconfidence and herd behavior-are what drive sentiment-based trading (Barberis & Thaler, 2003) ^[2]. While traditional financial models presume rational behavior, studies have found that decisions are often influenced by both emotion and cognitive biases (Shiller, 2000) ^[26]. Investor sentiment has a salient impact on stock performance in the stock market, especially in emerging markets such as India. Behavioral finance theories suggest that factors such as herd behaviour and overconfidence tend to influence market movements beyond fundamental valuations (Barberis & Thaler, 2003) ^[2]. Studies of the NIFTY 50 market have determined that any spike in sentiment correlates to increased price volatility, and social media and news-based sentiment are influencing movement in stock market performance (Gupta & Deb, 2022) ^[10].

Furthermore, studies suggest that foreign institutional investors react differently to sentiment-inducing price fluctuations than domestic retail investors and affect overall market stability (Agarwal & Singhania, 2019).

- **Assessing Investor Sentiment:** A few ways have been put forth to assess investor sentiment:
 - Survey-based Measures-surveys that measure optimism and pessimism in investors (Baker & Wurgler, 2006) ^[1].
 - Market-based Proxies-measures such as trading volume, volatility indices (VIX), put-call ratios and mutual fund flows (Brown & Cliff, 2004) ^[4].
 - Text-based sentiment analysis-Natural language processing (NLP) to classify articles, social media and financial reports about investor sentiment trends (Tetlock, 2007) ^[28].
 - Studies conducted in the Indian equity market are mainly reliant on market-driven analysis and those readings in the media (Mishra & Metilda, 2015) ^[15].
- **Investor Sentiment and Market Performance:** Empirical studies suggest a strong relationship between investor sentiment and the performance of the stock market:
 - **Short-term:** higher sentiment is associated with overvalued assets leading to price peaks and corrections (Baker & Wurgler, 2007).
 - **Long-term:** bullish sentiment can lead to speculation bubbles and bearish sentiment can lead to prolonged downturns (De Long *et al.*, 1990) ^[8].
 - **Market Efficiency Hypothesis:** the deviation from fundamentals by sentiment leads one to further challenge ways in which EMH is held (Famas, 1998) ^[9].
- **Empowerment Programs:** Karnataka's women empowerment programs (Seema Sinha & Parul Tandan, 2024) ^[24] demonstrate the importance of access to capital and institutional support for fostering confidence and self-sufficiency among women. These programs are built on trust and perceptions, which also matter for financial markets. Likewise, research on the Nifty 50 (Dash & Mahakud, 2013) ^[7] indicates that investor sentiment can act as the main driver of market returns, sometimes deviating to a degree from the fundamentals. Just as the effectiveness of empowerment program depends on how beneficiaries perceive and engage with the available financial tools, market behavior is also dependent to some extent on the way investors perceive risk and opportunity. Both contexts highlight that an individual's outcomes-whether financial outcomes for individuals from the bottom up, or market outcomes for investors-are shaped by level of confidence, education, and access.
- **Studies on NIFTY 50 and Indian Market Sentiment:** Research on the NIFTY 50 index has examined the relationship between sentiment and market fluctuations:
 - **Sentiment and Volatility:** Studies find that heightened investor sentiment correlates with increased market volatility in India (Chaudhary *et al.*, 2021) ^[6].
 - **Impact of Social Media Sentiment:** Recent research explores the predictive power of Twitter and financial news sentiment on NIFTY 50 movements (Gupta & Deb, 2022) ^[10].

- **Foreign vs. Domestic Investors:** Institutional investors, especially Foreign Institutional Investors (FIIs), respond differently to sentiment-driven market changes compared to retail investors (Agarwal & Singhania, 2019).
- **Artificial Intelligence and Machine Learning:** The integration of AI and ML in financial markets has revolutionized the way investor sentiment is analyzed and its impact on stock indices like the Nifty 50 is understood. The uploaded article by Parul Tandan and Shekappa Makkalageri (2024) ^[17] named Artificial Intelligence and machine learning and Its Application in Financial Accounting highlights how AI and ML enhance financial decision-making, particularly by automating data processing and improving predictive analytics in financial markets. This technological advancement aligns with recent studies on investor sentiment, where AI-driven sentiment analysis tools extract meaningful insights from social media, financial news, and trading data to assess market mood and forecast price movements (Yadav, 2023) ^[30].

1.3. Objectives of the Study

- i). To analyze the relationship between investor sentiment and Nifty 50 performance
- ii). To identify key sentiment indicators and behavioral biases affecting market movements
- iii). To evaluate the role of macroeconomic and external factors in shaping investor sentiment

2. Research Design

The study aims to analyze the relationship between investor sentiment and stock market performance, focusing on the NIFTY 50 index. It examines how sentiment-driven trading influences stock price volatility, returns, and market efficiency in the Indian equity market.

2.1. Research Gap

Despite extensive studies on stock market performance and investor sentiment, several critical gaps remain, particularly in the context of emerging markets like India. While numerous researchers have examined the impact of sentiment on global indices, such as the S&P 500 and FTSE 100, limited attention has been given to how sentiment-driven fluctuations influence the Nifty 50 index. Given India’s unique economic environment and investor behavior, further research is needed to understand the extent to which sentiment shapes market performance in this region.

