

Recent Trends in Capital Market

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Abstract:

The capital market plays a vital role in mobilizing savings and promoting economic growth by facilitating the flow of long-term funds. Recent trends indicate rapid transformation driven by digital trading platforms, fintech innovations, artificial intelligence, algorithmic trading, and increasing retail investor participation. The expansion of mutual funds, Exchange Traded Funds (ETFs), green finance, and sustainable investing has further diversified investment opportunities. Regulatory reforms and enhanced transparency have strengthened investor confidence and improved market efficiency. However, challenges such as market volatility, cybersecurity risks, and global economic uncertainties continue to influence capital market performance. This study examines the recent trends, emerging opportunities, and key challenges shaping the modern capital market and their implications for investors and economic development.

Keywords: Capital Market, Digital Trading, FinTech, Retail Investors, Sustainable Investing

Introduction

The capital market is an essential component of a country's financial system, facilitating the mobilization of long-term funds from investors to businesses and governments. It plays a significant role in promoting capital formation, industrial development, and economic growth. In recent years, the capital market has undergone substantial transformation due to technological advancements, digital trading platforms,

fintech innovations, and regulatory reforms. The increasing participation of retail investors, the growth of mutual funds and Exchange Traded Funds (ETFs), and the emergence of sustainable and green investments have further reshaped the market landscape. At the same time, globalization, artificial intelligence, and evolving regulatory frameworks have enhanced market efficiency while introducing new

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challenges such as volatility and cybersecurity risks. Therefore, understanding the recent trends in the capital market is essential for investors, policymakers, and researchers to make informed financial and investment decisions.

Capital Market

Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities. Capital market consists of primary markets and secondary markets. Primary markets deal with trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. Another important division in the capital market is made on the basis of the nature of security traded, stock market and bond market.

Primary Market

The primary market is that part of the capital markets that deals with the issuance of new securities. Companies governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors called underwriting in the case of new stock issues this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering; through it can be found in the prospectus. In simple word The Primary

Market is where financial instruments are sold from the issuer to investors.

Secondary Market

The secondary market is the financial market for trading of securities that have already been issued in an initial private or public offering. Alternatively secondary market can refer to the market for any kind of used goods. The market that exists in a new security just after the new issue is often referred to as the aftermarket. Once a newly issued stock is listed on a stock exchange, investors and speculators can easily trade on the exchange, as market makers provide bids and offers in the new stock, in short The Secondary Market is where financial instruments are sold from investor to investor.

Indian Capital Market

The Indian capital market is the financial market for long term loan able funds as distinct from money market which deals short-term fund it refers to the facilities and institutional arrangements for borrowing and lending 'term funds', medium term and long term funds. In principal capital market loans are used by industries mainly for the fixed investment. it does not deal in capital goods but concerned with raising money capital or purpose of investment.

Functions of the Capital Market

The capital market performs several vital functions that contribute to the growth and stability of an economy. It acts as a bridge between savers and investors by mobilizing surplus funds and

channeling them into productive investments, thereby ensuring the efficient allocation of financial resources. The capital market also encourages savings by providing a wide range of secure and profitable investment avenues such as shares, bonds, debentures, and mutual funds, reducing the tendency to invest in unproductive assets like gold or real estate. Furthermore, it promotes investment by enabling governments and business enterprises to raise long-term funds for expansion, infrastructure development, and industrial growth. Through financial institutions and intermediaries, the capital market facilitates the efficient flow of capital, leading to higher investment and employment opportunities. It also plays a crucial role in promoting economic growth by supporting the expansion of trade, industry, and public infrastructure through effective resource allocation. Additionally, the capital market contributes to the stability of security prices by ensuring liquidity, enhancing market efficiency, reducing excessive speculation, and maintaining investor confidence.

Instruments of the Capital Market

Capital market instruments are long-term financial securities used by governments, corporations, and financial institutions to raise capital and by investors to earn returns on their investments. These instruments facilitate the efficient transfer of funds from savers to borrowers and contribute to economic

development. The major instruments of the capital market include equity shares (stocks), which represent ownership in a company; bonds, which are long-term debt securities issued by governments or corporations; and debentures, which are unsecured debt instruments issued by companies to raise funds. Other important instruments include treasury bills and government securities, which are considered low-risk investments, foreign exchange instruments that facilitate international financial transactions, and fixed deposits, which provide fixed returns with relatively low risk. Together, these instruments enhance capital formation, provide investment opportunities, and promote the efficient functioning of the financial system.

