Stock market today: Sensex crashes 3%, investors lose ₹15 lakh crore; 5 factors why the Indian stock market fell

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Nishant Kumar

Updated5 Aug 2024, 03:55 PM IST

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Stock market today: Sensex crashes 3%, investors lose ₹15 lakh crore; 5 factors why the Indian stock market fell**(Pixabay)**

Stock market today: Indian stock market benchmarks, the Sensex and the Nifty 50, crashed nearly 3 per cent each on Monday, August 5, mirroring the global trend after the US recession fears mounted and rising tensions in the Middle East kept investors on edge.

An across-the-board selloff hit the Sensex hard. The Sensex opened at 78,588.19 against its previous close of 80,981.95 and crashed 3.3 per cent to the level of 78,295.86 during the session. On the other hand, the Nifty 50 opened at 24,302.85 against its previous close of 24,717.70 and dropped 3.3 per cent to the level of 23,893.70.

Eventually, the Sensex closed 2,223 points, or 2.74 per cent, down at 78,759.40, while the Nifty 50 ended 662 points, or 2.68 per cent, lower at 24,055.60. The BSE Midcap index fell 3.60 per cent and the Smallcap index plunged 4.21 per cent.

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The overall market capitalisation of the firms listed on the BSE dropped to nearly ₹442 lakh crore from nearly ₹457 lakh crore in the previous session, making investors lose nearly ₹15 lakh crore in a session.

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"The global market is reeling as bears enter with a cocktail of bad news. The initial catalyst was the fear of a reverse yen carry trade following an interest rate hike in Japan. This was compounded by fears of a recession in the USA after extremely poor job data, which spooked market sentiment. China and Europe are already grappling with slowdowns, and escalating geopolitical tensions are adding further pressure on the markets," said Santosh Meena, Head of Research, Swastika Investmart.

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Only five stocks—Hindustan Unilever (up 1.02 per cent), Tata Consumer (up 0.70 per cent), Nestle (up 0.68 per cent), Britannia (up 0.51 per cent), and HDFC Life (up 0.21 per cent)—closed with gains in the Nifty 50 index today.

Shares of Tata Motors (down 7.40 per cent), ONGC (down 6.39 per cent) and Adani Ports (down 5.92 per cent) closed as the top losers in the index.

The volatility index India VIX saw a steep surge of 42 per cent today, indicating that the road ahead for the Nifty 50 will be significantly bouncy.

Here are five key factors that seem to have dealt a severe blow to the Indian stock market:

1. US Recession fears

Fears of a looming recession in the US have given a severe jolt to the risk appetite of investors globally after July payroll data last Friday showed the US unemployment rate jumped to near a three-year high of 4.3 per cent last month against 4.1 per cent in June. July marked the fourth consecutive monthly increase in the unemployment rate.

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"The rally in the global stock markets has been driven mainly by consensus expectations of a soft landing for the US economy. This expectation is now under threat with the fall in US job creation in July and the sharp rise in US unemployment rate to 4.3 per cent," said V K Vijayakumar, Chief Investment Strategist, Geojit Financial Services.

According to a Bloomberg report, Goldman Sachs economists have increased the probability of a recession in the US to 25 per cent from 15 per cent in the next 12 months.

Amid the recession fears, experts see high chances of rate cuts by the US Fed this year. Some say the Fed may cut rates cumulatively by 100 bps this year in September, November and December.

JPMorgan experts see a 50 bps rate cut in September and another 50 bps cut in November.

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2. Rising tensions in the Middle East

According to media reports, Iran has vowed to take revenge after Israel killed Hamas political chief Ismail Haniyeh. Haniyeh was killed when he was in Iran to attend the inauguration of newly elected Iranian President Masoud Pezeshkian.

As Mint reported earlier, the rising threats and provocative actions from both sides have heightened fears of an imminent war. The United States is reinforcing its military presence in the region in response to the escalating situation.

Investors across the globe are keenly observing the evolving situation. If the war escalates from the current levels, it will be hit market sentiment strongly.

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3. Stretched valuation

The Indian stock market's current valuation is stretched and experts say the market is ripe for a healthy correction.

Valuations in India, driven mainly by sustained liquidity flows, continue to be high, particularly in the mid and small-cap segments. The overvalued segments of the market, like defence and railways, are likely to come under pressure. The buy-on-dips strategy, which has worked well in this bull run, is likely to be threatened now. Investors need not rush to buy in this correction. Wait for the market to stabilise," said Vijayakumar.

According to the equity research platform Trendline, the current PE (price to earnings) ratio of Nifty 50 is 23.1, above its two-year average PE of 21.9. The index's PB (price to book) ratio, at 4.17, is slightly above its two-year average PB of 4.09.

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4. Unimpressive Q1 result

India Inc.'s June quarter (Q1FY25) result has been mixed and failed to cheer market sentiment. As the current market valuation remains high, experts fear the earnings may not be able to sustain it.

The rally in the recent past has been supported by earnings growth, but experts see some moderation in the earnings of several sectors, which has potentially triggered some profit booking in the market.

5. Technical factor: Nifty 50 falls below 20-DMA

The Nifty 50 fell below the 20-day moving average, which signals weak market sentiment.

Some experts believe the market may bounce back if it closes above 24,400. However, the index could see a deeper correction if it falls below 24,000 on a closing basis.

Shrikant Chouhan, the head of equity research at Kotak Securities, pointed out that after a long time, the Nifty closed below the 20-day SMA (simple moving average), which is largely negative.

Nifty also formed a long bearish candle on daily charts, which supports further weakness from the current levels.

"The current market texture is weak and volatile, but due to temporary oversold conditions, we can expect one intraday pullback rally. For the day traders now, 24,000 would be the immediate reference point. Above this, intraday pullback up to 24,150-24,250 may be seen," said Chouhan.

"On the flip side, below 24,000, the selling pressure is likely to accelerate. Below this, it could retest the level of 23,900. Further downside may also continue, which could drag the index to 23,800," said Chouan.

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