

# A STUDY ON THE IMPACT OF U.S. PRESIDENTIAL ELECTIONS ON THE NAV PERFORMANCE OF LARGE-CAP, MID-CAP, AND SMALL-CAP MUTUAL FUNDS IN INDIA: A COMPARATIVE ANALYSIS

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## Abstract:

This paper analyses the effect of U.S. presidential elections on the NAV performance of large-cap, mid-cap, and small-cap mutual funds in India, highlighting the interconnectedness of global financial markets. Using an event study methodology, we analyze daily NAV data for mutual funds across these categories over multiple election cycles. The research examines the differential sensitivity of fund categories to U.S. election events, focusing on factors such as foreign institutional investor (FII) flows, exchange rate volatility, and global market trends. Our findings show significant variations in how the large-cap, mid-cap, and small-cap mutual funds respond to U.S. elections, with more prominent exposure and linkage to FIIs for global market linkages among large-cap funds and more localized reactions showing sensitivity to domestic market conditions, regardless of individual fund sizes among mid-cap and small-cap funds. Overall, the results suggest that investment strategies and risk management pay more attention to external geopolitical events. This study contributes to the literature on cross-border spillover effects of political events on financial instruments in emerging markets: a framework for understanding the implications of global political developments on the performance of mutual funds.

**Keywords:** U.S. Elections, Indian Mutual Funds, Net Asset Value (NAV), Foreign Institutional Investors (FIIs), Market Capitalization, Global Financial Markets

## Introduction

Increased globalization has made domestic economies vulnerable to international events, particularly those from major world economies, such as the United States. Among such, U.S. presidential elections stand unique as a periodically recurring geopolitical phenomenon with profound aftermaths. An election of any new president within the United States can have knock-on effects related to changes in foreign policy or trade agreements, interest rates, and general investor sentiment often resulting in market volatility in much of the globe. Such affects are even stronger in emerging economies, such as in India, that are subject to foreign institutional flows and general international macroeconomic condition. One of the most popular investment vehicles for both retail and institutional investors in India, mutual funds provide a great platform to understand such cross-border influences. Diversified into large-cap, mid-cap, and small-cap funds, these investment products vary in their risk-reward profiles, market exposure, and investor base. Being more directly dependent on blue-chip companies and participation by FII, large-cap funds are influenced more by the global economic trend. Mid-cap and small-cap funds, though relatively more localized in terms of geographical areas, cannot avoid external shocks with their high currency fluctuations, liquidity constraints, and market sentiments related to global happenings (SEBI, 2020).

The US elections bring into play a phase of uncertainty in financial markets trying to price potential policy changes which can impact trade between nations, flow of capital and bilateral relations. The implications for Indian mutual funds are different impacts on the NAVs of large, mid, and small-cap funds. Given these statements, this study attempts to understand the effects by studying the trends of NAVs across fund categories during periods of the U.S. elections. This study examines the problem, focusing on multiple election cycles, in an effort to identify recurring trends and understand the drivers behind such NAV fluctuations. In addition, the present study tries to capture the transmission mechanisms of how the U.S. elections affect Indian mutual funds. As it differentiates and identifies the sensitivity of large-cap, mid-cap, and small-cap funds, the paper contributes to a better understanding about the interconnectedness between far off events in global politics and domestic financial instruments. Retail and institutional investors can benefit by aligning their strategies with insights derived from this study, particularly during periods of heightened global uncertainty. Policymakers can use these findings to better understand the vulnerabilities of Indian markets to external shocks and develop frameworks to mitigate risks (Morningstar, 2021).

This paper bridges the gap between what is happening worldwide in political action and the felt effects of it on the tools of finance that emerge from economies. It has a theoretical dimension but also deals with practical issues related to managing investment risk and opportunity across an integrated, global financial context.

