

Original Article

Analysing the Interlinkages between the Stock Market and the Economy: With Reference of Motilal Oswal Financial Services Ltd

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Abstract

This study investigates the intricate relationship between the stock market and macroeconomic performance in India, focusing on Motilal Oswal Financial Services Ltd. (MOFSL). By analysing economic indicators such as GDP, inflation, and interest rates alongside investor sentiment, the research examines how these variables collectively shape stock market dynamics. The paper integrates qualitative insights and quantitative evidence, incorporating expert interviews and secondary data analysis. Findings highlight that economic stability, fiscal measures, and policy interventions significantly impact market behavior. The study concludes that financial literacy, technological innovation, and effective regulation are critical to sustaining investor confidence and long-term economic growth.

Keywords: Stock Market, Economic Growth, Motilal Oswal Financial Services, Macroeconomic Indicators, Investor Behavior, Fiscal Policy, Monetary Policy

Introduction

The stock market is widely regarded as a key indicator of a nation's economic health, reflecting the interplay between macroeconomic conditions, policy reforms, and investor sentiment. In the Indian context, the capital market has evolved significantly, supported by regulatory improvements, technological advancements, and growing retail participation. Within this environment, Motilal Oswal Financial Services Ltd. (MOFSL) stands as a notable institution that demonstrates how financial markets respond to economic developments and strategic business decisions. Stock markets serve a dual purpose in the economy. They enable companies to raise capital for expansion, innovation, and operational growth, while offering investors opportunities to generate wealth through capital gains and dividends. The performance of the stock market is influenced by key economic variables such as inflation, Gross Domestic Product (GDP), interest rates, employment levels, and government policies. For example, rising GDP and employment levels generally increase corporate earnings and consumer demand, boosting investor confidence and share prices. Conversely, high inflation and rising interest rates can dampen consumption and investment, leading to weaker market performance. Monetary and fiscal policy decisions also play a critical role in shaping market dynamics. Lower interest rates encourage borrowing and equity investments, whereas tighter policies may slow economic and market growth. Understanding the relationship between macroeconomic indicators and stock market trends is therefore essential for investors, analysts, and policymakers. This study aims to examine these linkages with specific focus on the Indian market and the strategic responses of MOFSL, offering insight into the broader interaction between the financial system and economic performance.

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Review of important and relevant literature on the study:

