



## Recession Is Here: What Happens to Bitcoin?

### Description

The U.S. reported its second quarter of negative economic growth this morning. That's a technical recession. Canada might struggle to avoid a recession, too. That's a tailwind for most assets, but growth investors are curious to see how [cryptocurrencies](#), particularly **Bitcoin** ([CRYPTO:BTC](#)), react to a severe downturn.

Here's a closer look.

### Bitcoin's first recession?

Bitcoin was launched in 2009, shortly after the Great Financial Crisis. That means it avoided the last major global downturn. In 2020, Bitcoin faced its first global crisis with the pandemic. However, the pandemic-era recession was unlike any other. Governments across the world printed more money to stabilize the economy, which pushed assets like Bitcoin to all-time highs.

The current recession is more similar to the one in 2008. Investors are retreating from risky assets, which is why Bitcoin has lost 52% of its value year to date. Central banks are also pulling back capital and raising interest rates to mitigate inflation. In other words, the "money printer" has been replaced with a "money vacuum" in 2022.

### What we know so far

We now know that Bitcoin isn't an inflation hedge. In 2022, inflation has spiked up to 8%, while Bitcoin has lost half its value. That's the exact opposite of an inflation hedge.

We also know that Bitcoin's price is closely correlated with the performance of high-risk tech stocks. Since April 2022, the correlation of Bitcoin to the tech-heavy **NASDAQ** index has been consistently above 0.9. That means a 10% move in the NASDAQ results in a 9% move in Bitcoin.

We also know that there is a robust base of Bitcoin loyalists that will likely never sell their digital assets.

At the time of writing, roughly 65.7% of BTC wallets have held their Bitcoin for longer than a year. This base of loyal holders who have an appetite for volatility could potentially put a floor on BTC's price over time. Put simply, there is a lower limit to how far the asset's value can drop.

## What comes next?

Since this is the first time Bitcoin is facing a recession with tightening liquidity, it's difficult to predict how the price will react.

However, if we assume that BTC's fate is linked to the economic cycle, we can expect it to rebound when interest rates drop and tech companies revive growth. In other words, BTC won't recover until the tech sector does.

This could take years. But Bitcoin has lived through prolonged periods of stagnation in the past. Bitcoin and other cryptocurrencies were rangebound from 2018 to 2020. Long-term investors call these periods "crypto winter." We could be living through a similar period now.

If you're optimistic about Bitcoin adoption, this could be an ideal time to accumulate more BTC. However, if you're worried about rates and inflation remaining stubbornly high for longer than expected, you might want to avoid this sector altogether.

## Bottom line

Bitcoin isn't correlated to inflation. Instead, it's correlated to the tech sector. That means it won't recover until rates drop and tech stocks revive growth.

### CATEGORY

1. Cryptocurrency
2. Cryptocurrency

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

### PP NOTIFY USER

1. kduncombe
2. vraisinghani

### Category

1. Cryptocurrency
2. Cryptocurrency

**Date**

2025/07/20

**Date Created**

2022/07/28

**Author**

vraisinghani

default watermark

default watermark