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# Risk sentiment and firms' liquidity in the French market<sup>1</sup>

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## Abstract

This paper investigates the impact of risk sentiment on market liquidity by using panel data. We use six risk word lists; uncertain, weak model, negative, legal, opportunity, and environmental & social responsibility word lists to measure the risk sentiment. Concerning the liquidity proxies, we use three measures, quoted spread, effective spread, and adverse selection component. The results indicate that an intensive risk tone and uncertain information in annual reports lead to decreased liquidity. In addition we find that risk sentiment variable impacts the liquidity but not vice versa.

**Keywords** Liquidity, Risk Sentiment, Bid-Ask spread, Effective Spread, Adverse Selection Component.

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