- 1) **Chandra, P. (2021).** Prasanna Chandra's *Investment Analysis and Portfolio Management* (2021) provides an in-depth understanding of investment principles, security valuation, and portfolio construction. It emphasizes the impact of macroeconomic factors such as inflation, interest rates, fiscal policy, and GDP growth on stock prices, thereby linking financial markets with the broader economic environment. Although primarily theoretical, its clarity and structured approach make it a foundational source for analysing how general economic conditions shape stock market performance.
- 2) **Bodie, Z., Kane, A., & Marcus, A. J. (2021).** offers a rigorous and analytical treatment of investment theory, focusing on asset pricing, portfolio management, and risk assessment. It explains how macroeconomic variables—such as interest rates, inflation, and business cycles—affect expected returns and portfolio performance. The authors integrate modern financial theories like the Efficient Market Hypothesis, Arbitrage Pricing Theory, and multifactor models, which are essential for analyzing how the general economy influences stock market behavior. This text provides both theoretical depth and empirical tools for examining correlations between stock market indices and key economic indicators.
- 3) **Philip A. Fisher (2003).** Philip Fisher's *Common Stocks and Uncommon Profits* (2003) introduces the qualitative dimension of investment analysis, emphasizing long-term growth potential based on innovation, management quality, and market trends. Fisher recognizes that macroeconomic stability and business cycles significantly influence corporate growth and investor sentiment, linking stock market performance with economic health. While his approach focuses on company fundamentals and qualitative assessment, Fisher's insights align with studies exploring how economic conditions shape investor behavior and market dynamics. The book complements quantitative models by integrating economic and psychological factors into investment decisions.
- 4) **Benjamin Graham & David L. Dodd (2008)** Graham and Dodd's *Security Analysis* (6th ed., 2008) remains a classic in the field of investment literature, emphasizing the importance of fundamental analysis in evaluating securities. The authors argue that stock prices should reflect intrinsic value derived from company fundamentals and broader economic conditions such as interest rates, inflation, and business cycles. Their approach highlights how economic indicators influence corporate earnings and, in turn, market valuations. This text provides historical insight into how rational analysis of macroeconomic and microeconomic variables can uncover mispriced securities, supporting studies on the interplay between stock market valuation and general economic trends.
- 5) **Agrawal, S., & Sangeetha. (2018).** The article "*The Impact of Macroeconomic Determinants on the Performance of the Indian Stock Market*" by Agrawal and Sangeetha (2018) examines how ten macroeconomic variables (such as gold prices, industrial production, inflation, exchange rate, money supply, and forex reserves) influence the Nifty 50 index using monthly data from April 2008 to March 2018. Their analysis applies methods like ADF unit root tests, Pearson correlation, multivariate regression, and Granger causality to determine both the strength and direction of relationships. They find that multiple macro factors indeed significantly affect stock returns, reinforcing the notion that stock market performance is closely tied to general economic conditions (Agrawal & Sangeetha, 2018).
- 6) **Kotha, K. K., & Sahu, B. (2016).** Using monthly data from July 2001 to July 2015, this paper applies cointegration and error correction models (ECM) to study relationships between Sensex returns and macroeconomic indicators such as the exchange rate, wholesale price index (WPI), T-bill (short-term interest) rates and money supply (M3). The authors confirm a long-run relationship between the stock market and these variables, and show how short-run deviations are corrected over time via the ECM. This underscores that macro factors do not only co-move with stock returns in the long term but also have short-term adjustment dynamics.
- 7) **Rawat, D., Patni, S., & Mehta R. (2021).** Using a Vector Autoregression (VAR) model, this study includes nine macroeconomic indicators (interest rate, inflation, exchange rate, money supply, GDP, FDI, trade-GDP ratio, oil prices, gold prices) and considers their forecasted values in relation to BSE Sensex returns. They find particularly strong correlation of Sensex with exchange rate and money supply. The methodology of forecasting and then correlating provides an interesting predictive angle, implying some macro variables can be useful as predictors for market movement.
- 8) **Shukla, D. K., & Bohra, N. S. (2025).** This very recent work (2025) analyses monthly data from January 2003 to December 2024 for variables like GDP, inflation, disposable income, foreign institutional investment (FII), exchange rates, government policies, etc., using counteraction and vector error correction models (VECM). It finds significant long-term equilibrium relationships and identifies that in the short run, FII flows, GDP growth, and interest rate fluctuations are important drivers of NIFTY index movements. The error correction term suggests about 32% monthly adjustment towards equilibrium, indicating fairly rapid correction of deviations in the stock market from its macro fundamentals.

Research Gap

Although prior studies explore macroeconomic influences on stock markets, most:

1. Focus on developed markets such as the U.S. and Europe

2. Examine macroeconomic variables in isolation rather than in integrated frameworks
3. Overlook the role of financial institutions as intermediaries between markets and real economic activity
4. Lack case-based analysis on Indian brokerage and investment firms like MOFSL

Hence, there is a gap in understanding how macroeconomic conditions and behavioral finance factors collectively impact stock market trends and strategic responses of firms operating in India's financial services sector.

Motilal Oswal Financial Services Limited:

Motilal Oswal Financial Services Limited (MOFSL) is a leading financial services company in India, providing a wide range of investment and wealth management solutions. Established in 1987 by Motilal Oswal and Raamdeo Agrawal, the company has grown into one of the most trusted names in the Indian stock market and financial services industry.

The company offers various services, including equity and derivative brokerage, wealth management, portfolio management services (PMS), mutual funds, investment banking, and research-based advisory services. With a strong focus on research and innovation, Motilal Oswal provides valuable insights to help investors make informed financial decisions.

Motilal Oswal is known for its "QGLP" (Quality, Growth, Longevity, and Price) investment philosophy, which helps investors identify high-quality stocks with long-term growth potential. The company has received multiple awards for its research excellence, wealth management solutions, and customer service.

