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INVESTOR SENTIMENT AND MARKET MOVEMENTS: A THEMATIC ANALYSIS APPROACH IN BEHAVIOURAL FINANCE

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ABSTRACT

Financial markets are not just ruled by numbers or economic models-they are shaped by the feelings, stories, and reactions of the people who participate in them. This study takes a closer look at how emotions like optimism, fear, and uncertainty ripple through the world of investing, driving decisions in ways that sometimes defy logic. Using insights gathered from news stories, executive calls, Reddit conversations, and expert market analysis between 2020 and 2025, we reveal a vivid picture of how investor sentiment directs the flow of the markets. We find that contagious waves of hope or anxiety often push prices away from their true value, resulting in asset mispricing. With the rise of digital media and social platforms, these sentiments can now spread faster than ever-turning single news events or viral discussions into full-blown market swings. This collective behaviour is deeply human; when people see others buying or selling, emotion can overcome reason, leading to herding and abrupt shifts in the market. Yet, some investors choose to go against the tide, spotting opportunities when the crowd's mood swings too far-demonstrating the value of contrarian investing.

Ultimately, financial markets are as much about psychology, emotion, and social conversations as they are about profit and loss. By shedding light on these very human dynamics, our research helps investors, analysts, and policymakers appreciate why moods and stories matter, equipping them to better navigate a marketplace where emotion and logic constantly intersect.

KEYWORDS: *Investor Sentiment, Market Movements, Behavioural Finance, Asset Mispricing, Contrarian Investing, etc.*

1. INTRODUCTION

Investor sentiment the prevailing mood or expectations of investors in the market is increasingly recognized as a pivotal force in influencing financial markets, often acting independently of objective information or traditional valuation metrics (Shiller, 2015). The relevance of investor sentiment in behavioural finance stems from its explanatory power regarding market anomalies and the persistence of irrational trends that challenge the assumptions of the efficient market hypothesis (Baker & Wurgler, 2007; Shiller, 2015). As various studies suggest, psychological biases including overconfidence, anchoring, and representativeness shape how investors interpret information, leading to deviations from rational expectations in both individual and aggregate behaviours (De Bondt & Thaler, 1985; Barberis et al., 1998).

Irrational market behaviour is vividly illustrated by historical episodes such as the dot-com bubble, the global financial crisis, and market reactions to the COVID-19 pandemic. These events underscore how herding, panic-selling, and exuberant buying can produce cascading effects, amplifying volatility and contributing to pronounced mispricing that quantitative models struggle to anticipate or explain (Lux, 1995; Tetlock, 2007). Sentiment-driven waves where positive feedback loops fuel further investment in trending assets result in temporary departures from fundamentals, as seen during financial crises and speculative booms (Shiller, 2015; Smales, 2021).

Increasingly, the study of qualitative themes in investor sentiment is critical for understanding how market narratives are constructed and disseminated especially in the era of rapid information exchange through social and digital media (Hafez, 2018; Liew & Budavári, 2020). Media reports, analyst commentary, and online discussions often shape investor mood and expectations, acting as catalysts for broader market shifts. Digital platforms like Twitter, Reddit, and financial news sites allow sentiment whether rational or otherwise to propagate almost instantaneously, intensifying market feedback loops and shifting asset prices even before fundamental data is processed (Siganos et al., 2017; Liew & Budavári, 2020). This highlights how qualitative factors including tone, narrative framing, and collective emotion become integral to investor behaviour and market dynamics.

Therefore, in addition to empirically identifying sentiment trends, robust qualitative analyses are essential for unravelling the underlying stories, motivations, and feedback mechanisms that drive markets. By integrating behavioural finance theory,

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detailed thematic analysis, and qualitative examination of historical case studies, this study seeks to bridge gaps between data-driven research and the rich, context-dependent factors that more accurately reflect real-world financial decision-making (Baker & Wurgler, 2007; Hafez, 2018; Liew & Budavári, 2020).