Review of Literature

Mayya (1977) Barua and Raghunathan (1982) and Prabhakar (1989): examined empirically the hedge provided by stocks and bullion against inflation. These studies found that while gold provided complete hedge against inflation, silver and stock were only partial hedges against inflation. Rao and Bhole (1990) arrive at a similar conclusion about stocks. However, as these works pertain to the period prior to the booming 1980's and 1990's, the conclusion that stocks are not an inflation hedge is of doubtful validity today. A similar study covering the more recent years would be very useful as one may reach a very different conclusion. With a booming stock market since the second half of eighties and the stagnation in the

international price of gold, such a study may find that stocks and not gold provide complete hedge against inflation. The issue of inflation hedge has also been researched in the context of stocks. Pandya (1992) observes that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for allocative efficiency in the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for the protection of the investing public.

These above studies only focus on the changes in the stock market and SEBI so it is concluded that this study does not focus on all the major changes in the capital market

Objectives of the Study

1. To study the recent trends and progress in capital market To Study the highlights in capital market
2. To examine the role of capital market in sustainable development

Research Methodology

This study is based on a descriptive and analytical research design. It relies primarily on secondary data collected from books, research journals, government publications, annual reports, stock exchange publications, reports of the Securities and Exchange Board of India (SEBI), the Reserve Bank of India, the National Stock Exchange of India, the

Bombay Stock Exchange, and other reliable online sources. The collected data are systematically analyzed using qualitative and descriptive techniques to examine the recent trends, developments, opportunities, and challenges in the capital market. The study focuses on understanding the changing dynamics of the capital market and its contribution to investment, financial stability, and economic growth. The findings are presented through a comprehensive review and interpretation of the available literature and secondary data.

Recent Trends in the Capital Market

The Indian capital market has witnessed significant transformation since the economic liberalization of 1991. Financial sector reforms, industrial deregulation, trade liberalization, and the opening of the economy to foreign investment have strengthened the capital market and enhanced investor confidence. The establishment of the Securities and Exchange Board of India as an autonomous statutory regulator has improved transparency, investor protection, and market efficiency. The introduction of electronic trading systems, dematerialization of securities, online trading platforms, and advanced settlement mechanisms has made the market more accessible and efficient.

In recent years, the capital market has experienced rapid growth due to increased retail investor participation, the expansion of mutual funds and Exchange Traded Funds (ETFs), and the adoption of digital

technologies such as artificial intelligence, algorithmic trading, and fintech innovations. The growing popularity of sustainable investing, Environmental, Social, and Governance (ESG) funds, and green bonds has further diversified investment opportunities. Financial institutions such as National Bank for Agriculture and Rural Development, Export-Import Bank of India, and Small Industries Development Bank of India continue to support capital formation by providing long-term finance to key sectors of the economy. Overall, these developments have enhanced the efficiency, transparency, and global competitiveness of the Indian capital market while contributing significantly to economic growth and financial inclusion.

Recent Trends in the Indian Capital Market

The Indian capital market has witnessed remarkable growth and transformation over the past three decades, particularly after the economic liberalization reforms of 1991. Liberalization, privatization, and globalization policies encouraged greater participation from private enterprises and foreign investors, resulting in increased capital formation and improved market efficiency. The strengthening of the Securities and Exchange Board of India as the apex regulatory authority has enhanced transparency, investor protection, corporate governance, and market discipline, thereby increasing investor confidence in the Indian financial

system.

One of the most significant developments has been the introduction of electronic trading, online investment platforms, dematerialization (Demat) of securities, and technology-driven settlement systems. The establishment and rapid growth of the National Stock Exchange of India, along with the modernization of the Bombay Stock Exchange, have revolutionized securities trading by improving liquidity, transparency, and price discovery. The adoption of T+1 settlement, real-time market information, and digital payment systems has further increased the speed and efficiency of transactions.