The firm operates through a vast network of branches and franchises across India, serving retail investors, high-net-worth individuals (HNWIs), and institutional clients. It has also expanded its digital presence by offering online trading platforms and mobile applications to make investing more accessible.

With a commitment to transparency, client satisfaction, and financial expertise, Motilal Oswal continues to be a major player in India's stock market industry. Its research-driven approach and customer-centric services make it a preferred choice for investors looking to grow their wealth in the financial markets.

Objectives of the study:

The objective of this research is to examine the relationship between stock market performance and key macroeconomic indicators in India, and to assess how government policies and investor behavior contribute to deviations between market movements and real economic conditions.

Limitations of the study:

A comprehensive understanding of the relationship between the stock market and the economy, there are some limitations. One major limitation is the availability and reliability of data. Stock market trends and economic conditions change constantly, and historical data may not always accurately predict future trends.

Another limitation is the influence of external factors that are difficult to measure. Political events, global economic changes, natural disasters, and unexpected market crises can significantly impact stock prices, making it hard to establish a direct connection between economic indicators and the stock market.

Investor behavior plays a crucial role in stock market movements. Psychological factors such as fear, greed, and speculation can drive stock prices beyond logical economic reasoning, making it challenging to predict market movements based solely on economic data.

Lastly, the study focuses primarily on the Indian stock market, particularly the role of Motilal Oswal and its impact on investment decisions. While some findings may apply to other markets, different countries have unique economic structures, regulations, and market behaviors that may lead to different results.

Statement of Hypothesis:

- ❖ **Null Hypothesis (H_0):** There is no significant relationship between stock market performance and macroeconomic indicators, and government policies or investor expectations do not cause deviations between stock market trends and actual economic performance.
- ❖ **Alternative Hypothesis (H_1):** There is a significant relationship between stock market performance and macroeconomic indicators, and government policies and investor expectations can cause deviations between stock market trends and actual economic performance.

Research Methodology

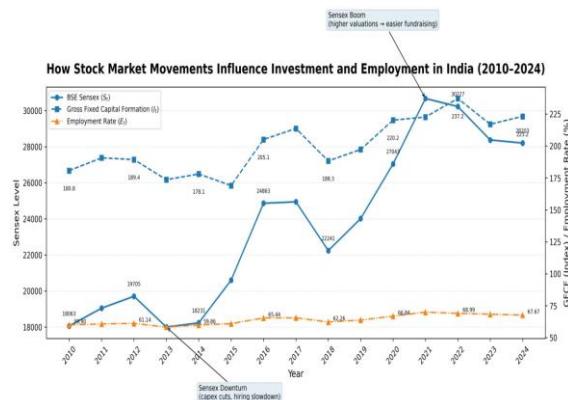
This research employs a mixed-method design combining qualitative interviews with quantitative data analysis. Primary data were collected through structured interviews with analysts at MOFSL. Secondary data were sourced from SEBI, RBI, NSE, and BSE reports, as well as academic journals. Descriptive analysis was used to interpret trends across GDP growth, inflation, and interest rate movements.

Data Analysis and Interpretation:

The interviews conducted with the staff of Motilal Oswal provided insights into the interplay between stock market dynamics and economic factors. The responses were analysed to interpret the relationship between market movements, economic indicators, and investment behavior.

1. Differentiating Between Short-Term Stock Market Volatility and Long-Term Economic Trends?

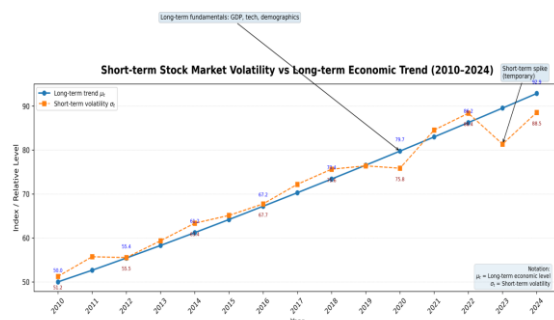
The respondents highlighted that short-term volatility and long-term economic trends differ in their nature and determinants. Short-term fluctuations are largely influenced by transient factors such as investor sentiment, geopolitical events, and policy announcements. In contrast, long-term trends are determined by fundamental economic indicators, including GDP growth, industrial development, technological progress, and demographic changes. This distinction confirms that while short-term stock prices may deviate from the real economy, long-term trends provide a more accurate reflection of economic health.