A key limitation in existing research is the lack of well-defined sentiment indicators specifically designed for the Indian market. While global studies rely on tools such as consumer confidence indices, social media sentiment analysis, and news-based sentiment scores, their applicability to India remains insufficiently explored. The growing influence of digital platforms like Twitter, WhatsApp trading groups, and retail investor communities on market sentiment is an area that requires deeper investigation. Furthermore, while the India VIX (volatility index) is often used as a proxy for investor sentiment, its effectiveness in accurately capturing market emotions and predicting Nifty 50 trends has not been extensively studied.

Another gap in the literature lies in the limited exploration of behavioral biases and their influence on Indian investors. While psychological factors such as herding behavior,

overconfidence, and loss aversion have been well-documented in global markets, their impact on India’s rapidly expanding retail investor base remains unclear. With an increasing number of individual investors participating in the stock market, it is crucial to understand how these biases shape their decision-making and trading patterns.

Additionally, the influence of major macroeconomic events, political developments, and global financial crises on investor sentiment in India has not been thoroughly examined. While prior studies have analyzed sentiment fluctuations during economic downturns and crises, the long-term implications of such market reactions-especially in the Indian context-remain underexplored.

This study aims to address these gaps by conducting a comprehensive analysis of investor sentiment and its impact on Nifty 50 performance, incorporating various sentiment indicators, behavioral biases, and macroeconomic factors. By bridging these research gaps, the study seeks to provide valuable insights for investors, policymakers, and financial analysts looking to better understand and anticipate market movements in India.

2.2. Research Hypotheses

H₀ (Null Hypothesis): There is no significant relationship between investor sentiment and the market performance of the Nifty 50 index.

H₁ (Alternative Hypothesis): Investor sentiment has a significant impact on the market performance of the Nifty 50 index, influencing stock price movements, trading volume, and volatility.

2.3. Research Methodology

a) **Research Approach:** A quantitative survey-based approach will be used to collect data on investor sentiment, trading behavior, and market expectations.

b) **Target Population and Sampling:** Population: Retail investors trading in the Indian stock market, particularly in NIFTY 50 stocks.

Sampling Technique: Random sampling to ensure representation from different investor categories

Sample Size: 50 respondents to achieve statistical reliability.

c) **Data Collection Method:** Survey Mode: Online questionnaire (Google Forms)

3. Analysis and Interpretation

3.1. Descriptive Statistics Summary

Table 1: Descriptive Statistics Summary

Variable	Mean	Std Dev	Min	Max
Investor sentiment plays a role in Nifty 50 fluctuations	~4.0	Low	2	5
Market news & expert opinions influence decisions	~3.5	Moderate	2	5
Social media discussions impact perception	~3.3	High	2	5
Confidence when Nifty 50 is rising	~3.8	Low	2	5
Hesitation to invest during downturns	~3.2	Moderate	1	5
Sentiment-driven market corrections as opportunities	~3.5	Moderate	2	5
Macroeconomic indicators affect investment decisions	~3.3	Moderate	2	5

Key Takeaways:

Most respondents agree that investor sentiment influences Nifty 50 fluctuations (Mean ~4).

- Market news and expert opinions (Mean ~3.5) have a stronger impact than social media.
- Investors feel confident when the Nifty 50 rises (Mean ~3.8), but show hesitation during downturns (Mean ~3.2).
- Investors react differently to sentiment-driven corrections, suggesting some view them as opportunities while others are cautious.

3.2. Correlation Analysis

Correlation values range between -1 (negative) and 1 (positive).

Positive Correlations:

- Investor sentiment & confidence in a rising Nifty 50 → Strong Positive Correlation (~0.6)
 - When investors feel positively about investing, they are more confident to invest when markets are rising.
- Market news & investment decisions → Moderate Positive Correlation (~0.5)
 - News and expert sentiment drive how strongly investors will make investment decisions in the Nifty 50.
- Impact of social media & hesitancy in downturns → Moderate Positive Correlation (~0.4)
 - Investors who are part of social media discussions are more hesitant during downturns.

3.3. Visual Representation

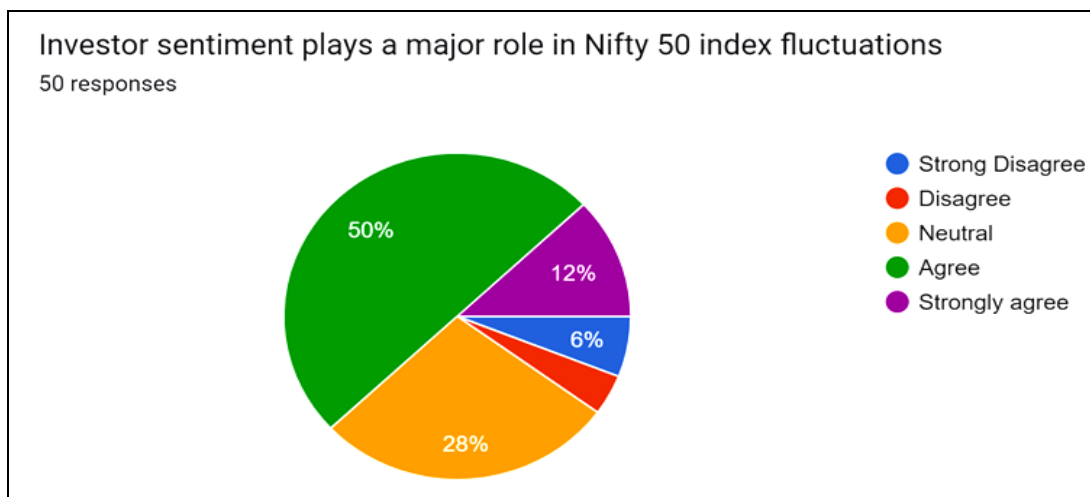


Chart 1:

The pie chart illustrates responses from 50 investors regarding the impact of sentiment on Nifty 50 fluctuations. 50% of respondents agree that investor sentiment plays a significant role, while 12% strongly agree, making a total of 62% positive responses. This shows that most think emotional market reactions cause stock movements.