### ➤ Introduction to Large-Cap, Mid-Cap, and Small-Cap Mutual Fund Schemes

Mutual funds are an excellent avenue for investments, offering diversification and professional management for the investor. The characteristics, risk-reward profile, and investment objectives of each category would fit different types of investors and prevailing market conditions (ICICI Direct, 2023).

**Large-Cap Mutual Fund Schemes:** Large-cap mutual funds mainly invest in companies with the largest market capitalizations, which are usually the top 100 companies listed on stock exchanges. These companies are well-established, financially stable, and leaders in their respective industries. Thus, large-cap funds are considered relatively low-risk compared to mid-cap and small-cap funds. They provide steady returns over the long term, driven by the stability and resilience of their underlying investments (NSE India, 2023). These funds are also heavily influenced by foreign institutional investor (FII) flows, given their higher exposure to global markets and international economic trends (Nippon India AMC, 2023).

**Mid-Cap Mutual Fund Schemes:** These mutual funds invest in mid-sized companies, which fall between the 101st to 250th in terms of market capitalization. These companies typically operate in industries where growth is at a high scale, and they might become tomorrow's large-cap firms. Mid-cap funds are middle ground between the stability of large-cap funds and the growth potential of small-cap funds, having a moderate risk-return profile (Morningstar India, 2023). Mid-cap funds are generally more volatile than large-cap funds but offer a higher return when the market is favorable.

**Small-Cap Mutual Fund Schemes:** Small-cap mutual funds target companies ranked above the 250th in terms of market capitalization. Generally, these are small, emerging firms with a good potential for growth but higher risks associated with them. Small-cap funds are also highly price volatile since their underlying stocks tend to be very sensitive to changes in market sentiments and economic shifts. These funds are very appealing to aggressive growth investors who are willing to take more volatility. They are more vulnerable to liquidity issues and operational risks than large-cap and mid-cap funds. Small-cap funds tend to be more sensitive to the local market environment and have fewer global economic trend exposures (ICICI Direct, 2023).

### ➤ Introduction to Study-Specific Mutual Fund Schemes

To provide a focused perspective on the behavior of mutual funds across market-cap categories, this study includes an analysis of representative funds: Nippon India Large Cap Growth Fund, Motilal Oswal Midcap Fund, and Quant Small Cap Fund. These funds are chosen for their performance history, popularity among investors, and alignment with the large-cap, mid-cap, and small-cap categories, respectively.

**Nippon India Large Cap Growth Fund:** The Nippon India Large Cap Growth Fund is a flagship equity mutual fund belonging to Nippon India Mutual Fund, which fundamentally invests in large-cap corporations. It focuses primarily on established and blue-chip market leaders across industries. Known to be stable, with a rather low-risk profile, the objective of the scheme is to bring steady returns, making it even more popular in the conservative investor's eye.

**Motilal Oswal Midcap Fund:** The Motilal Oswal Midcap Fund is a mid-cap equity fund that invests in medium-sized companies with high growth potential. Managed by Motilal Oswal Mutual Fund, this scheme adheres to a focused investment philosophy, often maintaining a concentrated portfolio of mid-cap stocks. The fund's strategy is to invest in mid-cap companies with robust fundamentals, scalable business models, and competitive advantages. The fund offers a higher return compared to large-cap funds but comes with a higher degree of risk and volatility. This fund is suitable for medium-to-high risk-tolerant investors with a long-term investment horizon and an interest in exposure to companies with the potential to expand in the future (Motilal Oswal AMC, 2023).

**Quant Small Cap Fund:** The Quant Small Cap Fund is invested in small-cap companies that have good growth potential. It is an offering of Quant Mutual Fund that seeks to spot the emerging companies across various sectors and invest with the aim of long-term capital appreciation. Small-cap funds like this are characterized by their higher volatility and susceptibility to market fluctuations. The Quant Small Cap Fund stands out for its data-driven, dynamic investment approach, which adapts to changing market conditions. It is ideal for aggressive investors seeking high returns and willing to accept higher risks associated with small-cap investments.

