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Market Short term movement anchored on Bond Yield

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It is widely accepted and experienced that the long term stock markets performance hinges on Corporate Earnings and hence the saying goes- Stock Market is a slave of earnings. In the medium to short term, there are however multiple forces like economic parameters, liquidity flowing into the stock markets etc that affect the market movement. Looking at the recent past, market movements have been impacted by Covid outbreak, followed by sharp movements in commodity prices, Russia Ukraine geopolitical tensions, Global Inflationary issues etc.

If we look very closely into the markets, we will agree that in a short term time frame, stock markets usually get anchored around one particular parameter and takes guidance from the updates around that parameter for its movement. In recent times, that parameter is – How the 10 Year Government Bond Yield is behaving in India. Though there is never a perfect co-relation in their movement, however a very interesting pattern is visible in Indian Stock markets recently which are very diligently following the 10 year Bond Yield chart movement. Market's peak of Oct 2021 and lows of Jun 2022 has coincided with rise and fall of 10Y bond yield rates.

Take a close look at the charts below.

India 10 year Bond Yield made a high of 6.429% on 20th Oct 2021 and started the upward move from there on. This interestingly coincides with the date from where the Nifty 50 made a peak of 18604 on 19th Oct 2021 and started a downward move from thereon. Then again on, 17th Jun 2022, the 10 year bond yield started falling after making a top and this date also coincides with Nifty which made its low of 15183 levels on 17th Jun 2022 and started moving upwards.

More recently, these inverse movements are visible from 13th of Sep 22 when Bond yield have started to rise and Nifty 50 has shown corrections.

We have observed that phase where the Bond Yields fall or remain range-bound, market usually moves up and during a rising Bond Yield, the broader markets fall. We are at the threshold of yet another RBI monetary policy meet on 28-30th Sep '22.

We estimate that current bond Yields are high enough to absorb the RBI changes to Repo rates as term premiums are higher. Till Mar'23, we expect the bond yield to range in between 7%-8.0%. Going forward, important data point will be whether Indian bonds will be included in JP Morgan's "GBI-EM" global index that tracks global debt bonds issued by governments of emerging countries.

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