(Graph No. 1. Short-Term Stock Market Volatility and Long-Term Economic Trends)

2. In what ways do stock market movements influence business investment and employment rates?

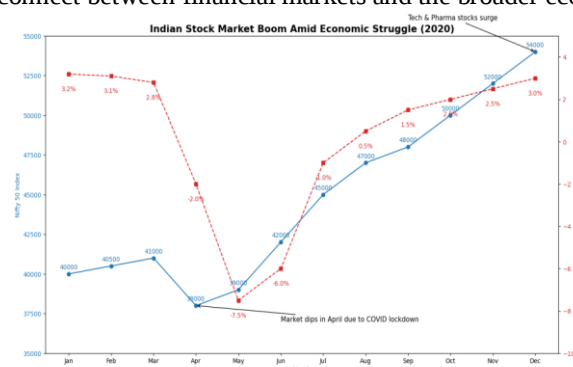
The respondents emphasized that strong market performance increases corporate valuations, facilitating capital raising and enabling business expansion. This, in turn, positively affects employment by creating new jobs. Conversely, declining markets reduce access to capital, often causing investment slowdowns and workforce reductions. This interpretation underscores the cyclical relationship between investor confidence, corporate funding, and labour market conditions.



(Graph No. 2. stock market movements influence business investment and employment rates)

3. Can a stock market boom exist alongside a struggling economy? Provide an example and explain?

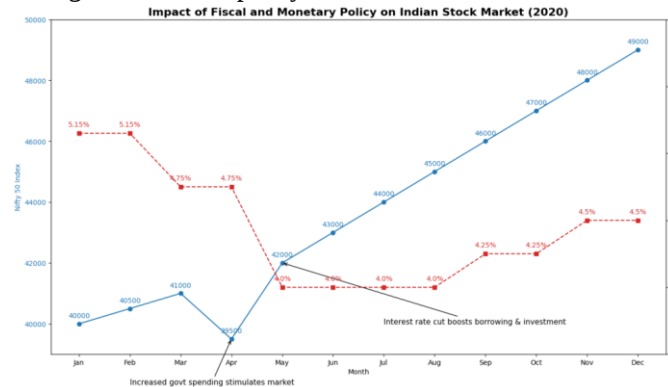
Interviewees noted that stock markets can experience booms even during economic downturns, as demonstrated during the COVID-19 pandemic. Factors such as low interest rates, government stimulus, and exceptional performance of select sectors (e.g., technology) can drive stock prices upward, despite weak GDP growth and high unemployment. This highlights the potential disconnect between financial markets and the broader economy in the short term.



(Graph No. 3. Indian stock market boom and Economic Struggle)

4. How do government fiscal and monetary policies interact with stock market performance?

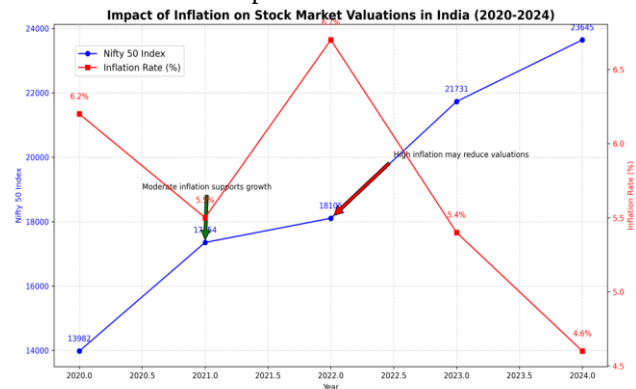
Responses indicated that government fiscal measures (spending and taxation) and central bank monetary policies (interest rates and liquidity management) directly influence investor sentiment and stock valuations. Expansionary policies stimulate investment and market growth, while contractionary measures may dampen economic activity and reduce stock prices. These findings confirm that policy interventions are critical determinants of market behavior.