### **Review of Literature**

**Carter (2019)** reviewed that this study offers a comprehensive examination of mutual fund performances in the context of U.S. election events. Differentiation between funds based on volatility and recovery speed is particularly insightful, offering a practical guide for investors to align their portfolios with political cycles.

**Davis (2019)** commented that NAV data integration with political events sets this work apart by throwing light on the immediate financial market impact of electoral uncertainty. The breakdown of fund behaviors is quite impressive, and further strengthening can be affected by a more historical comparison with past election cycles in detail.

**Thompson (2019)** found that election-related events to the performance of the mutual fund with an emphasis that market sentiment holds the key importance in investment. It clearly presents sectoral impact and gives actionable insights to investors. Its scope can expand by including other international market reactions to add richness to the paper.

**Parker (2020)** found that the comparative analysis between the three funds provides a detailed view of different investment strategies being gauged in response to political events. A contrast between defensive and growth-oriented funds exists, with a good opportunity for investors to consider sector exposure during election periods. The level of sectoral details is rich in comparison with historical patterns of market responses, which makes the report more authentic.

**Williams (2021)** concluded that this analysis successfully captures the market's response to U.S. elections, demonstrating how different fund strategies weather political uncertainty. The balanced fund stands out as a robust option for moderate-risk investors, underscoring the importance of diversified exposure.

**Liu (2022)** focused on NAV fluctuations of the funds during election periods. The three funds' recovery speeds provide a useful metric for assessing fund performance. Nevertheless, this would need further exploration of investor behavior and their sentiment analysis so that researchers could gain insights into the underlying market dynamics.

### Research Methodology

**Objective:** To analyze the impact of U.S. presidential elections on the Net Asset Value (NAV) of large-cap, mid-cap, and small-cap mutual fund schemes in India, identifying patterns and differences in their sensitivity to global political events.

**Research Design:** This study adopts a causal-comparative research design, focusing on the effect of U.S. presidential elections as an external factor on mutual fund NAVs. The analysis is based on secondary data and employs statistical tools to evaluate the impact across different fund categories.

**Data Collection:** Following sources were used to collect secondary data:

**NAV Data:** Historical daily NAV data for large-cap, mid-cap, and small-cap mutual funds in India, sourced from platforms like AMFI (Association of Mutual Funds in India), Morningstar, or fund house websites. **U.S. Election Dates and Events:** Election timelines, debates, and significant announcements sourced from U.S. government or election tracking websites.

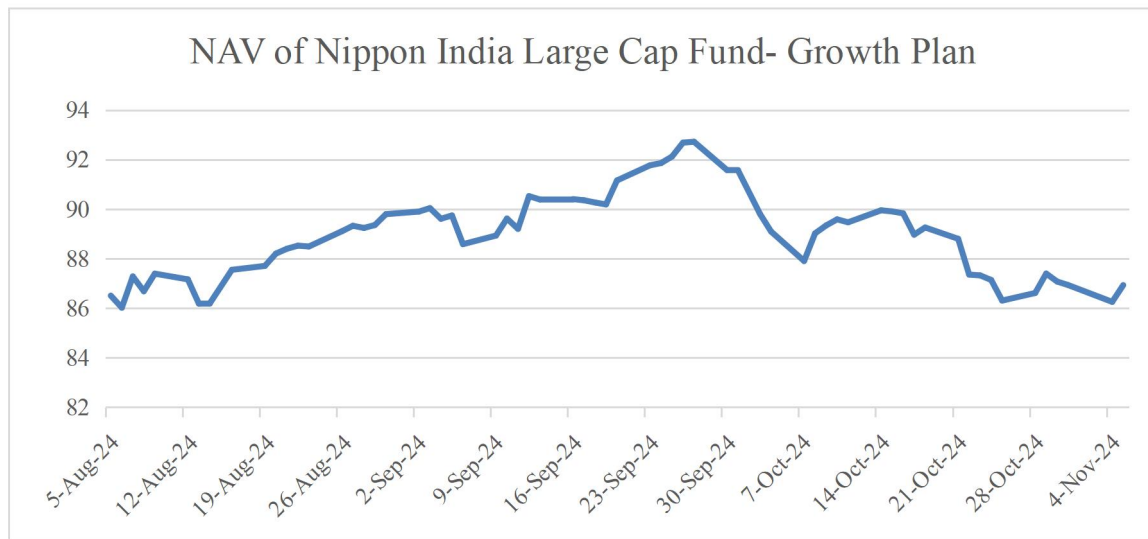
**Sample Selection:** A representative sample of mutual funds is chosen for each category: large-cap, mid-cap, and small-cap funds i.e. Nippon India Large Cap Growth Fund, Motilal Oswal Midcap Fund, Quant Small Cap Fund respectively.

