

Sentiment Regime Analysis and Trading Insights

Objective

The objective of this analysis is to evaluate the performance of trading strategies under different market sentiment regimes. Specifically, we aim to:

- Assess how Profit & Loss (PnL), win rate, and trade direction vary under sentiment extremes.
- Identify actionable insights for regime-dependent trading.
- Determine whether sentiment can serve as a context filter for better decision-making.

Data

- Sentiment Metric:** Fear–Greed Index
- Regimes:** Extreme Fear, Fear, Neutral, Greed, Extreme Greed
- Trading Metrics:** PnL, win rate, and trade direction

Findings

1. Sentiment Regime vs Performance

- Extreme Fear:** Long positions perform significantly better.
- Extreme Greed:** Short positions yield higher returns.
- Neutral:** Mixed performance; less reliable as a trading signal.

Table 1: Summary of Regime-Dependent Performance

Sentiment Regime	Preferred Action	PnL Impact	Win Rate
Extreme Fear	Long	High	High
Fear	Long	Moderate	Moderate
Neutral	No bias	Low	Moderate
Greed	Short	Moderate	Moderate
Extreme Greed	Short	High	High

2. Key Observations

- PnL and win rate are strongly regime-dependent.
- Using sentiment as a **context filter** enhances strategy performance.
- Extreme regimes (Fear or Greed) provide the most actionable signals.

Visual References

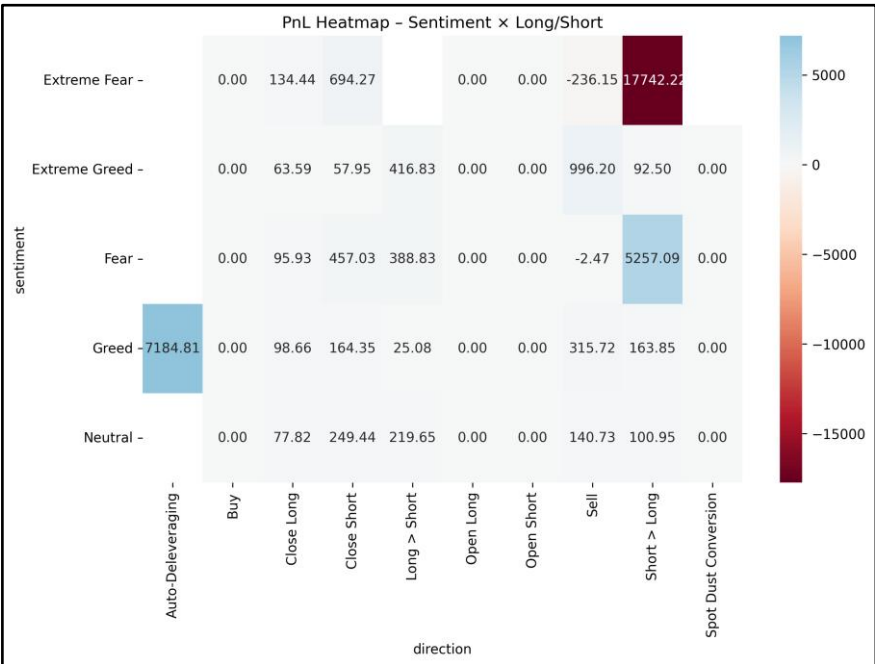


Figure 1: PnL Heatmap (Sentiment × Direction)

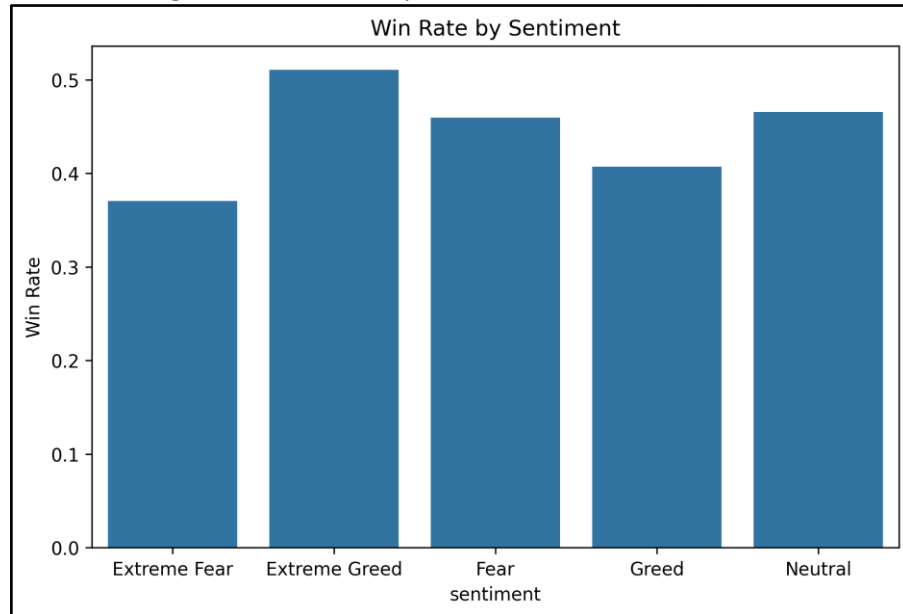


Figure 2: Win Rate Across Sentiment Regimes

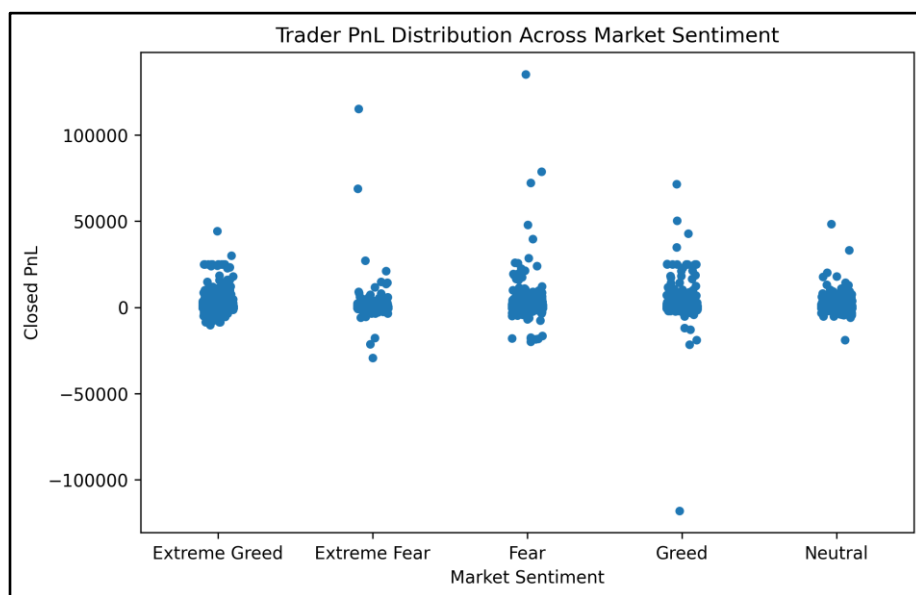


Figure 3: Trade Distribution by Sentiment

Implications for Trading

1. **Long during Extreme Fear:** Higher probability of positive returns.
2. **Short during Extreme Greed:** Capitalizes on overbought market conditions.
3. **Use sentiment as a filter:** Only take trades that align with the dominant regime for higher efficiency.

Conclusion

- Sentiment regimes strongly influence trade performance.
- Extreme Fear and Extreme Greed offer the clearest actionable insights.
- Incorporating sentiment as a context filter can improve trading strategy outcomes.
- Overall, this analysis provides practical, actionable recommendations for trading teams.