

## Sentiment in Financial Markets [Risk On and Risk Off]

**Fear** or **greed** among traders are **Fundamental analysis** factors that shape **price trends**. **Risk-averse sentiment** refers to the **fear** of **asset declines** and the tendency of traders to invest in **safe-haven assets** like **gold**.

On the other hand, **risk-on sentiment** reflects the **greed** of traders for **price increases** and opportunities to buy risky assets such as **cryptocurrencies** and **stocks**.



Sentiment in financial markets refers to the bullish or bearish feelings of traders

## What is Sentiment in Financial Markets?

Influenced by news, data, and existing risks, the market sometimes enters **risk-off sentiment** or **risk-on sentiment**.

### Risk-On Sentiment

Risk-on sentiment usually arises when economic data points toward **expansionary monetary policy**. This Emotion occurs when the market expects lower interest rates, increased liquidity, and growth in the prices of risky assets.

However, **risk-on** Sentiment in Financial Markets is not solely driven by economic data. Generally, any factor that reduces uncertainty can increase risk-on sentiment in the market.

#### Example of Risk-On Sentiment in Financial Markets

For example, at the end of a contractionary cycle (high interest rates to control inflation), risk-on sentiment will emerge if inflation data is lower than expected and **expectations of interest rate cuts** strengthen. **Assets likely to grow in price during risk-on sentiment:**

- ◆ Stock market
- ◆ Cryptocurrency market

### Risk-Off Sentiment

In risk-off sentiment, safe-haven assets such as gold and bonds are in demand. This sentiment arises when data points toward **contractionary monetary policy** or when **risk and uncertainty about the future** dominate the market.

Beyond economic data, **political** and **geopolitical risks** and any **uncertainty** about the future outlook can fuel risk-off sentiment.

## Example of Risk-Off Sentiment in Financial Markets

For example, at the end of a contractionary cycle, if **economic inflation** data is higher than expected, expectations of interest rate cuts weaken.

This may lead to risk-off sentiment as high interest rates continue to keep liquidity levels low.

## Categorizing Assets Based on Their Fundamentals

After identifying market sentiment, the appropriate asset should be purchased based on market Emotions.

Some **Forex market** currencies have a risk-on or risk-off nature, which strengthens or weakens according to market sentiment. **Asset Fundamentals Table:**

Asset	Risk-On	Risk-Off	No Sentiment
CAD	✓	✗	✗
AUD	✓	✓	✓
NZD	✓	✗	✗
CHF	✗	✓	✗
JPY	✗	✓	✗
USD	✗	✓	✗
EUR	✗	✗	✓
GBP	✗	✗	✓
Gold	✗	✓	✗
Bonds	✗	✓	✗
Stock Market	✓	✗	✗
Bitcoin	✓	✗	✗
Ethereum	✓	✗	✗

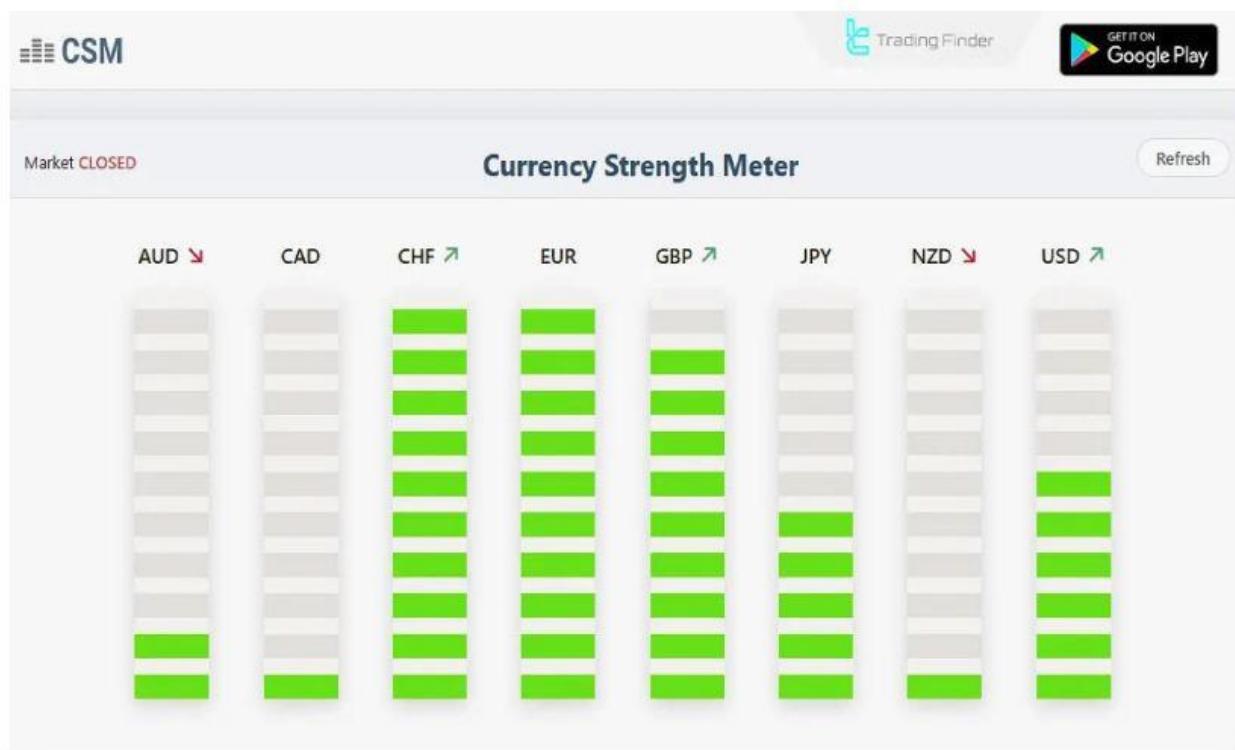
## How to Identify Market Sentiment?