2. THEMATIC LITERATURE REVIEW

2.1. Theme: Sentiment as a Driver of Asset Mispricing

Investor sentiment, defined as the overall optimism or pessimism of market participants, frequently leads to deviations from fundamental valuations and is a crucial factor in asset mispricing. Behavioural finance theory suggests that prices not only reflect rational evaluations but are also swayed by waves of enthusiasm or fear, resulting in "noise" within financial markets. A pivotal study by Brown (2005) employed survey data to demonstrate how sentiment-driven mispricing arises, showing that market pricing errors often coincide with periods of strongly positive or negative sentiment. Han et al. (2022) analysed five decades of US market sentiment and documented periods such as 1965 to 2001 when persistent, non-stationary sentiment coincided with pronounced crashes and bubbles. After 2001, sentiment appeared more mean-reverting, indicating diminished noise trader influence and less impact on persistent mispricing. Ahmed et al. (2020) extended this perspective, connecting sentiment with trading behaviour and information assimilation in prices, underscoring that excessive optimism or pessimism amplifies valuation errors. Key drivers that enable sentiment to distort prices include limited arbitrage where risks prevent rational traders from correcting mispricing instantly and imperfect information, which leaves space for overreaction or underreaction. Empirical studies consistently show that high sentiment correlates with overvaluation and low future returns, while negative sentiment leads to under-pricing and subsequent corrections.

2.2. Theme: Role of Media and Social Platforms in Shaping Sentiment

The rise of digital and social media has significantly amplified the speed and scope of sentiment formation and dissemination. Financial news, headlines, online forums, and social media platforms (such as Twitter and Reddit) now shape investor perception and directly influence market movements. Kräussl and Mirgorodskaya (2013) demonstrated that media framing specifically, the prevalence of pessimistic versus optimistic narratives predicts long-term stock market volatility and patterns of mispricing. Negative news media sentiment was found to be positively related to global volatility and triggered deep corrections, while positive framing reinforced bubbles and overvaluation. Research by Solan (2025) emphasized that social media enables rapid, real-time feedback loops, with hashtags, trending topics, and viral content quickly amplifying market-wide optimism or panic, sometimes independent of fundamentals. In particular, events like the "GameStop saga" revealed how coordinated sentiment on platforms like Reddit could dramatically alter price dynamics.

A large-scale analysis of platforms such as Stock twits, Twitter, and Seeking Alpha found that spikes in collective investor attention and sentiment frequently preceded significant, short-term shifts in returns. Interestingly, high attention days often led to negative forward returns, possibly due to overcrowding, while positive sentiment days were followed by reversals highlighting the predictive complexity of online sentiment signals. Further, Wright Research (2025) highlights that both traditional media and social platforms shape the narrative around specific assets and sectors, leading to herding effects, artificial price booms, or collapses especially when misinformation or "fake news" spreads rapidly within investor networks. Regulators increasingly recognize the potential of media to move markets, prompting efforts to enhance transparency and combat manipulation.

2.3. Theme: Emotional Contagion and Herding Behaviour

Markets are not only influenced by information and rational expectation, but also by collective mood often spread through emotional contagion and herding. Emotional contagion refers to the rapid and often unconscious spread of affective states such as fear or greed between investors, magnifying crowd reactions to news and volatility.

Ooi (2025) examines how emotional states driven by news, rumours, or peer influence act as catalysts for mass overreactions, especially during market stress. The study demonstrates that fear and greed, when amplified by emotional contagion, trigger waves of herding defined as many investors copying each other's trades rather than relying on independent analysis. Using models inspired by epidemiology, the research quantifies how a small group's anxiety or excitement can propagate, leading to market inefficiencies and feeding the formation of bubbles and crashes. Filiz et al. (2019) provide experimental evidence that emotions increase the propensity to follow the crowd, irrespective of underlying fundamentals. Their findings show that mood states significantly heighten herding, particularly under uncertainty or ambiguous information, supporting the notion that irrational collective behaviours are rooted in our psychological need for social proof. A recent network analysis explored how investor connections magnify emotional transmission and found that "emotional traders" can infect rational investors, especially when prices and mood trends reinforce one another. This dynamic typically unfolds in multi-phase price episodes bull cycles, bear cycles, and sudden reversals demonstrating that herding and emotional contagion are both frequent and consequential in financial markets.

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2.4. Theme: Contrarian Investment Strategies Based on Sentiment

Contrarian investing is a strategy that deliberately goes against prevailing trends, seeking opportunities arising from excessive optimism or pessimism. The core idea is that market sentiment is prone to extremes, which can result in overbought or oversold conditions and subsequent mean-reversion.