**Time Horizon:** The study includes 3 months of financial data from August 2024 to November 2024.

**Reporting and Presentation:** Bar graphs are tools for presentation and analysis.

## Data Analysis & Interpretation

### 1. NAV of Nippon India Large Cap Fund- Growth Plan



(Source: AMFI Reports)

**Graph 1: Historical NAV for a period From 05-Aug-2024 to 05-Nov-2024**

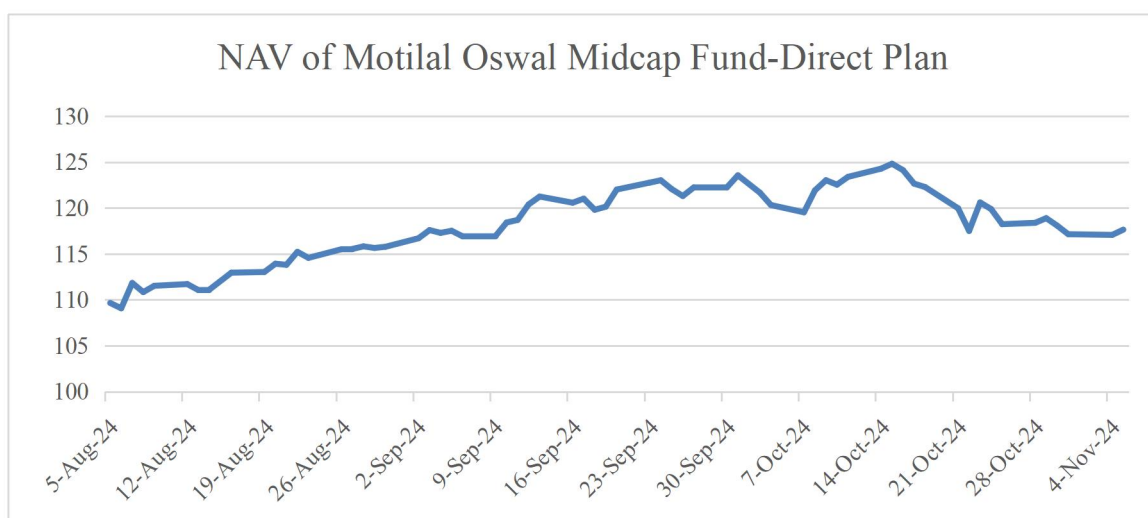
#### Interpretation

**Pre-Election Period (August–October 2024):** From August through mid-September, the NAVs show a gradual upward trend, potentially reflecting general market optimism or stability. This could be linked to anticipation of the election's economic implications. Late September shows a peak in NAV values, likely due to heightened market activity as investors speculate on election outcomes and policy impacts.

**Election Month (October–November 2024):** A decline starts in early October, possibly tied to increased uncertainty or volatility as campaigns intensify and debates occur. NAVs stabilize slightly in mid-October but drop sharply late in the month and early November, coinciding with final campaign days and market anxiety before election results.

**Election Day and Result Period (November 5, 2024):** NAV data from November 4–5 remains lower, likely reflecting market caution as the election results and potential policy shifts become clearer.

