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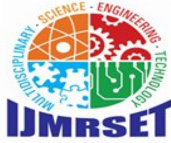

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Impact of Inflation on Gold and Equity Returns in India

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ABSTRACT: This study examines the impact of inflation on gold and equity returns in India during the period from 2019 to 2025. Inflation is an important economic factor as it affects the purchasing power of money and influences investment decisions. The main objective of the study is to understand how gold and equity behave under different inflation conditions and to compare their performance.

The study is based on secondary data collected from reliable sources such as the Reserve Bank of India, National Stock Exchange, and other financial platforms. Inflation is measured using the Consumer Price Index (CPI), while gold prices and Nifty 50 index values are used to calculate returns. Simple analytical tools such as trend analysis, comparative analysis, and correlation analysis have been used to interpret the data.

The findings show that gold has a positive relationship with inflation, indicating that it can act as a partial hedge during periods of rising prices. On the other hand, equity returns do not show a strong relationship with inflation and are influenced by other factors such as economic growth and market conditions. It is also observed that gold performs better during high inflation and uncertain periods, while equities perform better during stable economic conditions.

The study concludes that both gold and equity play different roles in an investment portfolio. A combination of both can help in reducing risk and improving overall returns. The results of this study are useful for investors in making better investment decisions based on changing economic conditions.

KEYWORDS: Inflation, Gold Returns, Equity Returns, Nifty 50, Investment Analysis

I. INTRODUCTION

Inflation is one of the most important factors that affects the economy as well as investment decisions. It refers to the general rise in prices of goods and services over time, which reduces the purchasing power of money. When inflation increases, the value of money decreases, and this creates a challenge for investors who want to protect and grow their wealth. Because of this, understanding how different investments react to inflation becomes very important.

In India, inflation plays a major role in influencing financial markets. Changes in inflation can affect interest rates, consumption patterns, and overall economic growth. As a result, investors closely follow inflation trends while making decisions about where to invest their money. During periods of high inflation, investors usually look for assets that can protect their value, while during stable periods, they may focus more on growth-oriented investments.

Among the various investment options available, gold and equity are two of the most commonly used asset classes. Gold has traditionally been considered a safe and reliable investment. It is often used as a hedge against inflation and economic uncertainty because its value tends to increase when the value of money falls. On the other hand, equity investments represent ownership in companies and are mainly aimed at long-term growth. Equity markets can generate higher returns, but they are also affected by economic conditions and market fluctuations.

The relationship between inflation and these two asset classes is different. Gold is generally expected to perform well during periods of rising inflation, while equity performance depends on multiple factors such as corporate earnings,

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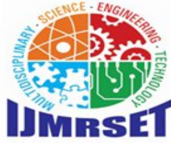

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interest rates, and investor confidence. In some cases, inflation may negatively affect equity markets, especially when it leads to higher costs and lower profitability for companies.

The period from 2019 to 2025 is particularly important for this study as it includes different economic conditions such as the pre-pandemic phase, the COVID-19 crisis, the recovery period, and recent inflationary pressures. These events have had a significant impact on both gold and equity markets, making this period useful for analysis.

This study focuses on examining how inflation affects gold and equity returns in India and compares their performance under different economic conditions. It aims to provide a clear understanding of how these asset classes behave and how they can be used effectively in investment decisions.

II. LITERATURE REVIEW

Several studies have examined the relationship between inflation, gold, and equity returns, highlighting different patterns in how these assets behave under changing economic conditions. Early work by Irving Fisher explained that inflation influences investment returns, suggesting that returns should adjust to maintain purchasing power. However, later research shows that this relationship is not always consistent in real markets.

Many studies have focused on equity markets and found that inflation often has a negative impact on stock returns. Researchers like Fama and Schwert observed that higher inflation can reduce corporate profitability and investor confidence, leading to weaker market performance. At the same time, equity returns are influenced by multiple factors such as economic growth, interest rates, and market conditions, making their relationship with inflation complex and not always direct.