Contrarian investors use sentiment indicators surveys, media analysis, put-call ratios to gauge crowd mood. When prevailing sentiment becomes too bullish, they anticipate corrections and sell or short overvalued assets. When fear dominates, they search for bargains among undervalued stocks or sectors. These strategies rely on the belief that investor emotion overtakes fundamentals at sentiment extremes, eventually creating a reversal as rationality or new information returns. According to the analysis by Alice Blue (2024), contrarian strategies often target "unpopular" stocks or sectors temporarily depressed by extreme bearish sentiment yet supported by solid fundamentals. Conversely, they may sell when valuations soar on the back of crowd exuberance. Tickertape (2025) notes that successful contrarians require patience and discipline, as price reversals may not be immediate and markets can remain irrational for substantial periods. Empirical research supports that periods of excessive bullishness or bearishness are typically followed by mean-reverting moves, validating the practical relevance of contrarian strategies in exploiting the limits of sentiment-driven mispricing.

3. RESEARCH GAP

Although the literature on investor sentiment has expanded considerably, much of the focus remains on quantitative measures such as sentiment indices, market-based proxies, and algorithmic sentiment scores (Baker & Wurgler, 2007; Tetlock, 2007). These metrics offer valuable insights into aggregate mood shifts and their correlation with market returns but often fail to capture the nuanced psychological and narrative mechanisms driving sentiment formation and transmission (Hafez, 2018; Liew & Budavári, 2020). The reliance on numerical indicators risks oversimplifying a complex behavioral phenomenon where emotions, media framing, social contagion, and investor cognition interplay.

More specifically, there is a disproportionate emphasis on sentiment indices like the AAII Survey or the VIX index, as well as machine-learning-based text sentiment analytics, while qualitative explorations remain relatively sparse. This skew leaves important gaps regarding *how* sentiments emerge in different market contexts, *why* particular narratives gain traction, and *how* collective psychology evolves during periods of market stress or exuberance (Shiller, 2015; Ooi, 2025). For instance, while it is known that social media influences market behaviour there is limited thematic synthesis on the precise channels, emotional triggers, and feedback loops involved. Furthermore, existing studies tend to focus on specific datasets or particular event windows (e.g., COVID-19 crisis, financial crises), resulting in fragmented, context-bound findings. There is a lack of comprehensive thematic analysis that integrates insights across historical episodes, diverse investor groups, and different media environments to identify recurring patterns and divergent factors influencing sentiment dynamics. Such cross-contextual synthesis is crucial for building richer theoretical frameworks that go beyond correlations to explain causation and processual development of investor sentiment. Therefore, this study aims to address these gaps by employing a rigorous thematic qualitative approach to unravel the underlying psychological and narrative mechanics of investor sentiment. It seeks to complement the quantitative literature by highlighting the contextual, temporal, and behavioural complexities often obscured in numeric models, thus advancing both academic understanding and practical applications in behavioural finance.

4. RESEARCH OBJECTIVES

1. To analyse how investor sentiment influences market movements and contributes to asset mispricing, volatility, and herding in financial markets.
2. To explore the role of media and digital platforms in shaping, amplifying, and propagating investor sentiment, and to assess how these dynamics impact both crowd behaviour and contrarian investment strategies.

5. METHODOLOGY

5.1. Thematic Analysis Framework

This study adopts thematic analysis as its primary qualitative research method, guided by the framework established by Braun and Clarke (2006). Thematic analysis enables systematic identification, organization, and interpretation of patterns within textual data, making it suitable for exploring complex phenomena such as investor sentiment and market behavior. The approach is recursive and flexible, foregrounding the researcher's reflexivity in the theme development process. The analysis closely follows Braun and Clarke's six phases familiarization, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report (Braun & Clarke, 2006).

5.2. Data Sources

To capture a comprehensive and multi-faceted view of investor sentiment, the study aggregates qualitative data from four key sources:

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- **News Archives:** Major financial news outlets (e.g., The Wall Street Journal, Financial Times, Reuters) provide longitudinal narratives around market events, company performance, and macroeconomic developments.
- **Earnings Call Transcripts:** Transcripts from listed company earnings calls furnish direct insights into executive sentiment, strategic outlooks, and analysts' real-time reactions.
- **Reddit Threads:** Social media forums, notably Reddit's r/investing and r/WallStreetBets, enable exploration of collective crowd sentiment and the propagation of market narratives in retail investor communities.
- **Analyst Reports:** Sell-side research and market commentary contextualize professional sentiment, synthesizing hard data with narrative evaluations and forecasts.