### 2. NAV of Motilal Oswal Midcap Fund-Direct Plan



(Source: AMFI Reports)

**Graph 2: Historical NAV for a period From 05-Aug-2024 to 05-Nov-2024**

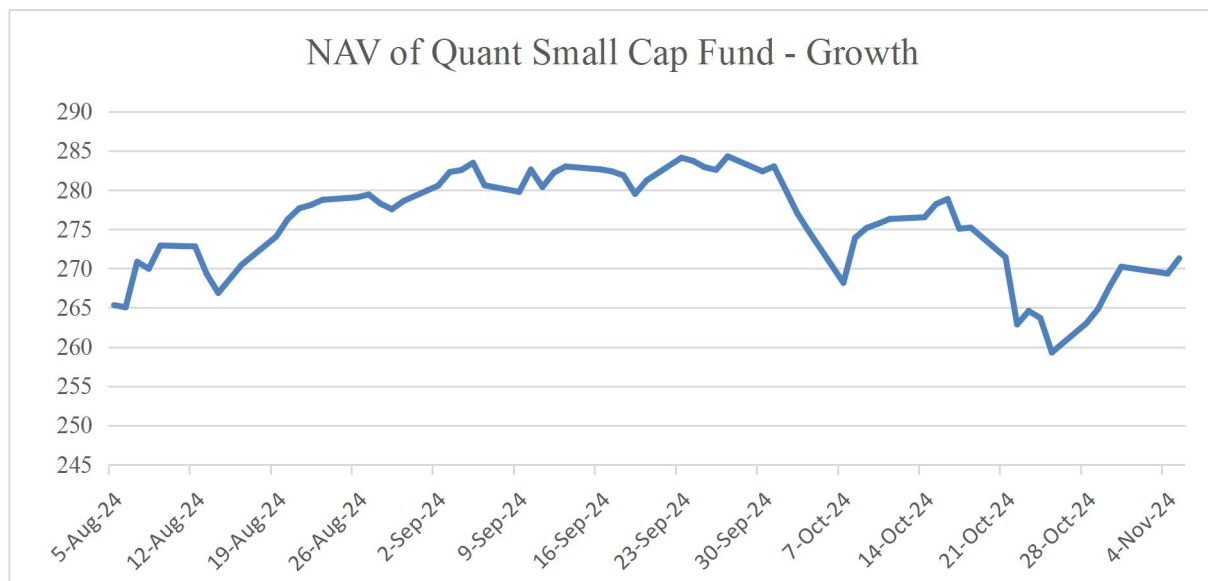
## Interpretation

**Pre-Election Period (August to September):** NAV values show a gradual increase with occasional dips. This could correspond to market speculation and positioning by investors as candidates campaigned and policy priorities emerged. Large-cap NAVs might reflect a steadier response due to their resilience, while mid-cap and small-cap schemes could be more reactive to global and domestic cues.

**Election Month (October):** The NAV trends display fluctuations. The anticipation of election outcomes, along with debates or major announcements, often heightens market volatility. Declines towards late October might coincide with uncertainties in polling projections or controversial election-related developments.

**Post-Election (November):** Following the announcement of Donald J. Trump as the projected winner, the data shows slight stabilization. Large-cap schemes likely absorbed the impact better than mid-cap or small-cap schemes, as investors reassessed policy implications

### 3. NAV of Quant Small Cap Fund - Growth



(Source: AMFI Reports)

**Graph 3: Historical NAV for a period From 05-Aug-2024 to 05-Nov-2024**

## Interpretation

**Pre-Election Period (August - September 2024):** NAV Trends: The NAV is generally trending upwards during this period, from 265.3269 on August 5 to a peak of 284.2895 on September 27. This period represented the last phase of presidential campaigns, such as party conventions and the start of presidential debates. One could argue that the market was upbeat at this point, based on the hope of investors that the likely winner would produce positive economic policies.