Market sentiment is reflected through asset fluctuations. For example, if risk-on currencies strengthen and safe-haven currencies weaken, it indicates a risk-on environment—because demand for riskier assets has increased.

### Identifying Market Sentiment on CSM Website

Observing currency strength on the [CSM website](#) is one way to assess market sentiment. As shown in the image below, currency strength is indicated by the height of the bars. For example, given the strength of the **US Dollar, Japanese Yen, and Swiss Franc**, the market sentiment appears to lean more toward **risk-off**.

The strength of the **Canadian Dollar**, despite its **risk-on nature**, may be due to other factors such as **rising oil prices** or **domestic economic news from Canada**.

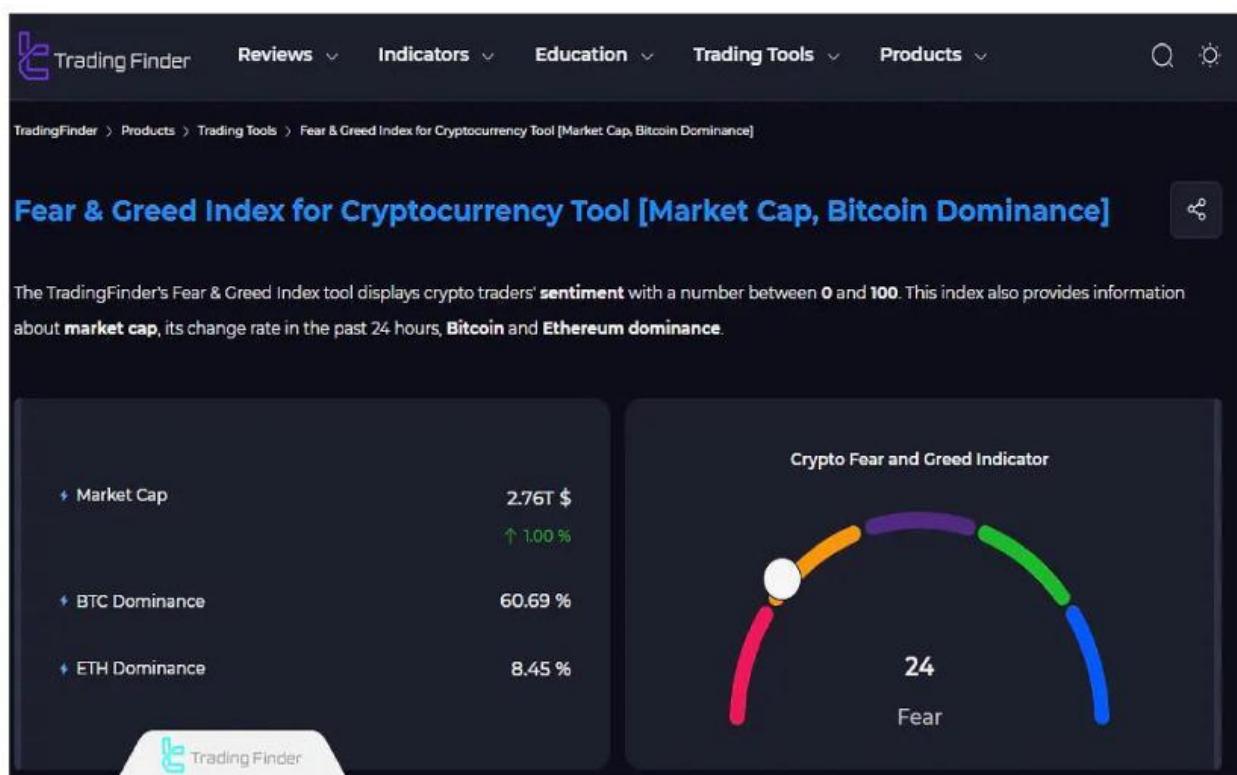


Identifying market sentiment using currency strength tools; Source: CSM website

## Fear and Greed Index in the Cryptocurrency Market

The **Fear and Greed Index** is used to assess trader sentiment in the cryptocurrency market. This index displays a number between **0 and 100**, and changes in this value indicate rising levels of fear or greed among market participants.