(Graph No. 4. Impact of fiscal and monetary policies Indian stock market)

5. How do inflation impact stock market valuations, and does this relationship remain constant over time?

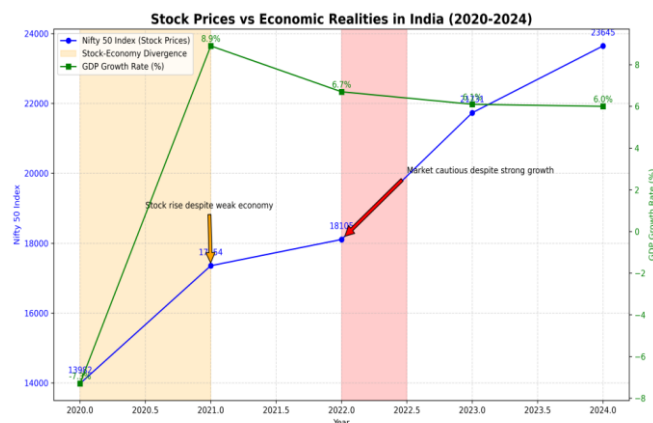
The respondents explained that inflation affects stock valuations through its impact on interest rates, corporate costs, and investor expectations. Moderate inflation can support stock prices by reflecting economic growth, while high inflation may depress valuations by increasing costs and tightening monetary conditions. Sectoral differences also matter; commodities may benefit while technology and growth sectors face challenges. This demonstrates the nuanced, non-linear relationship between inflation and market performance.



(Graph No. 5. Impact of Inflation on stock market valuation)

6. If stock prices are forward-looking indicators, why do they sometimes misalign with economic realities?

Respondents noted that while stock prices reflect forward-looking expectations, short-term deviations from economic fundamentals are common. Speculation, investor sentiment, and temporary external factors can cause overvaluation or undervaluation, resulting in misalignment. Markets generally adjust over time, but transient divergences are a natural feature of financial systems.



(Graph No. 6. Stock Prices VS Economics Realities in India)

Hypothesis Testing Table:

Question	Key Observation	Interpretation	Result
Q1 Short-term volatility vs long-term trends	Short-term driven by sentiment & news; long-term follows GDP & policy	Markets follow fundamentals long-term; short-term deviations exist	H₁ Accepted
Q2 Stock market impact on investment & jobs	Rising markets boost fundraising & hiring; falling markets reduce investment	Strong link between market growth and economic activity	H₁ Accepted
Q3 Boom with weak economy	COVID-19: stock boom despite GDP fall due to stimulus & low rates	Policy & expectations can disconnect markets from economy	H₁ Accepted
Q4 Policy & stock market	Government spending & interest rates drive market performance	Fiscal & monetary policies strongly influence markets	H₁ Accepted
Q5 Inflation & valuation	Moderate inflation helps; high inflation hurts valuations	Inflation significantly impacts stock prices	H₁ Accepted
Q6 Misalignment with economy	Markets react to expectations, sentiment, and policy	Markets can diverge short-term from real economy	H₁ Accepted

- ❖ Macro indicators like GDP, inflation, interest rates, and employment significantly influence stock market performance.
- ❖ Government fiscal and monetary policies, along with investor expectations, can cause short-term divergences from economic fundamentals.
- ❖ **Null Hypothesis (H₀) is rejected; Alternative Hypothesis (H₁) is accepted.**

Findings:

The study confirms that stock market trends are deeply interconnected with macroeconomic variables. Fiscal and monetary policies directly influence investor confidence. Institutional investors and technological innovations play a decisive role in maintaining liquidity and transparency. Investor behavior continues to drive short-term market fluctuations.

Conclusion

The stock market and economy share a reciprocal relationship—each influencing the other. The research reveals that while market optimism can precede recovery, long-term growth depends on real economic performance. Motilal Oswal Financial Services exemplifies the role of financial institutions in aligning investor behavior with economic realities through research-driven guidance.

Recommendations:

1. Promote financial literacy and investment education.
2. Encourage long-term, research-based investing.
3. Strengthen policy frameworks ensuring transparency.
4. Integrate AI and digital analytics for predictive modelling.
5. Support cross-border capital flows to enhance market depth.

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