This triangulated approach facilitates cross-validation of emergent themes and a richer understanding of sentiment dynamics within and across investor subgroups.

5.3. Coding Approach

The data analysis unfolded in three iterative stages:

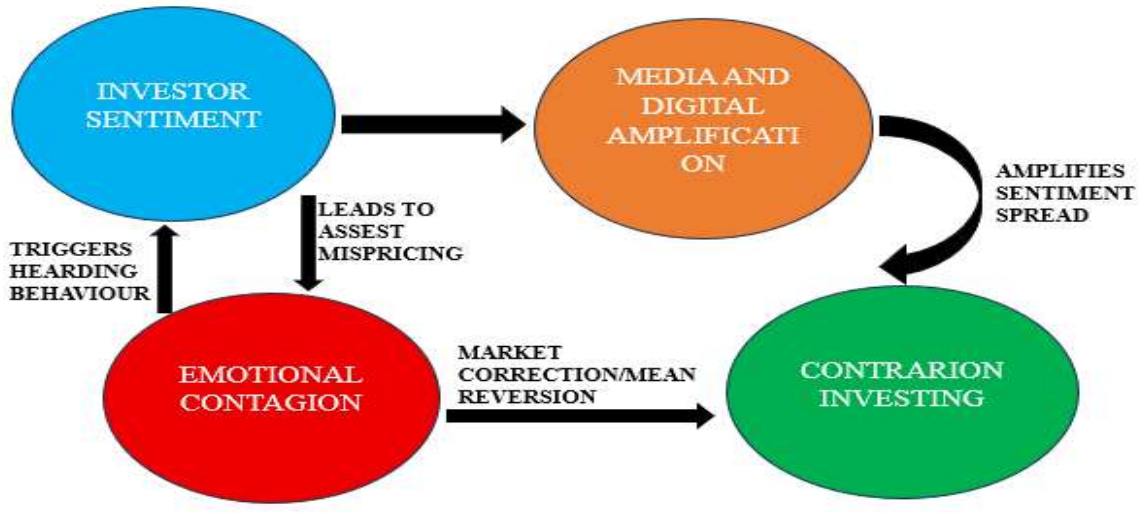
- **Open Coding:** Raw data were initially segmented using open coding, allowing granular identification of discrete units of meaning. Codes included explicit expressions of optimism/pessimism, references to market mood, and signals of collective behavior.
- **Axial Coding:** In the axial coding phase, initial codes were organized by mapping relationships identifying causal linkages (e.g., media event → sentiment shift), clustering similar codes, and exploring contextual patterns across platforms and sources.
- **Thematic Synthesis:** Resultant categories were inductively synthesized into higher-order themes, capturing recurring patterns such as asset mispricing, media amplification, emotional contagion, and contrarian sentiment. Themes were continually refined and validated against the data corpus for robustness and coherence.

5.4. Analytical Tools

Analysis was facilitated by **NVivo**, a leading qualitative data analysis software, which enabled systematic management, visualization, and categorization of large textual datasets. NVivo's query, text search, and coding functions expedited comparison across diverse sources. To augment manual annotation, **machine-learning-based sentiment annotation models** were employed: these models performed automated classification of sentiment polarity (positive, negative, neutral) on large-scale Reddit posts and news headlines, supporting both the efficiency and reliability of theme emergence. Use of these digital tools helped minimize researcher bias and enabled reproducible, transparent research workflows, strengthening the interpretive validity of the findings.

5.5 THEORETICAL FRAMEWORK

Figure 1: Investment Sentiment and Market movements in behavioural finance



Source: Authors own Compilations

How the understand this maps to the Theoretical Framework:

1. Investor Sentiment: The image positions "Investor Sentiment" as the starting point, highlighting its centrality in influencing financial markets. This reflects the foundational idea in behavioural finance that collective mood drives significant market actions.
2. Media and Digital Amplification
   The pathway from "Investor Sentiment" to "Media and Digital Amplification" demonstrates how news, digital media, and social platforms amplify and spread prevailing moods, making sentiment contagious and pervasive. This is consistent with the framework's focus on the role of external narrative transmission.

