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Types of Financial Markets

From stocks to crypto — how the world's six major markets work, who trades them, and what moves prices.

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> **Beyond Stocks: The Full Financial Landscape**
>
> Stocks are just one piece of the puzzle. Trillions of dollars move daily through markets for currencies, bonds, commodities, crypto, and indices — each with its own rules, players, and price drivers.

What you'll learn here

Different financial markets serve different purposes — from hedging inflation with gold to speculating on interest rates with bonds. Understanding each market helps you diversify, manage risk, and spot opportunities.

- How each market is structured and traded
- Who the main participants are
- What moves prices in each market
- Key differences between spot, futures, and derivatives
- How indices act as a market “thermometer”

1. Stock Market (Equities)

What’s traded: Shares representing ownership in public companies (e.g., Apple, Toyota, Nestlé).

How it works: Companies issue shares via IPOs (primary market). Investors then trade them on exchanges like NYSE, Nasdaq, or London Stock Exchange (secondary market). Prices are driven by earnings, growth expectations, dividends, and macroeconomic factors.

Key participants: Retail investors, mutual funds, pension funds, hedge funds, corporate insiders (with restrictions), and market makers.

What drives prices: Quarterly earnings reports, interest rates, industry trends, management changes, and investor sentiment (fear/greed).

2. Forex Market (Foreign Exchange)

What’s traded: Currency pairs (e.g., EUR/USD, USD/JPY, GBP/USD). One currency is bought, the other sold simultaneously.

How it works: Forex is decentralized — no central exchange. Trading happens 24 hours a day, 5.5 days a week via a global network of banks, brokers, and electronic trading platforms. It’s the largest market by volume ($7.5 trillion+ daily).

Key participants: Central banks (e.g., Fed, ECB), commercial banks, multinational corporations (hedging currency risk), hedge funds, and retail traders.

What drives prices: Interest rate differentials, inflation data, geopolitical stability, trade balances, and central bank interventions. Prices move in “pips” (percentage in point).

3. Commodities Market

What's traded: Physical goods — hard commodities (gold, silver, oil, copper) and soft commodities (wheat, corn, coffee, cattle).

How it works: Most commodity trading occurs via futures contracts on exchanges like Chicago Mercantile Exchange (CME) or ICE. A futures contract obligates delivery at a future date, though most traders close positions before expiry. Some investors use ETFs (e.g., GLD for gold).

Key participants: Producers (miners, farmers), industrial users (airlines for fuel), speculators, and commodity trading advisors (CTAs).

What drives prices: Supply shocks (weather, strikes, wars), inventory levels, currency strength (especially USD), and global demand (e.g., China's construction boom for copper).

4. Bond Market (Fixed Income)

What's traded: Debt instruments — government bonds (e.g., U.S. Treasuries, German Bunds), corporate bonds, municipal bonds, and emerging market debt.

How it works: When you buy a bond, you lend money to the issuer in exchange for periodic interest (coupon) and return of principal at maturity. Bonds trade over-the-counter (OTC) but some are listed on exchanges. Prices move inversely with interest rates.

Key participants: Central banks (quantitative easing), pension funds, insurance companies, sovereign wealth funds, banks, and retail investors.

What drives prices: Interest rate expectations (yield curve), credit rating changes, inflation, and perceived default risk (credit spread). The bond market is often called "the smart money" because it predicts economic shifts before stocks do.

5. Cryptocurrency Market

What's traded: Digital assets like Bitcoin (BTC), Ethereum (ETH), stablecoins (USDC), and thousands of altcoins. Also NFTs and tokenized real-world assets on blockchains.

How it works: Trading happens on crypto exchanges (Binance, Coinbase, Kraken) — both centralized (CEX) and decentralized (DEX). Markets never close (24/7/365). Spot trading, futures, options, and perpetual swaps are common. Volatility is extremely high.

Key participants: Retail traders, crypto hedge funds, miners, venture capital (for new tokens), and increasingly institutional investors (via ETFs like IBIT).

What drives prices: Regulatory news (SEC lawsuits, ETF approvals), on-chain metrics (wallet activity, hash rate), macro liquidity (Fed policy), technology upgrades (e.g., Ethereum merge), and sentiment/meme culture.

6. Indices (Stock Market Indexes)

What's traded: You cannot trade an index directly — only derivatives based on it. Popular indices: S&P 500, Dow Jones, Nasdaq-100, FTSE 100, Nikkei 225, DAX.

How it works: An index is a basket of stocks that represents a market or sector. Investors gain exposure via index funds, ETFs (e.g., SPY, QQQ), futures (E-mini S&P 500), or options. Index components are rebalanced periodically.

Key participants: Passive fund managers (index tracking), hedge funds (arbitrage), pension funds, and retail investors using ETFs.

What drives index prices: The weighted performance of its components. For example, the S&P 500 is market-cap weighted — Apple and Microsoft moves affect it more than a small stock. Economic data, sector rotations, and "risk-on/risk-off" sentiment drive indices as a whole.

How These Markets Interact

No market exists in isolation. A falling bond yield often pushes stock prices higher (cheaper borrowing). A surging USD can crush commodity prices (since they're dollar-priced). Bitcoin sometimes behaves like "digital gold" when inflation rises. And indices summarise all stock market expectations.

Professional traders often watch multiple markets simultaneously to spot correlations and divergences.

Key Takeaways

KEY TAKEAWAYS

- Stocks = ownership in companies; driven by earnings and sentiment.
- Forex = currency pairs; largest market, 24/5, driven by interest rates and geopolitics.
- Commodities = raw materials; futures-based, driven by supply/demand shocks.
- Bonds = debt; inverse to yields, sensitive to rates and credit risk.
- Crypto = digital assets; highly volatile, 24/7, driven by regulation and narrative.
- Indices = baskets of stocks; traded via ETFs/futures, reflect overall market health.

BROWSE ALL LESSONS

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