



Rockefeller Bexley & Partners

NEWSLETTER

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What Is Meant By Risk-On And Risk-Off?

Risk-On and Risk-Off is a recent focus of the Old Trader client study group. Our Rockefeller Bexley customer trading club and study group now concentrates on Risk-On and Risk-Off as offering some profitable trading opportunities.

The group leader, Dr. Melvin Kapcheck, Rockefeller Bexley's renowned market strategist, said "Much of 2026 has experienced market sentiment flip flopping back and forth daily between "Risk On" and "Risk Off." There is daily headline risk, geopolitical risk and economic risk, not to mention the ongoing political rumor mill."

"This type of action can take a toll on a trader or investor's emotions, and can also provide opportunity", added Dr. Kapcheck.

But what exactly does "risk on" and "risk off" mean?

When investor sentiment is optimistic about the economy, geopolitics and industry, riskier assets tend to get pricier. That is known as "risk on." Conversely, when uncertainty or negativity hits the market, investors tend to sell these riskier assets and buy "safer" assets, ones that are typically less vulnerable to a weakening outlook or negative investor confidence. This is "risk off."

Risk On Assets

A risk-on environment captures positive investment sentiment where investors use their capital to purchase stocks and other high yielding instruments. Stocks are the most

obvious risk-on type of investments, especially those with higher price to earnings ratios or that may be more dependent on economic growth. Additionally, lower rated, high yielding bonds or corporate debt are considered "risk on" as are emerging market currencies. As these types of assets are purchased, defensive assets such as gold and bonds are sold.

At the same time, low yielding instruments tend to gain less on a relative basis or possibly even lose value. Low yielding currencies tend to be sold to fund the purchase of a higher yielding currency.

This selling of a low yielding currency while simultaneously buying a high yielding currency is called the "carry trade."

An effect of a risk-on sentiment is an increase in the stock market and demand for high yielding currencies. As a result, the carry trade strategy tends to perform well. Commodity prices also generally benefit during periods of risk-on sentiment as the market expects strong future economic growth that will benefit commodities.

Risk Off Assets

Conversely, uncertainty concerning overall market conditions, similar to what we saw in the Fall of 2025, is labeled as risk-off. Recently, uncertainty concerning further Fed rate tightening, the upcoming Brexit vote, and the ongoing trade war and tariff situation have all served to curb the risk appetite of investors.

Therefore, investors pull their money out of stocks by selling their shares and sell their risky instruments like high yielding currencies. In a "risk-off" market mood, investments such as U.S. Treasuries and German bunds become popular because these are seen as essentially risk-free. Also, shares of utility and consumer staples companies often outperform the rest of the equity market because these stocks typically have stable profits and pay dividends. Currencies like the U.S. dollar, Japanese yen and Swiss Franc are typically considered defensive and therefore rise during a risk-off move.

This correlation between risk-on and risk-off has held steady through market conditions for decades. Financial markets are more intertwined than ever, and global uncertainty and risk seem to be on the rise daily.

“The question is, will the above mentioned historical risk-on and risk-off assets continue to be the go-to investments as investor sentiment continues to change, or will new asset classes and trading vehicles start to dominate this space?” questioned Rockefeller Bexley’s Dr. Melvin Kapcheck

Contact Us to discuss your relative risk profile portfolio wise as well as personal risk tolerance.

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