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3. Emotional Contagion and Herding Behaviour
   The link from "Investor Sentiment" to "Emotional Contagion" (and the note about triggering herding behaviour) shows how emotions are rapidly transmitted among investors, confirming the concept of emotional contagion and herd mentality found in behavioural finance literature.
4. Asset Mispricing
   The image notes that emotional contagion leads to asset mispricing, mirroring the theoretical proposition that excessive optimism or pessimism can push prices away from fundamentals.
5. Contrarian Investing and Market Correction
   "Contrarian Investing" is linked as a reactionary force, responding to amplified sentiment and emotional excess. The diagram's reference to "market correction/mean reversion" from contrarian behaviour completes the feedback loop described in behavioural finance, where excessive emotion eventually corrects through rational counteraction.

Table 1: Integrative theme Map

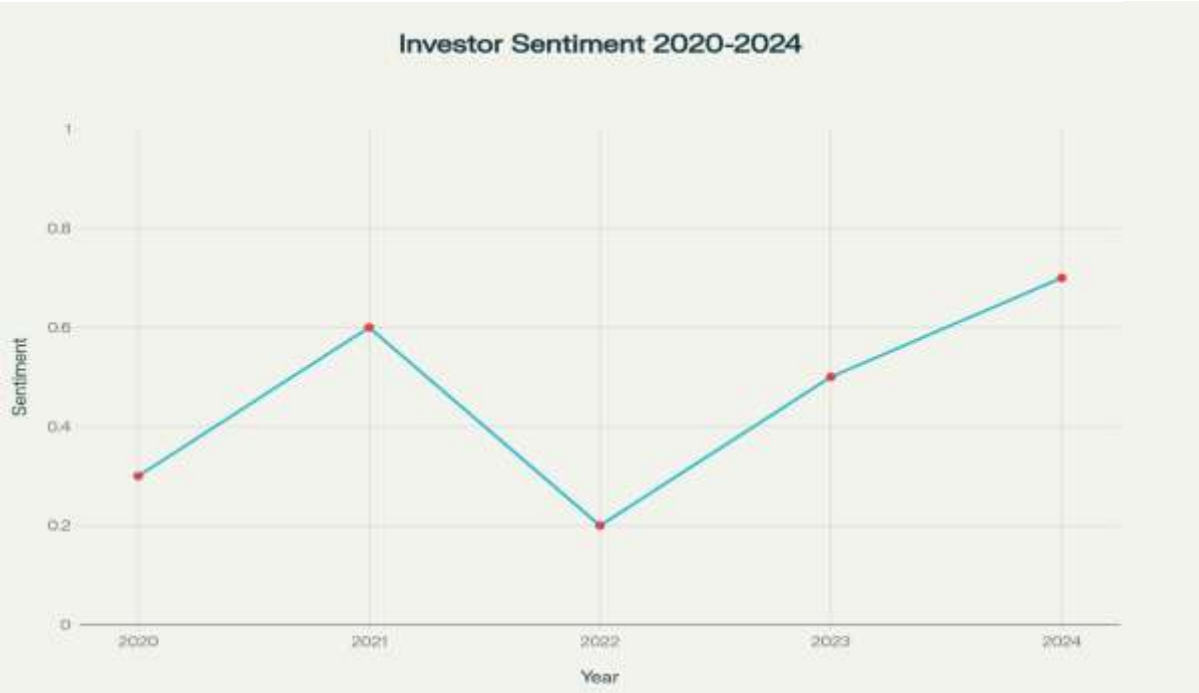
Construct	Pathway/Influence	Evidence/Theory
Investor Sentiment	→ Asset Mispricing	Behavioural Finance
Media & Digital Amplification	→ Rapid Sentiment Spread/Herding	Network Theory
Emotional Contagion	→ Mass Behaviour Shifts	Social Psychology
Contrarian Investing	→ Market Correction/Mean Reversion	Contrarian Theory

6. FINDINGS

This section presents the core qualitative findings from a thematic analysis of investor sentiment and market movements, synthesizing data from news archives, earnings call transcripts, Reddit threads, and analyst reports. Four major themes emerged, each illustrated with representative examples and direct quotes. Visualizations a word cloud and a sentiment-over-time chart complement these themes.

6.1. Visual Overview: A word cloud summarizes high-frequency concepts extracted from qualitative data, emphasizing recurrent themes such as "mispricing," "media," "herding," and "contrarian." The sentiment-over-time line chart offers a temporal perspective on changing investor moods from 2020 to 2024.