In contrast, gold is widely considered an important asset during inflationary periods. Several studies have shown that gold has a positive relationship with inflation, especially in the long run. It is often viewed as a safe-haven asset that helps preserve value during economic uncertainty. Gold tends to perform well when inflation is high or when financial markets are unstable.

However, some researchers argue that gold is not a perfect or consistent hedge against inflation. Its performance may vary depending on global conditions, investor sentiment, and other economic factors. This suggests that gold acts as a conditional hedge rather than a guaranteed one.

Recent studies also highlight the importance of diversification. Gold and equity generally have a low or weak correlation, which means they do not move in the same direction. This makes it beneficial for investors to include both assets in a portfolio to reduce risk and improve returns.

Despite existing research, there is limited focus on recent periods that include major events such as the COVID-19 pandemic and rising inflation. Also, many studies analyze gold and equity separately rather than together. Therefore, this study provides a simple and comparative analysis of these variables in the Indian context for the period 2019 to 2025.

III. METHODOLOGY

This study follows a descriptive and analytical research design to examine the impact of inflation on gold and equity returns in India. The analysis is based entirely on secondary data collected from reliable and publicly available sources such as the Reserve Bank of India (RBI), Ministry of Statistics and Programme Implementation (MOSPI), National Stock Exchange (NSE), and financial platforms like BankBazaar and PrimeInvestor.

The study covers a period of seven years from 2019 to 2025. This period has been selected to capture different economic phases including pre-pandemic conditions, the COVID-19 crisis, high inflation periods, and economic recovery. The focus is limited to the Indian context and considers only two asset classes, gold and equity.

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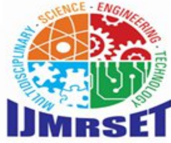

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Inflation is measured using the Consumer Price Index (CPI), while gold returns are calculated based on annual percentage changes in gold prices. Equity returns are represented using the Nifty 50 index, which reflects the performance of major companies in the Indian stock market.

The data has been analyzed using simple and practical tools such as trend analysis, comparative analysis, and correlation analysis. Pearson's correlation coefficient has been used to measure the relationship between inflation and asset returns. In addition, descriptive statistics such as mean and standard deviation have been calculated using Microsoft Excel to understand the average performance and variability of the data.

The methodology is designed to provide a clear and practical understanding of how inflation affects different asset classes and to compare their performance under varying economic conditions.

Table: Variables and Measurement

Variable	Type	Measurement Method
Inflation (CPI)	Independent	Annual % (CPI data)
Gold Returns	Dependent	Annual % change in gold prices
Equity Returns (Nifty 50)	Dependent	Annual % change in index values

Table: Data Sources Used

Data Type	Source Used
Inflation (CPI)	RBI, MOSPI
Gold Prices	BankBazaar, financial platforms
Equity Data	NSE, PrimeInvestor

IV. DATA ANALYSIS

This section presents the analysis of the relationship between inflation, gold returns, and equity returns in India for the period 2019 to 2025. The data has been organized year-wise and converted into percentage form to ensure consistency and easy comparison.

Trend analysis shows that inflation fluctuated during the study period, with a sharp increase during 2020 and 2022 due to pandemic-related disruptions and global economic factors. After 2022, inflation gradually declined, indicating economic stabilization.

Gold returns showed high variation across the years. A significant rise was observed in 2020 due to uncertainty during the COVID-19 period. Gold also performed well in later years when inflation and global risks were high. This indicates that gold responds positively to uncertain and inflationary conditions.

Equity returns, represented by the Nifty 50 index, showed resilience with strong recovery after the pandemic. Although there was some decline during high inflation periods like 2022, overall equity performance remained positive, especially during stable economic conditions.

Comparative analysis reveals that gold performs better during high inflation periods, while equities perform better during moderate or stable inflation. For example, in 2020 and 2022 (high inflation), gold returns were higher than equity returns. In contrast, during stable periods like 2021 and 2023, equities showed stronger performance.

