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*Article*

# A Comprehensive Analysis of Central Bank Policies and Their Influence on Stock and Mutual Fund Markets

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**Abstract**: This study aims to examine the influence of the Reserve Bank of India's (RBI) monetary policy on financial market dynamics, with particular emphasis on the relationship between policy rate adjustments, stock market volatility, and mutual fund performance. It examines the impact of repo changes on share prices, fund flows in equity, debt and hybrid categories, along with investor behaviour during tightening and easing phases of monetary policy. The research is based on a quantitative paradigm using secondary data from the financial market indicators such as repo rate changes, Nifty index values and mutual funds inflows. The amount and the direction of the relationship between market performance indicators and monetary policy variables were measured by correlation and regression analysis through SPSS. The response of mutual fund categories and share prices to the central bank policy changes was estimated using these regression models. Results are indicative of the full effect of the change in repo rate on debt fund inflows being positive, suggesting that investors prefer FISs under monetary tightening conditions. On the other hand, inflows into equity and hybrid funds have a negative association with increasing rates, but only for the hybrid fund is there found to be a significant response. The results also indicate that variations in policy rates account for the modest volatility observed in stock market indicators, and this indicates the spread of monetary policy across investor emotion and liquidity adjustment.

**Keywords:** Monetary Policy, Central Bank Interventions, Investor Behaviour, Financial Markets, Debt Funds, Equity Funds, Hybrid Funds, Monetary Transmission Mechanism, India.

## Introduction

In the Indian economy, banks continue to be the first among equals of Indian economic development where central bank (essentially the RBI) is responsible for maintaining economic stability and sustainable development in general by framing monetary policy in issue (Friedman, 1968; Goodhart,1995). Central banks continuously develop strategies to improve financial literacy and policies that have important impacts on markets, such as equity and mutual fund markets, by determining liquidity conditions, interest rates, and investor sentiments as a whole (Clarida et al., 1999). These effects will need to be understood in the context of capital investment strategy with respect to macroeconomic conditions and their embedded risks. This paper analyses how central bank policies affect stock market and fund performance, with a focus on their implications for investors and policy makers. The instruments employed by central banks, including interest rates, the supply of liquidity and inflation targeting can directly influence market valuation and investor sentiment (Bernanke & Gertler, 1995; Kearns & Mann 2006). Corporate earnings expectations, sector performance and overall market momentum can also be affected by changes in policy rates. For example, falling interest rates frequently boost the earnings potential of corporations and drive up equity valuation while rising rates can cause a shrinking pace of investment and slow down stock-market returns (Neely, 2015; Romer & Romer, 1994). Mutual funds also suffer variations in the