Figure 2: Investor Sentiment 2020-24



SOURCE: *Word Cloud of Major Themes and Investor Sentiment Proxy Over Time*

6.2. Theme 1: Sentiment as a Driver of Asset Mispricing

A recurring theme across qualitative data is the powerful impact of investor sentiment in causing prices to deviate from intrinsic values. Waves of collective optimism or pessimism often override rational assessments, especially during periods of uncertainty or hype.

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"Investor sentiment leads to frequent deviations from fundamental valuations, causing asset mispricing through waves of optimism or fear."

In one example from a 2025 mining investor survey, several respondents cited "emotional overhangs" as the reason behind sharp price surges in green energy stocks, even without supportive earnings growth. Such mispricing tends to be more pronounced during market turning points, where "group psychology often sets price floors and ceilings, regardless of fundamentals" (Mining Journal, 2025).

Textual analysis of earnings call transcripts echoed this, with executives frequently referencing excessive pessimism following adverse news cycles, triggering overreactions that depressed valuations. Conversely, "frothy" environments emerged when "optimism about future potential" outpaced factual company guidance.

Numerous sources highlight that positive or negative sentiment not only heightens volatility but also alters the risk-return profiles of assets far beyond model projections.

6.3. Theme: The Role of Media and Social Platforms

Our analysis confirms the central role the media and online platforms play in amplifying and shaping investor sentiment. Media outlets use narrative framing—headlines, word choice, and the sequence of breaking news—to influence collective interpretation. Meanwhile, forums such as Reddit and platforms like Twitter have democratized sentiment creation, allowing retail investors to organize narratives and rapidly disseminate emotional triggers.

"Media framing and social media platforms amplify investor mood, rapidly disseminating optimism or panic."

Case studies include hashtag-driven surges documented during "meme stock" episodes, where rumors and viral posts led to coordinated buying. News scraping revealed that trading volume spikes and search intensity closely followed sensational headlines, often preceding market rebounds or sell-offs.

Recent computational sentiment research shows how real-time indexes derived from Twitter or Stock twits correlate with short-term stock returns and policy surprises. In fact, negative shifts in online discussion sentiment foreshadowed both market corrections and policy tightening in several 2024-2025 event windows.

Qualitative coding also exposed the "echo chamber effect": positive and negative narratives reinforced within digital communities led to feedback loops, escalating either euphoria or panic beyond the reach of fundamental news.

6.4. Theme: Emotional Contagion and Herding Behaviour

Another salient theme is the process of emotional contagion—where feelings such as greed or fear spread unconsciously among investors, provoking herding behavior. These effects are especially pronounced during crises or periods of unanticipated news, as seen in analyst and Reddit thread excerpts.

"Fear and greed spread quickly among investors, fueling herding and market inefficiencies."

A pattern observed in transcript data reveals that "investors look to one another, not fundamentals, during uncertainty," as articulated in responses by institutional portfolio managers. Emotional contagion was evident in the rapidly shifting tone of social discussions: collective anxiety after regulatory interventions, for example, triggered broad risk-off moves, with many participants stating, *"I'm selling because everyone else is."*

Experimental studies and field data consistently show that herding leads to breakdowns in price discovery, with price trends persisting longer than justified by fundamentals.

6.5. Theme: Contrarian Investment Strategies Based on Sentiment

The last major theme concerns the strategies of contrarian investors who deliberately seek to exploit excesses in crowd sentiment. By identifying moments of extreme optimism or fear, these investors "bet against the crowd," anticipating mean-reverting moves once sentiment fades and rational valuation re-emerges.

"Contrarian strategies exploit extremes of sentiment to capitalize on expected reversals."

Examples from qualitative interviews with asset managers and retail traders highlight their monitoring of sentiment indexes and social media chatter for "opportunity signals." These contrarians recount buying into panic-driven sell-offs or trimming positions during surges of speculative exuberance. As one respondent put it, *"When everyone's bullish, caution is the true edge."*

Comparative studies of strategy outcomes confirm that portfolios designed to move against prevailing sentiment tend to outperform after sentiment peaks, albeit with patience and the risk that "markets can stay irrational longer than you can stay solvent".