Correlation analysis was conducted using Pearson's method to measure the relationship between variables. The results show a moderate positive correlation (+0.36) between inflation and gold returns, indicating that gold tends to increase with inflation. On the other hand, the correlation between inflation and equity returns is weakly negative (–0.04), showing that inflation does not have a strong direct impact on equities.

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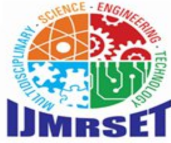

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Descriptive statistics further support the analysis. The average inflation rate during the study period was 5.14%, while average gold returns were 16.64% and equity returns were 13.73%. Gold showed higher variability compared to equities, indicating greater fluctuations in returns.

Overall, the analysis shows that gold acts as a partial hedge against inflation, while equity performance is influenced more by broader economic factors. The results highlight the importance of diversification, as both asset classes behave differently under varying economic conditions.

Table: Summary of Data Analysis (2019–2025)

Particulars	**Inflation (%)**	**Gold Returns (%)**	**Equity Returns (%)**
Mean	5.14	16.64	13.73
Standard Deviation	1.28	12.65	6.68
Correlation with Inflation	—	+0.36	–0.04

V. RESULTS: HYPOTHESIS TESTING

This section presents the results of hypothesis testing carried out to examine the relationship between inflation, gold returns, and equity returns in India for the period 2019 to 2025. The hypotheses were tested using Pearson's correlation coefficient to identify the strength and direction of relationships between variables.

Hypothesis 1: Inflation and Gold Returns

- **H_{01}:** There is no significant relationship between inflation and gold returns.
- **H_{11}:** There is a significant positive relationship between inflation and gold returns.

The calculated correlation value between inflation and gold returns is **+0.36**, which indicates a moderate positive relationship. This means that gold returns tend to increase when inflation rises.

Result: The null hypothesis (H_{01}) is rejected and the alternative hypothesis (H_{11}) is accepted. Gold acts as a partial hedge against inflation.

Hypothesis 2: Inflation and Equity Returns

- **H_{02}:** There is no significant relationship between inflation and equity returns.
- **H_{12}:** There is a significant relationship between inflation and equity returns.

The correlation value between inflation and equity returns is **–0.04**, which shows a very weak negative or negligible relationship. This indicates that inflation does not have a strong direct impact on equity returns.

Result: The null hypothesis (H_{02}) is accepted and the alternative hypothesis (H_{12}) is rejected.

Hypothesis 3: Comparative Performance under Different Inflation Levels

- **H_{03}:** There is no significant difference in the performance of gold and equity under different inflation conditions.
- **H_{13}:** There is a significant difference in the performance of gold and equity under different inflation conditions.

From the comparative analysis, it is observed that gold performs better during high inflation periods, while equities perform better during stable or moderate inflation periods.

Result: The null hypothesis (H_{03}) is rejected and the alternative hypothesis (H_{13}) is accepted.

Overall, the hypothesis testing confirms that gold has a meaningful relationship with inflation, whereas equity returns are influenced by other economic factors. It also highlights that both asset classes behave differently under varying inflation conditions.

Table: Summary of Hypothesis Testing

Hypothesis	**Relationship Tested**	**Result**	**Decision**
H_1	Inflation vs Gold Returns	+0.36	Accepted
H_2	Inflation vs Equity Returns	–0.04	Rejected
H_3	Gold vs Equity (Inflation Conditions)	Significant Difference	Accepted

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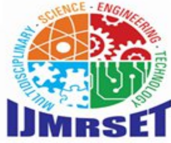

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VI. DISCUSSION

The purpose of this study was to examine the impact of inflation on gold and equity returns in India during the period 2019 to 2025. The results provide useful insights into how these two major asset classes behave under different economic conditions and how investors can respond to changing inflation trends.