During sharp price declines, the index enters the "Extreme Fear" zone (below 25), which signals a potential buying opportunity. Conversely, during price pumps, the index moves into the "Extreme Greed" zone (above 75), which is considered a signal to sell or **take profit**.



Identifying cryptocurrency sentiment using the Fear and Greed Index. Source: TradingFinder

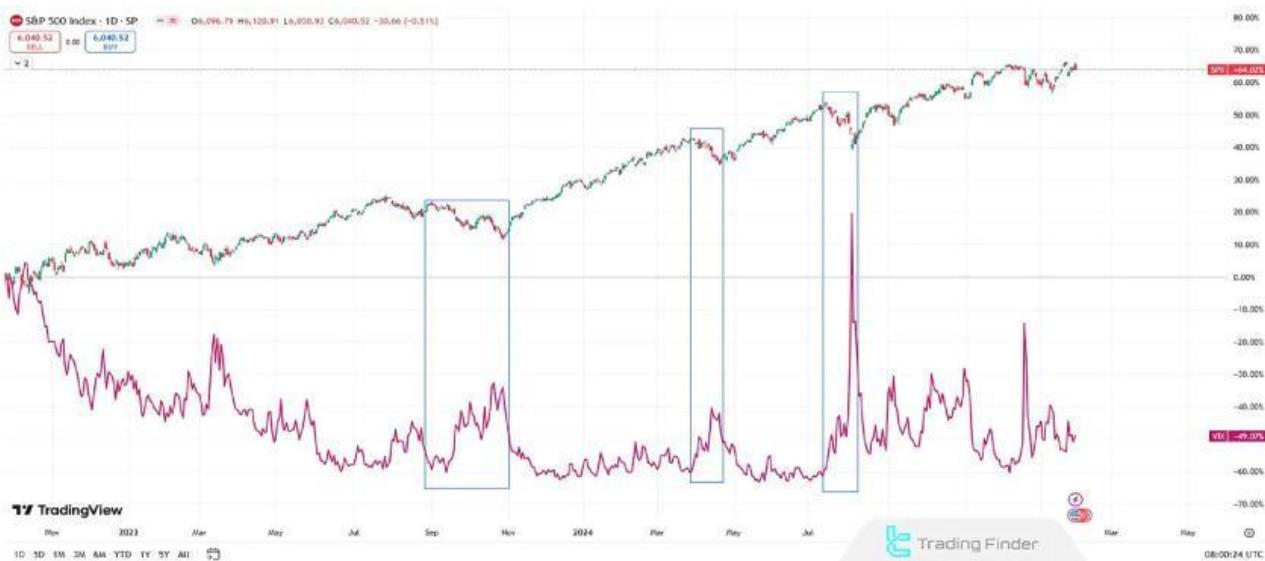
To check the sentiment of cryptocurrency traders, you can use TradingFinder [Cryptocurrency Fear and Greed tool](#).

## VIX Fear Index

This index shows the **level of fear and uncertainty** in the market (Traders' sentiment). If the **VIX** index rises, fear and uncertainty (risk-off sentiment) will increase in the market.

Conversely, a downward trend indicates investors expect reduced volatility and uncertainty (risk-on sentiment).

**Note:** The **VIX** index has an **inverse relationship** with the US stock market. As the **VIX** rises (fear in the market), **stocks decline**, and vice versa.



Identifying US stock sentiment through the divergence of the VIX index and the S&P500 index

The index number is derived from traders' expectations of S&P500 volatility over the next 30 days.

## Can the Market Lack a Specific Sentiment?

Sometimes, the market lacks a **specific sentiment**, and its movement proceeds naturally **without the influence of public Emotions**.

Sentiment forms in the market when significant events or **economic data**, such as **central bank meetings**, **key economic reports**, or specific news, are released.

## Conclusion

**Traders' sentiment** is a concept that drives market fluctuations. In such conditions, investors optimize their investments by **predicting Emotions** through **data and news**, **identifying sentiment** by **monitoring market fluctuations**, and **understanding the nature of assets**.

The **Fear and Greed Index**, **VIX**, and **currency strength** are tools to help **identify market sentiment**.

**source:**

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