The "risk-on risk-off" (RORO) terminology in frequent use since the global financial crisis, remains ambiguous. In this paper, we more precisely define risk-on risk-off as a reflection of the variation in global investor risk appetite. By creating a comprehensive high-frequency index, we capture variation in risk appetite across multiple dimensions, including advanced economy credit risk, equity market volatility, funding conditions, and currency dynamics. Our RORO index exhibits risk-off skewness and pronounced fat tails, which amplify the potential for extreme and destabilizing events, as observed during the global financial crisis and the COVID-19 pandemic. When compared with the more conventional VIX measure, our RORO index encompasses a broader spectrum of risk factors, the significance of which change over time. This underscores the multifaceted nature of risk and highlights the diverse origins of investor capacity. Additionally, we demonstrate practical applications of the RORO index, highlighting its significance in international portfolio reallocations and return predictability.

To measure changes in risk perception, we construct a Risk-On, Risk-Off (RORO) index. Our RORO index comprises the z-score of the first principal component of daily changes in several standardized variables. First, we normalize components such that positive changes imply risk-off behavior. Then, before taking the first principal component, we scale these normalized changes by their respective historical standard deviations.

Our headline measure encapsulates changes in prices of several series designed to capture changes in risk bearing capacity. To capture changes related to credit risk, we use the change in the ICE BofA BBB Corporate Index Option-Adjusted Spreads for both the United States and the Euro Area. To capture changes in risk aversion emanating from advanced economy equity markets, we use the additive inverse of daily total returns on the S&P 500, STOXX 50 and MSCI Advanced Economies Index, along with associated changes in option implied volatilities from the VIX and the VSTOXX indices. To account for changes to funding liquidity, we include the daily average change in the G-spread on 2-, 5-, and 10-year Treasuries, along with the change in the TED spread. Finally, we include the growth rate of the trade-weighted U.S. Dollar Index against advanced foreign economies and the change in the price of gold.

Beyond the composite headline index, sub-index groupings fall into the four categories above: (1) spreads (credit risk), (2) advanced economy equity returns and implied volatility, (3) funding liquidity, and (4) currency and gold. As in the headline index, the subindices comprise the first principal component of the normalized series.

The weekly index repeats the exercise and takes the weekly moving average of the daily index before z-scores are produced.