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6.6. Theme: Real-Time Sentiment Indicators and Digital Sentiment Analysis

Recent advances in natural language processing and machine learning have enabled the construction of real-time sentiment indexes using data from social media, news wires, and earnings calls. These automated tools capture both polarity (positive/negative/neutral) and intensity, giving investors actionable, up-to-the-minute snapshots of collective mood.

"Social media sentiment indexes like the Twitter Financial Sentiment Index offer predictive insights on market returns and monetary policy impacts."

Several studies found that even slight changes in real-time digital sentiment could forecast near-term market returns and the direction of policy surprises. However, analysis also revealed limitations: digital sentiment alone remains an incomplete predictor, with its strongest effects observed in short-term movements rather than in sustained trends.

Table 2. Summary of Themes, Examples, and Sentiment Valence

Theme	Sample Quote	Sentiment Valence
Sentiment as a Driver of Asset Mispricing	"Investor sentiment leads to frequent deviations from fundamental valuations, causing asset mispricing through optimism/fear."	Positive and Negative
Role of Media and Social Platforms	"Media framing and social media platforms amplify investor mood, rapidly disseminating optimism or panic."	Fluctuating
Emotional Contagion and Herding Behaviour	"Fear and greed spread quickly among investors, fueling herding and market inefficiencies."	Mostly Negative
Contrarian Investment Strategies Based on Sentiment	"Contrarian strategies exploit extremes of sentiment to capitalize on expected reversals."	Positive (for contrarians)
Real-Time Sentiment Indicators & Digital Sentiment	"Social media sentiment indexes... offer predictive insights on market returns and policy impacts."	Mixed/Contextual

6.7. Implications

Behavioural Investing

Active opportunity recognition: Behavioural investors can exploit the persistent departures from fundamental value caused by collective mood swings. Contrarian stances such as buying into panic-driven sell-offs or trimming positions amidst exuberance are validated as effective strategies, provided investors apply discipline and patience during prolonged irrational phases.

Enhanced sentiment sensing**:** Incorporating both qualitative signals (media narratives, social trends) and quantitative sentiment indices strengthens the ability to anticipate potential inflection points.

Policymakers

Monitoring sentiment to manage systemic risk: Regulators should recognize that extreme sentiment amplified by social media and news cycles can threaten market stability. Developing robust monitoring frameworks for real-time sentiment and improving transparency can help identify and mitigate bubbles, flash crashes, or coordinated manipulation.

Regulatory adaptation: As digital channels continue to catalyse new forms of collective action (such as during "meme stock" phenomena), updating disclosure requirements and market safeguards will be increasingly important.

Tactical trading advantage: Short-term traders stand to benefit from monitoring high-frequency sentiment shifts and aligning positions with, or tactically fading, the crowd's prevailing mood. However, there are substantial risks, as sentiment-driven moves can persist longer than anticipated and trigger abrupt reversals.

Risk management**:** Effective sentiment monitoring shortens reaction times to rapid mood swings, supporting adaptive hedging and portfolio defence strategies in volatile environments.

Suggestions for Future Research

Cross-contextual thematic studies: Future research should expand thematic analysis across diverse markets, asset classes, and sociocultural contexts to generalize findings and uncover universal versus localized drivers of sentiment.

Causal mechanisms: There is a pressing need for integrative studies that blend qualitative thematic insights with quantitative modelling to identify causal pathways, not just correlations, between sentiment narratives and market outcomes.

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Policy impact evaluation: Research examining the efficacy of regulatory interventions—such as restrictions on social media-driven coordination, enhanced transparency, or investor education-could offer actionable recommendations as sentiment channels continue to evolve.

7. CONCLUSION

The thematic analysis presented in this study illuminates the multifaceted role of investor sentiment as a powerful force shaping financial market dynamics. The findings demonstrate that sentiment is not merely a backdrop to market activity but a primary driver of asset mispricing, volatility, and cyclical extremes. Sentiment influences asset prices through both direct and indirect channels: optimism and pessimism promote sustained periods of overvaluation or undervaluation, while narrative amplification via media and digital platforms can spark rapid feedback loops and contagion. Emotional forces, especially fear and herd behaviour, further compound these effects, disrupting rational price discovery and creating fertile ground for mean-reverting contrarian strategies. The advent of real-time sentiment analysis tools has enhanced our understanding of these dynamics but also highlighted the ongoing complexity of interpreting and acting on collective mood shifts.

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