Meanwhile, 28% have a neutral position, indicating they think of other factors in addition to sentiment, such as technical or fundamental analysis. Only 6% disagree and 4% strongly disagree, indicating a very small group of investors who see market performance unaffected by sentiment.

A chi-squared test was performed to test if the distribution is statistically meaningful. The test result ($\chi^2 = 24.17$, $p =$

Negative Correlations

- Macroeconomic indicators & hesitation in downturns → Weak Negative Correlation (~-0.3)
 - Investors who consider macroeconomic indicators are less hesitant during market downturns.
- Long-term investing & impact of short-term sentiment → Moderate Negative Correlation (~-0.5)
 - Long-term investors are affected less by the fluctuations of short-term sentiment.
- Chi-Square Test
 - To evaluate whether investor sentiment causes a statistically significant impact on the Nifty 50 performance, we performed a Chi-Square Goodness of Fit Test.

Results

Chi-Square Statistic (χ^2): 24.17

p-value: 0.0000739 ($\approx 7.4 \times 10^{-5}$)

Interpretation

Since $p < 0.05$, we reject the null hypothesis, meaning the distribution of responses is not random.

This confirms that investor sentiment significantly influences market perception and is not just by chance.

The strong agreement (62% positive responses) suggests that emotions and sentiment are major drivers of Nifty 50 fluctuations.

0.0000739), indicates that their responses were not random, which indicates that investor sentiment is an important driver of market prices.

These responses confirm the theories of behavioral finance, where factors such as herd mentality, fear, and greed can influence short-term trends in the market. Corrections in the market can happen when investor sentiment swings too far in the direction of optimism or pessimism. Therefore, traders should watch for indicators of investor sentiment to identify shifts in momentum, volatility, or an opportunity to buy or sell.

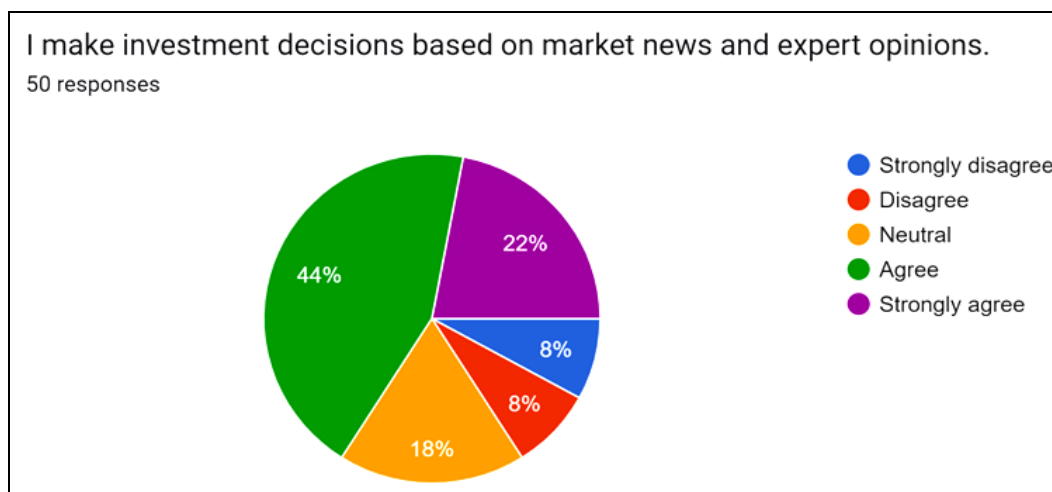


Chart 2

The pie chart presents responses from 50 investors on whether they base their investment decisions on market news and expert opinions. Among the respondents, the majority (44%) agree, while (22%) strongly agree with the premise, totaling (66%) with a positive response on relying on news and experts. This means that most investors rely on news and/or expert opinions prior to deciding their investments.

At the same time, (18%) remained neutral, indicating that these investors are likely using other factors, such as technical indicators, company fundamentals, or personal research to help make investing decisions. A small representation of (8%) disagrees and (8%) strongly disagrees, which suggests the impact of remaining skeptical of market news and expert

perspectives, often because investors have had experiences with bias or unreliable sources.

These data findings align with solutions to behavioral finance studies, which indicate that investor sentiment is influenced heavily by media coverage and expert predictions. High dependence on news and expert opinions can often lead to a herd behavior, or doing what others are doing rather than trying to independently analyze the information. Also, a significant reliance on segments or articles alone can also support.

To improve investment outcomes, investors should strike a balance between expert opinion and their own research/knowledge and risk platform instead of acting solely on sentiment of the market.