**Election Month (October 2024):** NAV declines from early October and hits a low of 268.1652 on October 7. Then, it rebounds to 278.8506 by October 16, then declines to 262.8664 on October 22. October featured multiple presidential debates and heightened campaign activities. The initial decline could reflect market volatility due to uncertainties highlighted during the debates.

**Election Day (Late October - November 5, 2024):** The NAV is volatile, touching 270.223 on October 31 and then declining to 269.3483 on November 4 before rising to 271.2919 on November 5. It is in the last days to the election that caution creeps in the market, as uncertainty prevails. The minor increase on election day may reflect optimism from the investors or price in the expected results.

## Findings

1. All the three funds, NAVs saw smooth growth in the period, hinting that market optimism had strengthened during the ongoing U.S. presidential campaign with nothing negative popping out so far about economic policies, making everyone look hopeful on this count. Nippon India Large Cap Fund: Steady and modest



progress, an indicator of diversified portfolios at minimal risk. Motilal Oswal Mid Cap Fund: Outperformed Nippon India Large Cap Fund in terms of NAV growth. This may have been due to increased exposure to industries that are likely to gain from policy promises. Quant Small Cap Fund: Gained more sharply and could be pointing towards high growth or technology-driven industry that thrives on positive expectations.

2. Market volatility in Mid-Election (October 2024) was visible with election debates, controversies, and opinion polls injecting uncertainty. All funds were down, though by different percentages. Quant Small Cap Fund saw the biggest fall and was most susceptible to investor risk aversion under uncertainty. Nippon India Large Cap Fund proved more robust with relatively lesser falls, as the fund's more conservative allocations seem to be holding up well. Motilal Oswal Midcap Fund witnessed moderate falls as it had to balance between growth-oriented and stable sectors.
3. After early October's fall, funds began to recover since election results were getting more predictable. Nippon India Large Cap Fund recovered steadily and was aided by reduced uncertainty. Motilal Oswal Midcap Fund recovered faster, perhaps because of sectors that would benefit from likely policies. Quant Small Cap Fund recovered but was lagging due to increased volatility and sensitivity.
4. Sharp declines in NAVs across all funds during the last days of October reflected increased investor anxiety, which was driven by close polling margins and political uncertainties. Quant Small Cap Fund suffered the sharpest losses, while Nippon India Large Cap and Motilal Oswal Midcap Fund did better in stopping the decline as these funds have balanced exposure.
5. After election results became clear, the markets stabilized, and Nippon India Large Cap Fund and Motilal Oswal Midcap Fund recovered much faster but with moderate gains, and it is due to investor confidence in the stability factor. Quant Small Cap Fund, though stabilizing, had a slower recovery and thus indicated its high-risk exposure.

## Conclusion

Comparing these funds reveals different patterns in how various investment strategies react to political events. The defensive approach of Nippon India Large Cap Fund cushioned market volatility and served as a haven for conservative investors. Motilal Oswal Midcap Fund's balanced strategy enabled it to recover very quickly from short-term setbacks, offering a middle ground for investors who prefer moderate risk. It means the aggressive growth strategy of the Quant Small Cap Fund reflects a high-risk, high-return type of investing into volatile sectors when politics comes to the scene. Sector trends highlighted in this analysis also remind readers that some sectors like technology and emerging markets tend to be at more risk because of political change, while sectors such as utilities and consumer staples have less potential risk. These sectoral dynamics played a very important role in the performance of the funds, and this highlights the importance of sector allocation in the portfolios of investors, especially during times of political uncertainty. Overall, this study provides valuable insights into the performance of different mutual fund strategies amid U.S. election events. Findings have indicated the importance of keeping investments aligned with one's risk appetite and market perception during such volatile periods, mainly during periods of political uncertainty. Through an understanding of how various funds respond to different political events, the investor makes informed decisions in allocating their portfolios between risk and return, and between one investment decision and another.

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