STUDY NOTES · BASIC CONCEPT

What is Sectoral Rotation? How is Sectoral Rotation seen in the Indian Stock Market?

Indian Economy

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What is Sectoral Rotation?

Sectoral rotation refers to the shift of investment from one sector to another by investors It is driven by changes in:

- Economic cycle
- Interest rates and monetary policy
- Corporate earnings outlook
- Global developments and risk perception

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Objective:

- To maximize returns
- To manage and diversify risk

How is Sectoral Rotation seen in the Indian Stock Market?

1. Based on the Economic Cycle

1. During economic expansion:
2. Banking
3. Infrastructure
4. Capital goods
5. Automobiles
6. During slowdown or uncertainty:
7. IT
8. FMCG
9. Pharmaceuticals
10. Healthcare

2. Influence of Interest Rates and Monetary Policy

1. When interest rates fall:
2. Real estate

3. Automobiles benefit
4. When interest rates rise:
5. Banking and NBFCs face pressure
6. Investors move towards defensive sectors

3. Impact of Global Cues and Currency Movement

Strong US dollar:

1. Benefits IT and pharma (export-oriented sectors)
2. Rising crude oil or commodity prices:
3. Affects metals and energy-intensive sectors

4. Role of Government Policies

Budget announcements, PLI schemes, and infrastructure push

→ Lead to investment flows into specific sectors

Regulatory or tax changes

→ Cause sector-specific gains or losses

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