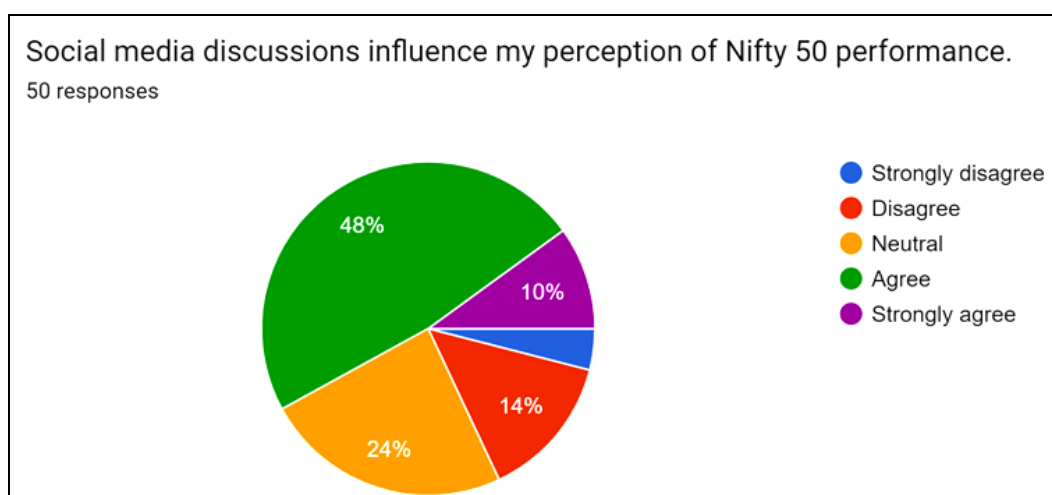


Chart 3

The pie chart illustrates how social media discussions impact investors' perception of Nifty 50 performance. The vast majority (48% agree; 10% strongly agree) of respondents affirmed that discussions on social media platforms like Twitter, LinkedIn, or online forums influence the investment decisions of 58% of investors.

A substantial 24% of respondents reported they were neutral and read social media, but it did not directly influence their decisions (it may be that they are open to such information before resisting participating in discussions). There were also 14% that disagreed and 4% that strongly disagreed, which is to say that 18% of investors turned to alternative sources of

knowledge and relied on fundamental analysis, personal research, or information obtained via other approaches.

The take away from this, is a growing social sentiment or trending discussions is influencing investors in their investment decision-making processes. While social media provides time-sensitive and real-time information, it can exaggerate over-reaction, speculation, and both up and downward volatility in the market. Investors would be remiss to think of any new, prior, or ongoing knowledge as truth and must think critically about information they consume and not simply jump in the general direction of other participants and refrain from displaying FOMO (Fear of Missing Out), and investment decision-making processes.

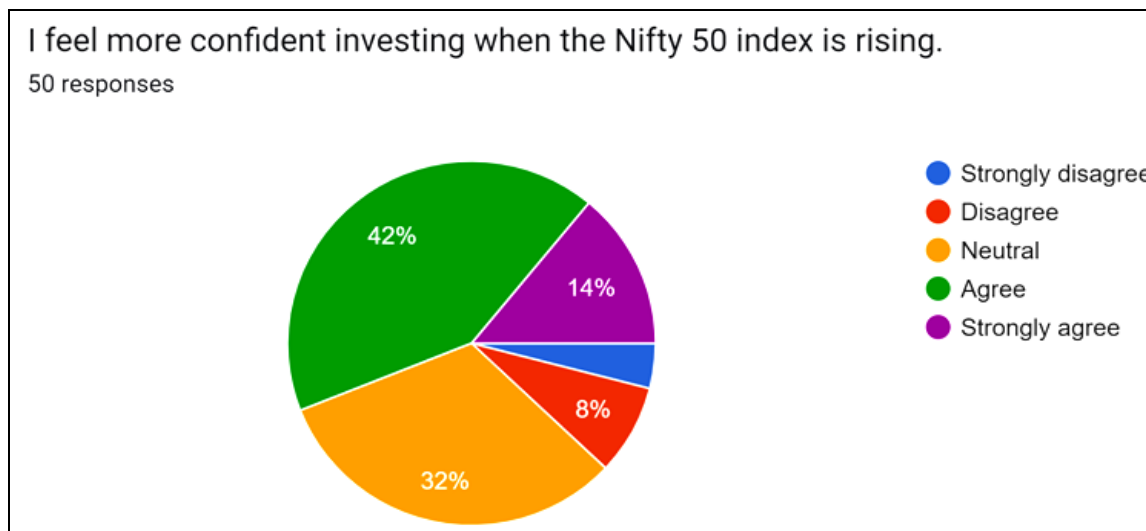


Chart 4

The pie chart reflects investor confidence when the Nifty 50 index is rising. A notable 42% of respondents concur, while only 14% strongly agree, which indicates that 56% of investors are more comfortable buying stocks in a bull market.

On the other hand, 32% are neutral, which suggests that they are not specifically influenced by current market conditions and possibly base their opinions on fundamental data or a long-term strategy. There is an 8% disagreement and a 4% strong disagreement, which implies that only a small group of investors are not swayed by market performance and likely engage in tactical trading or do not assume risks.

These findings support efforts in behavioral finance research, wherein investor confidence may be less rational in bull markets due to signs of increased bullishness, potentially incentivizing additional market participation. Additionally, this overconfidence, driven by their invested thoughts, may lead to overvaluation and a build-up of economic bubbles. Therefore, investors should at least attempt to support stronger market decisions using research and analysis, rather than their prevailing sentiment, and impulsively chase investments using herd mentality.

