

US Elections and Chinese Stimulus Impact Recent FPI Selloff in India

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What's in today's article?

- Why in News?
- Benchmark Indices in India
- Factors triggering FPI selloff

Why in News?

Benchmark indices faced renewed selling pressure on November 4, with all sectoral indices declining in early trade. The selloff was triggered by multiple factors, primarily external ones, which outweighed domestic influences.

Benchmark Indices in India

- **About**
 - Benchmark indices in India are key indicators of the overall performance of the stock market.

- They represent a selection of top-performing companies and are used to gauge market trends and investor sentiment.

- **Main benchmark indices**

- **Sensex (BSE Sensex)**
 - This is the benchmark index of the Bombay Stock Exchange (BSE), comprising 30 of the largest and most actively traded stocks on the BSE.
 - Established in 1986, the Sensex reflects the performance of companies from various sectors, such as finance, IT, and manufacturing, and serves as a barometer for the Indian economy.
- **Nifty 50 (NSE Nifty)**
 - The Nifty 50 is the benchmark index of the National Stock Exchange (NSE), comprising 50 large-cap companies across 14 sectors.
 - Launched in 1996, it provides a broader representation of the market compared to the Sensex and is widely used by investors as a benchmark for mutual funds and ETFs.

- **Importance of Benchmark Indices**

- **Market Trends:** They indicate the direction of the stock market, helping investors understand bullish or bearish trends.
- **Performance Gauge:** Indices serve as performance benchmarks for mutual funds and portfolio managers.
- **Economic Health:** Movements in these indices often reflect the health and stability of the economy, as they are influenced by corporate earnings, market sentiment, and economic policies.

Factors triggering FPI selloff

- **Domestic triggers**

- The market's bearish sentiment is partly due to concerns over weak corporate outlooks and possible earnings cuts, prompting a re-evaluation of stock valuations.
- Additionally, domestic investors, like mutual funds, are not buying enough to offset foreign portfolio investor (FPI) selloffs, unlike previous corrections.
- Furthermore, expectations of an RBI rate cut by December have faded, with persistent inflation risks suggesting any rate cut might be delayed until late 2025.
- These factors are overshadowing hopes for increased government spending, which has remained subdued in the first half of the fiscal year.

- **US elections-linked volatility, Fed trajectory**

- Indian markets are experiencing heightened volatility due to the close U.S. presidential election, with a potential Trump win viewed as favorable for U.S. stocks and the dollar but negative for treasuries.
- Additionally, the Federal Reserve's upcoming policy meeting on November 6-7 has raised concerns that rates might be held steady, dampening hopes for further rate cuts.
- The biggest external factor, however, is China, as FPIs shift focus there amid India's overvaluation concerns and lackluster corporate earnings.
- This pivot is driving aggressive FPI selling in Indian markets.

- **China Factor**

- As the U.S. election unfolds, China's Standing Committee of the National People's Congress is holding a significant meeting expected to result in a major economic stimulus package.
 - This package may fund land and property purchases, bank recapitalizations, provincial debt refinancing, and household support.
 - If Trump wins, tariffs of over 50% on Chinese goods could lead to a 2% drop in China's growth, prompting an even larger stimulus response.
 - Analysts predict China's stimulus could reach 2-3% of its GDP annually if Trump secures a second term, potentially reducing India's appeal to FPIs.
 - Additionally, on November 1, **China's central bank introduced a \$70 billion stimulus injection**—the largest since COVID-19—to address liquidity concerns and revive bank lending after recent economic growth slowed to a five-quarter low.
 - This substantial fiscal move signals China's commitment to stabilizing its economy, with potential ripple effects across global markets, including India.
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Q.1. What triggered the recent FPI selloff in Indian markets?

The FPI selloff was primarily driven by external factors, including volatility linked to the US elections, concerns over sluggish corporate earnings, and a significant pivot towards Chinese markets due to India's overvaluation.

Q.2. How do benchmark indices like Sensex and Nifty 50 relate to market trends?

Benchmark indices serve as key indicators of stock market performance, reflecting trends and investor sentiment. They provide a gauge for mutual funds and help assess the economic health of India.

News: US elections and the Chinese stimulus: two triggers that outweighed domestic factors in Monday's FPI selloff
| Financial Express

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