

# The Recession Waterfall: A Multi-Stage Macro Playbook

This document outlines the sequential breakdown of asset classes during a full-blown recession. It serves as a strategic guide to anticipate market rotations from the initial "Risk-Off" phase to the "Recession Confirmed" cascade.

## Stage 1: The "Risk-Off" Prelude (Happening Now)

**Description:** The initial wave of selling driven by rising fear and uncertainty. The market begins to price in a higher probability of a recession, but the economic data has not yet confirmed it. The USD strengthens due to its "Safe Haven" status.

### What's Being Sold:

- High-beta stocks (e.g., US 100 / Nasdaq)
- Speculative assets (e.g., Cryptocurrencies like BTC)
- Emerging market currencies

**Current Strategy:** Remain flat (in cash), observe market positioning, and wait for a definitive catalyst (e.g., NFP report) to confirm the recession thesis.

## Stage 2: The "Recession Confirmed" Cascade (The Next Wave)

**Trigger:** A key lagging indicator (like a weak NFP report) confirms the recession fears, causing a fundamental shift in the market's narrative.

**Description:** The selling broadens and intensifies. Most importantly, assets that were previously considered "safe" begin to break down as the narrative shifts from "Flight to Safety" to "Preparing for Aggressive Fed Easing."

### 1. The US Dollar Itself (The Great Reversal)

**Why:** The narrative flips from "USD is a safe haven" to "The Fed will be forced to cut rates and print money." The fundamental reason for holding the dollar (yield and safety) evaporates.

**Primary Trade:** SELL the US Dollar (DXY).

**Consequence:** BUY EUR/USD, GBP/USD, Gold (XAU/USD), and Bitcoin (BTC/USD).

### 2. Corporate Bonds (Especially High-Yield)

**Why:** Recession confirms that corporate profits will collapse, dramatically increasing the risk of bankruptcy and default. The "yield" is no longer worth the risk of total loss.

**Primary Trade:** SELL/SHORT High-Yield Bond ETFs (e.g., HYG, JNK).

### 3. "Defensive" Stocks

**Why:** In a deep recession, even companies selling consumer staples or utilities see earnings decline. These crowded "safe" stocks become the next source of liquidity for sellers.

**Primary Trade:** SELL/SHORT Defensive Sector ETFs (e.g., XLP, XLU) after they show signs of rolling over.

## The Ultimate Playbook Summary

**Current Phase:** Patiently observe the "Risk-Off" environment while holding cash.

**Confirmation Phase:** Use a weak NFP report as the trigger to shift our strategic bias.

**Next Phase (Recession Confirmed):** Execute the "Stage 2" trades. The primary focus becomes aggressively selling the US Dollar and buying assets that benefit from a devalued dollar and Fed easing, such as Gold and Bitcoin.