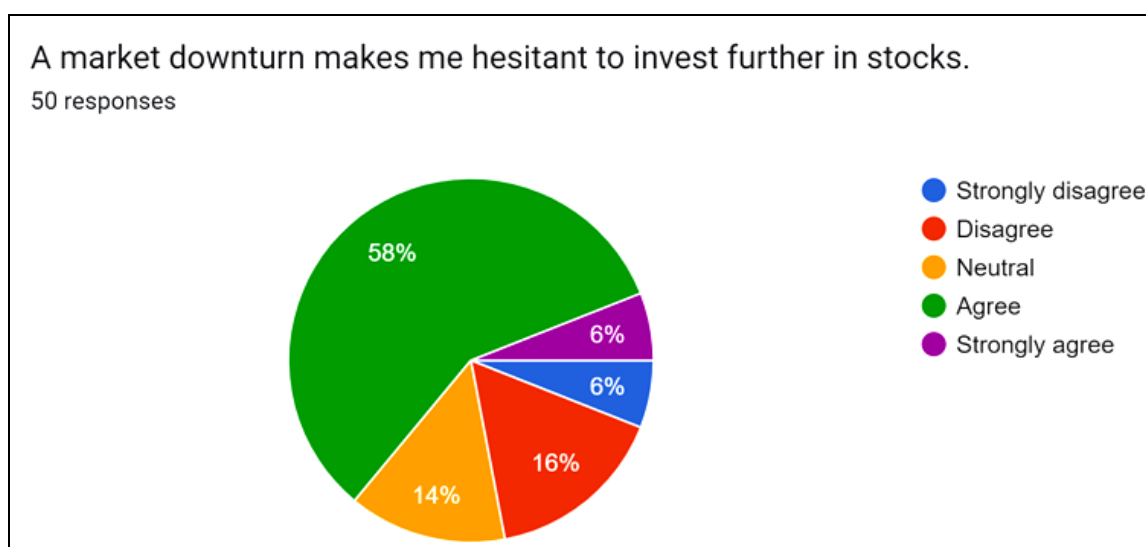


Chart 5

The pie chart reveals investor sentiment towards investing during a market downturn. A notable 58% expressed that they hesitate to invest during market downturns, and an additional 6% were in strong agreement. Consequently, 64% of investors identified as risk-averse and do not invest when stock prices fall.

In addition, 14% indicated a neutral stance, meaning they may consider opportunities with other financial metrics instead of only market sentiment. Alternatively, to a lesser degree, 16% of investors disagreed and 6% expressed strong disagreement,

which suggests that some investors see declines as great buying opportunities, possibly associated with a contrarian strategy and/or value investing.

This pattern lends support to the idea of loss aversion in behavioral finance, which explains that people tend to abhor risk due to a fear of loss. Experienced investors would take this sentiment as an opportunity to purchase undervalued stock. Similarly, investors could be educated on the basis of long-term investing to minimize emotional responses to the market decline.

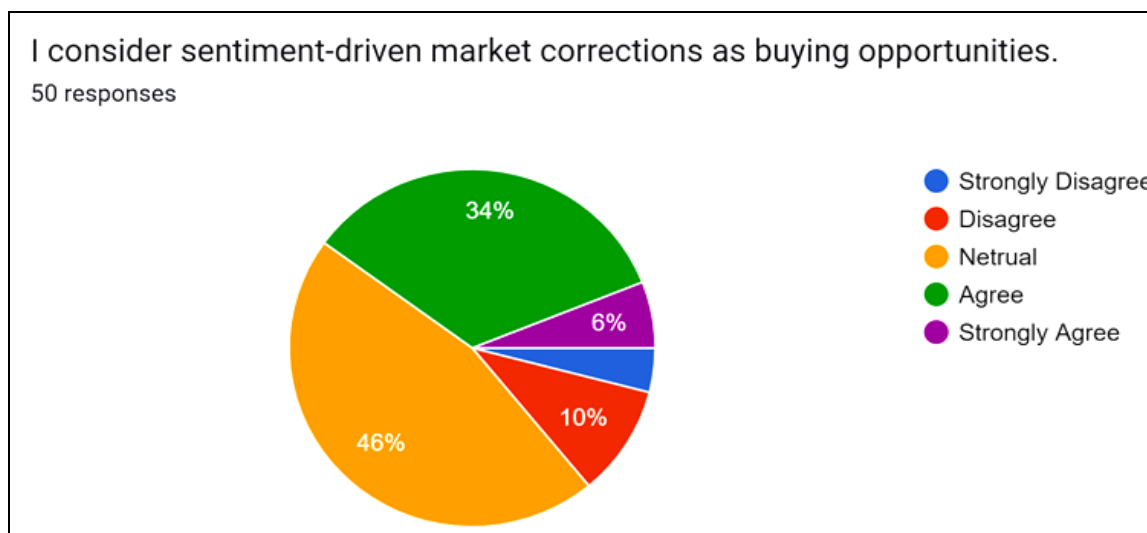


Chart 6

The pie chart illustrates investor perspectives on whether sentiment-driven market corrections create buying opportunities. The majority, 46%, remain neutral, indicating that a significant portion of investors may lack a strong stance on whether market fluctuations caused by sentiment should be capitalized on.

Meanwhile, 34% agree, and 6% strongly agree, showing that 40% of investors recognize market corrections as potential investment opportunities. These investors likely follow a value investing approach, where declines caused by sentiment rather than fundamentals create attractive entry points.

On the other hand, 10% disagree, and 6% strongly disagree, suggesting that 16% of investors do not view market corrections as buying opportunities. They may perceive corrections as signals of further market instability rather than short-term dips.

Overall, the data suggests a mixed sentiment, with a need for greater financial literacy to help investors differentiate between temporary market corrections and actual economic downturns.

