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Stock Market Investing Tips, Techniques, and Resources



Effects of a Major Recession on Cryptocurrencies

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One of the attractive features of cryptocurrencies like Bitcoin is that there is a limit to how many will ever be mined. Thus, inflation is less likely to eat away at the value of a cryptocurrency than a fiat currency like the dollar or euro. But what if the economy tanks? What are the effects of a major recession on cryptocurrencies? Bitcoin fell in value at the start of the Covid pandemic from \$9911 on February 14, 2020 to \$5,165 by March 13, 2020. It recovered to \$9,385 by May 15, 2020. From October 2020 to March 2021 Bitcoin rose from \$11,000 to \$61,000 as the US and the world suffered a K-shaped recession with tech companies making profits while travel and hospitality suffered. What happens now to crypto if the Fed causes a [recession in its attempts to tame inflation](#)?

Higher Interest Rates and a Stronger Dollar

The US Federal Reserve has started raising interest rates and Chairman Powell has indicated they will be raising rates by 0.50% every month for several months going forward. When a central bank raises interest rates their currency goes up in the Forex market. The end result of the Fed raising rates is typically a mild to moderate recession accompanied by a stronger dollar. An argument for holding cryptocurrencies is that they will hold their value when fiat currencies fall. But how does this argument work when the dollar is going up against other world currencies?

Fed Reaction to a Recession

CoinDesk makes the argument that when a prolonged recession does happen that the Fed will need to lower interest rates and that will be good for cryptocurrencies. They also note that Bitcoin has tended to track with the Nasdaq as the stock market rises and falls. If and when a recession gets bad enough the Fed will lower rates which will stimulate the stock market and probably cryptocurrency values as well. But, during a recession what evidence we have points to a slump in crypto values and a surge in value as the Fed lowers rates.

Nasdaq vs Bitcoin

On May 4, 2022 the Federal Reserve Open Market Committee raised the overnight interest rate by 0.50% and Chairman Powell said that 0.75% increases were not on the table but that the Fed expects to raise rates by 0.50% monthly as they assess the results of their actions. The Nasdaq responded by going up nearly 4% in the last two hours of trading while Bitcoin went from \$38,702 to \$39,844 in the next few hours. Then Bitcoin fell back to \$38,183 by mid-morning on May 6 while the Nasdaq lost 4.64% in early trading. If this correlation continues, we expect to see Bitcoin fall along with the Nasdaq as the economy slides into a recession caused by supply shocks, the war in Ukraine, and persistent shutdowns in China from Covid.

Crypto Correlation with a Recession

If cryptocurrencies are going to fall in value during the coming recession how far will they fall? When will they turn around? What will the next surge be like? It would appear that the broader US stock market and especially the Nasdaq is a good guide when predicting Bitcoin. And it looks like the Nasdaq is set to give up much of its easy gains caused by years of low interest rates and easy money. When the recession bottoms out Bitcoin and others will likely start coming back along with Nasdaq. We would expect to see an explosive Bitcoin rally at that time as crypto rallies tend to feed on themselves as do crypto declines.

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