

4 June 2024

General Election Results 2024 and the Equity Market

Sensex: 72079

Nifty: 21885

Weak majority, but not a weak economy

The results of the 2024 general elections differed significantly from the opinion and exit polls forecasts. Although this analysis is based on leads rather than the final results, stability of these leads suggests that the National Democratic Alliance (NDA) will form the government, with Narendra Modi securing a third consecutive term as the Prime Minister. Our key takeaways from this election are as follows:

- The Opposition's unexpectedly strong performance should dispel, for posterity, doubts about the neutrality of electronic voting machines (EVMs) and the Election Commission.
- This election marks the end of a decade of single-party majority, ushering in an era of coalition politics at the Centre.
- Historical precedents of coalition governments since 1991—both with and without a single-party majority—indicate that structural policy changes can be implemented under both scenarios. At the same time, the single largest party now holds around 240 seats, suggesting less dependence on coalition partners compared to 1991-2014.
- The maturity of the Indian political system is underscored by the fact that no major policy reforms since 1991, initiated by the previous governments, have been reversed, despite ideological differences of successive governments and the personalities of different Prime Ministers. This augurs well for continuity of economic reforms.
- The election results are likely to bolster federalism in India, given the resurgence of regional parties. Future policymaking is expected to be more consultative and inclusive. Controversial social issues may take a backseat on the government's agenda.
- Over the past decade, significant strides have been made in poverty alleviation through welfare schemes and new livelihood opportunities. However, there is a perceived increase in income and wealth disparity, and unemployment, particularly for salaried positions. The policies of the new government must address these concerns, including rural-urban disparity.
- Non-agricultural job creation is expected to be an important objective of the new government. For this purpose, economic priorities would be establishing India as a global manufacturing hub, improving infrastructure, enhancing the business environment, and making agriculture more remunerative.

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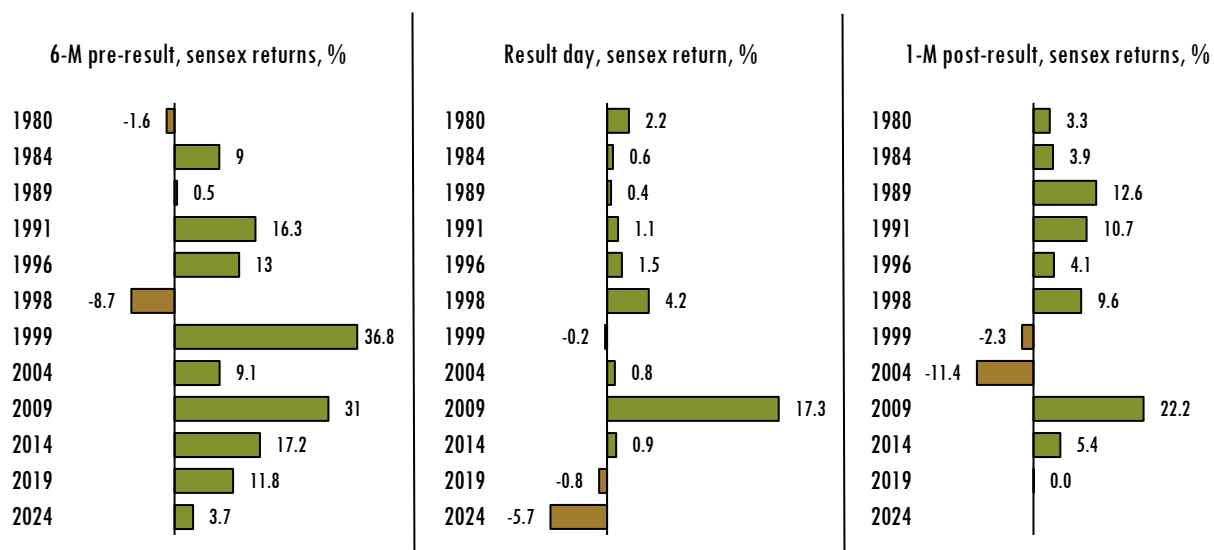
- Further, we believe that with the upcoming state elections in 2024-25, welfare measures and the incremental focus on boosting consumption would gain prominence.

Fig 1 – State elections

State	Year
Haryana	2024
Maharashtra	2024
Jharkhand	2025
Delhi	2025
Bihar	2025

Source: State Election Commission

- Election results are unlikely to impact markets much, barring big surprises. This time, since there was a difference in the exit polls and the actual results tally, the markets reacted negatively. Beyond the short-term market movement due to news flow, events and sentiments, we expect in the medium to longer term, corporate earnings, equity valuation and the macroeconomic performance to continue to be the main drivers of the Indian equity market.

Fig 2 – Barring big surprises, election results unlikely to impact the market much

Source: BSE, Anand Rath Research

- Continued policy reforms are anticipated to sustain India's status as the world's fastest growing major economy over the next five years. Strong macroeconomic performance will continue to support the Indian equity market, ensuring it remains one of the best performing among major markets. We reiterate our positive stance on discretionary consumption, 2Ws, passenger cars, FMCG, financials, cement, hospitality and IT. We believe Nifty 50 would likely yield 10-12% over the next 12 months.

Appendix

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