Stock Markets in 2011: How the year unfolded…

The Indian markets on account of its domestic issues alongwith global chaos were one of the worst performers with atleast 23% decline in 2011

The BSE Sensex showed smart recovery in the years 2009 (up by 81%) and 2010 (up by 17%) post-2008 crisis when the index had posted a worst fall of 52% in a single year. But, 2011 again was a disappointing year for the Indian markets, with the Sensex falling by 23% — the biggest decline among the world's largest equity markets. The global factors such as snowballing eurozone crisis and fears of a possible US double-dip recession were the main reasons behind India's worst fall. Further, nine letter word 'inflation' was the topmost concern, which remained high and to control that the RBI raised interest rates seven times this year. Whereas in December, the RBI pressed a pause button in its rate tightening cycle. A series of hikes slowed down growth and also dampened sentiments. Markets struggled to rise above the burdens of high inflation, high interest rates, concerns over moderation in growth, slowing corporate earnings and political instability over the 2G spectrum scandal. Looking at multiple headwinds on the political and economic front, foreign institutional investors (FIIs) found Indian equities risky and stayed away for most of the time in the year 2011 as prevailing valuations didn't enthuse them.

Rupee also took the breadth away and saw a record fall against the dollar in 2011. High commodity prices also added pressure.

External factors such as the ongoing European debt crisis weighed as confusion remains despite the bailout package for Greece and liquidity infusion by central banks. All this put together led markets lower throughout the year. Market players completely lost interest in the stocks and remained cautious while taking any positions.

As markets slipped lower and lower, interest rates rose and other asset classes, such as gold and bonds, saw investor inflows and higher returns. Amid volatility in risky assets and poor outlook for the dollar, gold prices saw a sustained rally in 2011. MCX gold prices have increased 33.8% year-to-date. Global growth fears and uncertain economic outlook spelt good news for gold demand.

See Sensex movement over the span of 10 years:

Sensex	% Change
2002	4
2003	73
2004	13
2005	42
2006	47
2007	47
2008	-52
2009	81
2010	17
2011	-23

What to expect in 2012:

Global events—mainly those in the Eurozone— may decide the course Indian markets in 2012. Markets across the globe, including India, are expected to remain volatile for some more time. The problems—both local and global—call for painful and longer term solutions. India has been in even worse situations in the past, and emerged from it quiet well. Calendar 2012 could well turn out to be a year of consolidation, as government and the industry try to regain their credibility, and figure out a more meaningful and sustainable growth model.