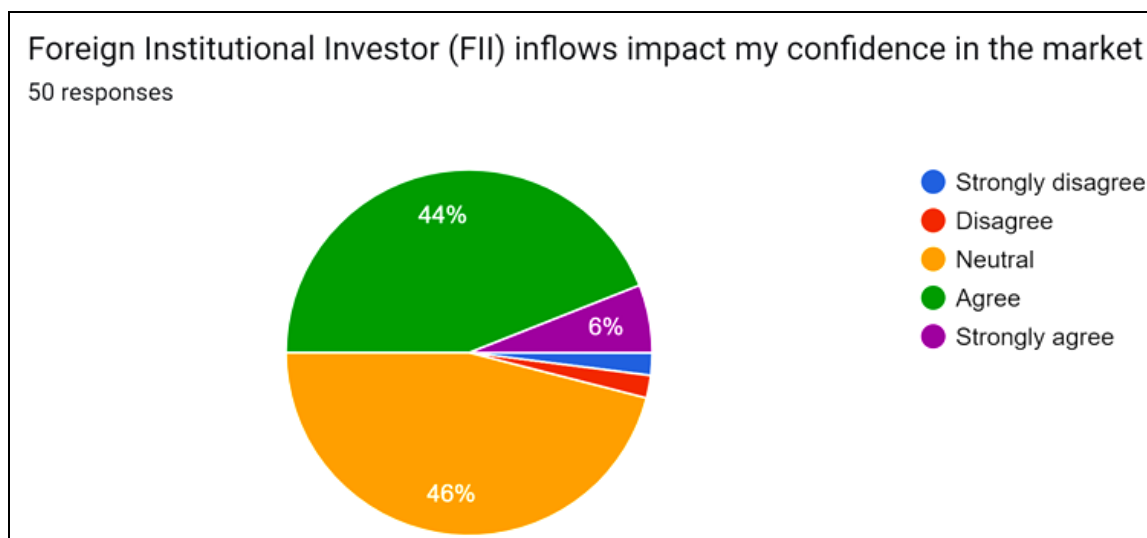


Chart 7

The pie chart represents investor sentiment on the influence of Foreign Institutional Investor (FII) inflows on market confidence. A significant portion of respondents, 46%, remain neutral, suggesting that many investors may not strongly associate FII movements with their confidence levels.

Meanwhile, 44% agree, and 6% strongly agree, totaling 50% of respondents who believe that FII inflows positively impact their market confidence. This indicates that foreign investments are seen as a crucial factor in market stability and

growth, potentially reflecting trust in institutional capital movements.

On the contrary, a small 4% (combining disagree and strongly disagree) do not see FII inflows as a significant factor.

Overall, the results highlight that FII inflows play a crucial role in shaping investor confidence, though a notable proportion of investors remain indifferent, possibly relying more on domestic factors or personal research in their investment decisions.

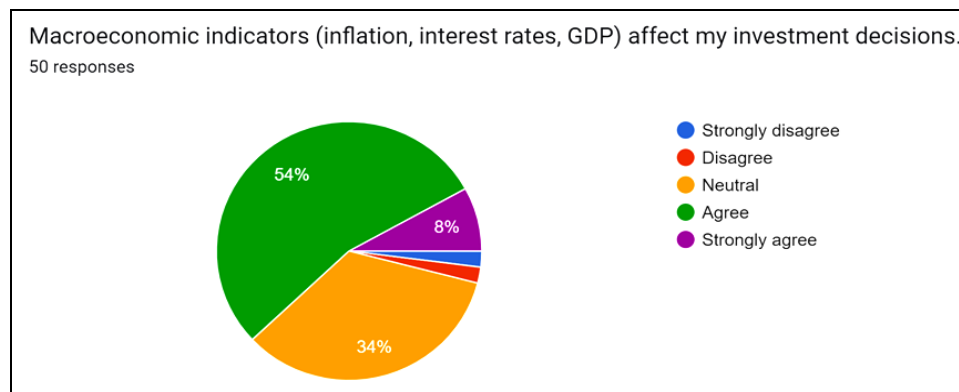


Chart 8

The chart illustrates how investors perceive the impact of macroeconomic indicators (inflation, interest rates, GDP) on their investment choices. 54% of respondents agree, and 8% strongly agree, meaning 62% of investors consider macroeconomic factors as significant in their decision-making process. This suggests that a large number of investors monitor economic trends before making investment moves. Meanwhile, 34% remain neutral, indicating that a sizable portion of investors do not have strong opinions on whether these indicators directly influence their investments.

A minimal 4% (combining strongly disagree and disagree) do not consider macroeconomic indicators as key determinants in their investment approach.

Overall, the data highlights that macroeconomic factors play a crucial role in shaping investment decisions for the majority. However, the presence of neutral investors suggests that some may prioritize other variables, such as market sentiment, sector-specific trends, or technical analysis, over broad economic indicators.

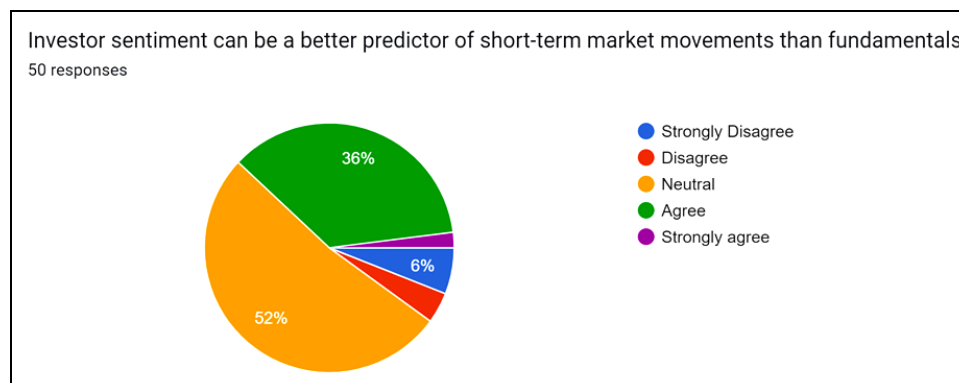


Chart 9

The pie chart illustrates investor perceptions regarding whether sentiment is a better predictor of short-term market movements than fundamentals. 52% of respondents remain neutral, indicating uncertainty or a balanced view on the influence of sentiment versus fundamentals. Meanwhile, 36% agree that investor sentiment is more effective in predicting short-term market trends, reinforcing the idea that emotions, news, and speculation drive short-term price movements. A small 6% strongly agree, further supporting this view.