One of the key findings of the study is that gold shows a positive relationship with inflation. The correlation value of +0.36 indicates that gold tends to move in the same direction as inflation, although the relationship is not very strong. This supports the general belief that gold acts as a hedge against inflation. During periods such as 2020 and 2022, when inflation levels were high and uncertainty was present due to global factors, gold returns were significantly higher. This clearly shows that investors shift towards gold during uncertain economic conditions to protect their wealth. However, the relationship is not perfectly consistent in all years, which suggests that gold acts as a partial or conditional hedge rather than a guaranteed one.

On the other hand, equity returns do not show a strong relationship with inflation. The correlation value of –0.04 indicates that inflation has very little direct impact on equity performance during the study period. This suggests that equity markets are influenced more by other factors such as economic growth, corporate earnings, liquidity, and investor sentiment. For example, even during the pandemic period in 2020, equity markets recovered quickly due to policy support and improved market confidence. This highlights the dynamic nature of equity markets and their ability to adjust to changing economic conditions.

The comparative analysis between gold and equity under different inflation levels provides further clarity. It was observed that gold performs better during high inflation and uncertain periods, while equities perform better during stable or moderate inflation conditions. This difference in behavior is important because it shows that both asset classes serve different purposes in an investment portfolio. Gold provides safety and stability, especially during crises, while equities provide growth opportunities over the long term.

Another important aspect observed in the study is the level of volatility in returns. Gold returns showed higher variability compared to equity returns, indicating that while gold can provide strong returns during certain periods, it may also show fluctuations. Equity returns, although affected by market conditions, showed relatively consistent long-term growth. This highlights the risk-return trade-off between the two asset classes.

The findings of this study are consistent with several earlier research works. Many studies have found that gold performs well during inflationary periods and acts as a safe-haven asset, while equities are negatively or weakly related to inflation. At the same time, the study also supports the idea that diversification is important. Since gold and equity do not move together strongly, combining both in a portfolio can help in reducing overall risk and improving returns.

The period selected for the study, 2019 to 2025, plays a crucial role in shaping the results. This period includes major economic events such as the COVID-19 pandemic, recovery phase, and rising global inflation. These events have influenced both gold and equity markets significantly. For instance, gold prices increased sharply during the pandemic due to uncertainty, while equity markets initially declined but later recovered strongly. This shows how different assets react differently to the same economic situation.

From an investor’s perspective, the findings suggest that no single asset is sufficient under all economic conditions. Instead, a balanced approach is required. Investors should consider including both gold and equity in their portfolios to manage risk and take advantage of different market conditions. Gold can be used as a protective asset during inflation and uncertainty, while equities can be used for long-term wealth creation.

VII. CONCLUSION

This study examined the impact of inflation on gold and equity returns in India for the period 2019 to 2025. The analysis shows that inflation affects different asset classes in different ways, and understanding this relationship is important for making better investment decisions.

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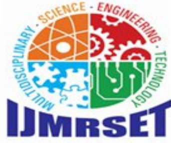

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The findings indicate that gold has a positive relationship with inflation, which means it tends to perform better during periods of rising prices. This confirms that gold can act as a partial hedge against inflation and is useful during uncertain economic conditions. However, the relationship is not perfectly consistent, suggesting that gold should not be relied on as the only investment option.

In contrast, equity returns do not show a strong direct relationship with inflation. The results suggest that equity performance depends more on factors such as economic growth, corporate earnings, and market conditions rather than inflation alone. Despite short-term fluctuations, equities have shown the ability to recover and provide stable returns over time.

The comparative analysis further shows that gold performs better during high inflation periods, while equities perform better during stable or moderate inflation conditions. This highlights that both assets serve different purposes in an investment portfolio—gold for safety and stability, and equity for growth.

Overall, the study concludes that a balanced and diversified investment approach is essential. Combining gold and equity can help investors reduce risk and improve returns under different economic conditions. The findings of this study provide practical insights for investors, students, and researchers in understanding how inflation influences investment choices in the Indian context.

VIII. ACKNOWLEDGEMENT

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