Another important trend is the substantial increase in retail investor participation. The widespread use of smartphones, internet-based trading applications, and low-cost brokerage services has encouraged millions of new investors to participate in the stock market. The rapid growth of mutual funds, Systematic Investment Plans (SIPs), Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), and Infrastructure Investment Trusts (InvITs) has diversified investment opportunities and promoted financial inclusion. Merchant banking services and institutional investors have also contributed significantly to capital mobilization and investment.

The Indian capital market has become increasingly integrated with global financial markets through higher levels of

Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). The replacement of the Foreign Exchange Regulation Act (FERA) with the Foreign Exchange Management Act (FEMA), along with liberalized investment policies, has attracted greater foreign capital into the country. Financial institutions such as National Bank for Agriculture and Rural Development, Export-Import Bank of India, and Small Industries Development Bank of India continue to play a vital role in supporting industrial, agricultural, and export-oriented investments.

Recent years have also witnessed the emergence of innovative financial products and technologies. Artificial intelligence (AI), machine learning, algorithmic trading, blockchain technology, and fintech innovations have significantly improved trading efficiency, risk management, and investment decision-making. Sustainable finance has gained momentum with the introduction of green bonds, ESG (Environmental, Social, and Governance) investing, and socially responsible investment funds. At the same time, SEBI has strengthened regulations relating to insider trading, disclosure requirements, cybersecurity, risk management, and investor education, making the market safer and more transparent.

Overall, these recent developments have transformed the Indian capital market into a modern, technology-driven, and globally competitive financial system. The increasing participation of domestic

and foreign investors, continuous regulatory reforms, digital innovations, and diversified investment instruments have strengthened the role of the capital market in mobilizing long-term savings, promoting entrepreneurship, supporting industrial development, and accelerating the economic growth of India.

Highlights of the Capital Market

The Indian capital market has experienced significant growth over the years and has emerged as a vital source of long-term finance for economic development. Although the market has expanded considerably, its overall size and depth remain relatively small compared to the country's growing economy, indicating the need for further development. A major priority is to broaden the investor base by encouraging participation from rural, semi-urban, and underdeveloped regions through improved financial literacy, digital investment platforms, and the expansion of financial institutions.

The introduction of innovative financial instruments, such as non-voting shares, equity warrants, Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), and green bonds, has diversified investment opportunities and strengthened the capital market. These instruments provide companies with alternative sources of capital while offering investors a wider range of investment options. The promotion of venture capital and private equity funds

has also encouraged entrepreneurship, innovation, and the growth of start-up enterprises by providing financial support to high-risk, high-growth businesses.

Another important highlight is the increasing emphasis on sector-specific financing. The expansion of housing finance institutions has improved the availability of long-term funds for the housing sector, contributing to infrastructure development and economic growth. Similarly, the introduction of money market instruments such as Commercial Paper (CP) has reduced pressure on long-term capital by providing businesses with an efficient source of short-term financing.

Technological advancements, regulatory reforms by the Securities and Exchange Board of India, and greater participation from domestic and foreign investors have further strengthened the Indian capital market. The adoption of electronic trading, dematerialization of securities, faster settlement systems, and enhanced corporate governance has increased transparency, liquidity, and investor confidence. Collectively, these developments have transformed the Indian capital market into a more efficient, competitive, and globally integrated financial system capable of supporting sustainable economic growth.

Role of the Capital Market in Economic Development

The capital market plays a crucial role in the economic development of a country

by mobilizing long-term savings and channeling them into productive investments. It serves as an efficient platform for transferring funds from savers to businesses, industries, and governments, thereby facilitating capital formation and accelerating economic growth. By providing a wide range of financial instruments such as shares, bonds, debentures, and mutual funds, the capital market encourages savings and promotes investment across various sectors of the economy.

An efficient capital market ensures the optimal allocation of financial resources by directing funds toward productive and profitable investment opportunities. This enhances industrial expansion, infrastructure development, employment generation, and technological innovation. The market also improves the efficiency of the financial system by promoting competition among financial institutions and reducing the overall cost of raising capital. Through market-based pricing mechanisms, it facilitates the determination of interest rates and security prices based on demand and supply, leading to efficient resource allocation.