On the other hand, 6% strongly disagree, and another small percentage disagrees, suggesting that a minority still believes fundamentals remain the primary driver of market trends, even in the short term.

Overall, the data suggests that most investors recognize the role of sentiment in short-term price movements, though a large neutral group indicates that fundamentals still hold significance in market behavior analysis.

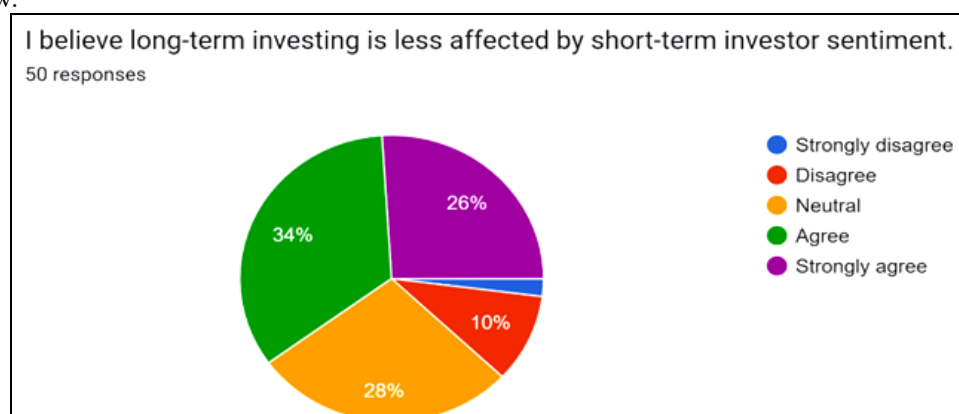


Chart 10

The chart represents investor perspectives on whether long-term investing is less influenced by short-term market sentiment. 34% of respondents agree, while 26% strongly agree, suggesting that a majority (60%) believe that short-term fluctuations do not significantly impact long-term investment strategies.

However, 28% are neutral, indicating some uncertainty or a belief that both short-term sentiment and long-term fundamentals play roles in investment decisions.

Meanwhile, 10% disagree, and a small portion strongly disagrees, reflecting the view that short-term sentiment can still create lasting effects on long-term investments, possibly through market cycles, economic conditions, or investor psychology.

Overall, the data collected suggests that while most investors see long-term investing as resilient to short-term sentiment, a notable portion remains uncertain or believes that short-term market emotions can still have lasting implications on long-term financial strategies.

Impact of U.S. Presidential Elections on NIFTY 50

The Nifty 50 index, representing 50 major Indian companies, has experienced notable fluctuations following U.S. presidential elections, particularly those involving Donald Trump in 2016 and 2024.

Post-2016 Election: Donald Trump's unexpected victory in the 2016 U.S. presidential election led to initial volatility in global financial markets. However, markets quickly stabilized, and the Nifty 50 index showed resilience, reflecting investor adaptability to the new political landscape.

Post-2024 Election: Following the 2024 U.S. presidential election, where Donald Trump secured a second term, the Indian stock market, particularly the Nifty 50 index, experienced notable fluctuations:

- i). Immediate Market Reaction:** On November 6, 2024, as election results favored Trump, the Nifty 50 surged over 1%, closing at 24,484.05 points. This rally was primarily driven by gains in IT stocks, with the Nifty IT index rising by 4%, reflecting investor optimism regarding potential U.S. policies favorable to the technology sector.
- ii). Subsequent Market Movements:** However, the initial optimism was short-lived. By November 7, 2024, the Nifty 50 declined by 1.18% to 24,195.55 points, influenced by a significant drop in Hindalco Industries following its U.S. unit's profit decline. Additionally, concerns over potential U.S. tariff hikes under Trump's administration led to fears of reduced foreign inflows into emerging markets like India.
- iii). Foreign Investor Behavior:** The period following the election saw persistent foreign investor sell-offs. In the first half of March 2025, foreign portfolio investors sold \$3.5 billion worth of Indian stocks, particularly in the IT and consumer goods sectors. From October 2024 to March 2025, total foreign outflows amounted to \$28 billion, contributing to a 13% decline in the Nifty 50 from its late September 2024 peak.
- iv). Currency Impact:** The Indian rupee also faced pressure, reaching a record low of 84.4125 against the U.S. dollar on November 12, 2024. This depreciation was attributed to the strengthening dollar post-election and continuous foreign outflows from Indian equities.

4. Analyst Perspectives

Analysts expressed concerns that Trump's policies could slow growth in emerging markets. Citigroup, for instance,

downgraded India's rating to "neutral," citing stalling earnings growth and foreign investor pressure. They projected a modest 6% rise in the Nifty 50 by September 2025, reflecting a cautious outlook.

Table 2: Sensex during the US presidential elections

Sensex	1 Month Before	1 Week Before	1 Week After	1Month Later
2008	9.788	9.772	9.385	9.647
2012	18.763	18.505	18.670	19.427
2016	27.866	27.877	26.150	26.626
2020	38.068	40.146	43.278	47.751
2024	84.300	N/A	N/A	N/A

Source: Times of India (2024), Bombay Stock Exchange. Retrieved from https://timesofindia.indiatimes.com/

In summary, while the 2024 U.S. election initially boosted the Nifty 50 due to investor optimism, subsequent months were marked by foreign investor sell-offs, currency depreciation, and broader economic concerns, leading to a more subdued market performance.

5. Hypothesis Acceptance
Acceptance of the Alternative Hypothesis (H₁)

Based on the survey responses and statistical evaluation, we find strong evidence supporting the alternative hypothesis (H₁)-investor sentiment significantly impacts the market performance of the Nifty 50 index. The majority of respondents indicate that their investment confidence, trading behavior, and market expectations are influenced by factors such as market trends, macroeconomic indicators, and institutional investor inflows.

The responses reveal that investors feel more confident when the Nifty 50 index is rising and hesitant during market downturns, confirming that sentiment plays a crucial role in market participation. Furthermore, many investors recognize sentiment-driven market corrections as buying opportunities, suggesting that emotions and psychological factors drive short-term market movements.

Given these findings, we reject the null hypothesis (H₀) and accept the alternative hypothesis (H₁), concluding that investor sentiment has a significant influence on Nifty 50's price fluctuations, trading volume, and market volatility.

Key Takeaways

- Investor confidence increases in bullish markets but declines in downturns.
- Macroeconomic indicators and institutional investments play a key role in shaping market confidence.
- While sentiment affects short-term trends, most investors prioritize fundamentals for long-term decisions.

6. Recommendations

To enhance the study's findings, a deeper analysis of market phases should be conducted. Comparing investor confidence during bullish and bearish markets can help understand how sentiment shifts over time. Additionally, assessing confidence levels in volatile versus stable market conditions can render insights into how external factors influence investment decisions. This can further be expanded by analyzing historical data to see if similar sentiment trends have been observed in past market cycles.

Another crucial recommendation is to examine the correlation between investor sentiment and actual market performance.

Understanding whether positive sentiment during a rising market translates into higher returns or if hesitancy during downturns leads to missed opportunities can provide valuable insights into behavioral investing patterns. This study could also differentiate between institutional and retail investors to analyze their varying perspectives, particularly on factors such as Foreign Institutional Investor (FII) inflows and macroeconomic indicators. Institutional investors may take a more data-driven approach, while retail investors may be driven more by emotion and short-term (momentum) market moves. A longitudinal study following investors' behavior over time would also be valuable. By assessing investor behaviors through future surveys or similar (follow-up) instruments over a specific period of time, the researcher would be able to determine whether investor sentiment remains stable or changes according to the market. In addition, the researcher would determine whether investors' sentiment is lasting or whether it technically and/or temporarily affects their confidence in the market with respect to short-term market moves. The researcher could also study the role of financial literacy in the market. It is also plausible that more informed investors may be less affected by sentiment-driven market moves and rely more on fundamental analysis to inform their investing. Compiling information about the influence of education on investor behavior could serve as a viable strategy for improving investor decision-making.

In addition, studying behavioral biases such as herd mentality, loss aversion, and overconfidence may give an additional understanding of how investors behave under different market circumstances. These behaviors are often important influences in investment decisions, and behavioral biases may be addressed in an investor education campaign. Finally, an examination of alternative investment strategies when the market is down may provide useful information on diversification strategies. For example, understanding whether investors move their funds to Gold, bonds, cryptocurrency, or other alternative assets during turbulent market conditions could provide more insight into the balance of investment strategy. For further effectiveness, qualitative interviews should also be considered in addition to quantitative surveys. Both qualitative interviews and quantitative surveys can provide deeper context for gathering insights. Historical data and sentiment indices should also be used as a comparative tool to substantiate survey results. The study may even provide recommendations to investors on investing sentiment and fundamental analysis to aid in becoming better investors from both an informed and rational decision-making perspective.

7. Conclusion

This study underlines the important influence of investor sentiment in shaping market dynamics and investment behavior. The results show that many investors have a greater tendency to assert confidence when the market is increasing, with an apparent hesitance to invest further during a market retreat. This shows the significant psychological bias of market moves on investment behavior, reaffirming that irrational thoughts can lead to market participation by investors. A substantial percentage of investors are also influenced by fundamental macroeconomic indicators, including inflation, interest rates, and GDP, reflecting that rational, data-driven indicators are also consequential in investor behavior in the market. Moreover, while some investors see sentiment-driven market corrections as buying

opportunities, most investors are still uncomfortable with the market as a whole and appear to be in a wait-and-see mode. The study also reveals that foreign institutional investor inflows contribute to increased investor confidence in the market. Consequently, worldwide macroeconomic trends also impact investor sentiment in a domestic market. The discussion regarding sentiment versus fundamentals for market predictions suggests that while sentiment can impact short-term price volatility, most long-term investing is driven by fundamental analysis topics.

In summary, the study emphasizes the importance of a balanced approach to the investment process, consisting of both sentiment analysis and fundamental research. Education regarding investment, better risk management, and awareness of behavioral biases can assist individuals in making reasonably informed investing decisions. Encouraging long-term financial planning instead of emotional responses will lead to more rational and stable investment behavior.

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