The capital market contributes significantly to financial stability by reducing excessive dependence on the banking system for long-term finance. It provides alternative sources of funding through equity and debt instruments, thereby diversifying financial risks across the economy. Furthermore, the development of innovative financial

products such as Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), green bonds, and corporate bonds has expanded investment opportunities and strengthened financial inclusion.

Another important role of the capital market is enhancing corporate governance and transparency. Regulatory bodies such as the Securities and Exchange Board of India ensure fair trading practices, investor protection, and disclosure of financial information, thereby increasing investor confidence. Continuous trading in the stock market enables the market-based valuation of companies, encouraging firms to improve their operational efficiency, profitability, and corporate performance.

Moreover, the capital market attracts both domestic and foreign investments, which contribute to technological advancement, infrastructure development, and overall economic progress. The increasing adoption of digital trading platforms, fintech innovations, artificial intelligence, and sustainable investment practices has further strengthened the role of the capital market in supporting inclusive and sustainable economic development. Thus, a well-developed and efficiently regulated capital market is an indispensable pillar of a modern economy, fostering investment, financial stability, entrepreneurship, and long-term economic growth.

Present Indian Capital Market

The Indian capital market has emerged as one of the fastest-growing and most dynamic financial markets in the world. It provides an efficient platform for mobilizing long-term savings and channeling them into productive investments, thereby contributing significantly to the country's economic growth. Over the past three decades, the market has undergone remarkable transformation through economic liberalization, technological advancements, regulatory reforms, and increased participation from domestic and foreign investors. Today, the Indian capital market is supported by world-class financial infrastructure, modern stock exchanges, and a robust regulatory framework.

The two major stock exchanges—the Bombay Stock Exchange and the National Stock Exchange of India—provide an efficient and transparent trading platform for a large number of listed companies across diverse sectors. The introduction of electronic trading, dematerialization (Demat) of securities, online investment platforms, and T+1 settlement systems has significantly improved market efficiency, liquidity, and transparency. These technological advancements have made investing more accessible to retail investors throughout the country.

The Indian capital market has also witnessed a substantial increase in the participation of mutual funds, insurance

companies, pension funds, foreign portfolio investors (FPIs), and retail investors. Innovative investment products such as Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), green bonds, and sovereign gold bonds have further diversified investment opportunities. Strong regulatory oversight by the Securities and Exchange Board of India has strengthened investor protection, corporate governance, and market transparency, making the Indian capital market more reliable and globally competitive.

Despite periodic fluctuations caused by global economic conditions, geopolitical uncertainties, inflation, and interest rate changes, the Indian capital market has demonstrated remarkable resilience and sustained growth. Increasing foreign investment, rapid digitalization, fintech innovations, and a growing investor base continue to strengthen the market. With continuous policy reforms, improved financial literacy, and expanding participation from domestic and international investors, the Indian capital market is well-positioned to support long-term capital formation, industrial development, and sustainable economic growth.

Conclusion

The capital market is a cornerstone of the financial system and plays a significant role in promoting economic growth by mobilizing long-term savings

and channeling them into productive investments. It provides liquidity, facilitates capital formation, and offers diverse investment opportunities for individuals, corporations, and governments. The development of a well-regulated capital market reduces dependence on the banking sector for long-term finance and enhances financial stability through efficient resource allocation and risk diversification.

In India, the capital market has undergone remarkable transformation since the economic reforms of 1991. Regulatory initiatives by the Securities and Exchange Board of India, technological advancements such as electronic trading, dematerialization, digital investment platforms, and faster settlement systems have significantly improved market efficiency, transparency, and investor confidence. The increasing participation of retail investors, mutual funds, foreign institutional investors, and the introduction of innovative financial instruments have further strengthened the market.

Although challenges such as market volatility, global economic uncertainties, cybersecurity risks, and regulatory compliance continue to exist, the Indian capital market has demonstrated resilience and sustained growth. Continuous policy reforms, financial innovation, and stronger corporate governance have enhanced its competitiveness in the global financial system. Therefore, a robust and well-functioning capital market remains

essential for achieving sustainable economic development, encouraging entrepreneurship, supporting infrastructure financing, and ensuring long-term financial stability in India.

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