Macro Risk Memo (Q1 2026)

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Reference Levels (February 15th, 2026):
S&P 500 ≈ 6,836
Gold ≈ $5,042
Bitcoin ≈ $69,799

Cycle Assessment: Late-cycle restrictive digestion
Regime Characteristics: Restrictive real rates, late-cycle labor diffusion, defensive rotation, midterm volatility.
Recommended posture: Capital preservation with selective deployment

Primary Risk Drivers

- **Policy Restrictiveness Relative to Neutral**
  Real rates and policy positioning remain elevated relative to equilibrium estimates, limiting duration expansion and compressing risk premia.
- **Equity Durability as a Labor Transmission Mechanism**
  Midterm-year volatility increases the probability that sustained equity weakness could propagate into hiring restraint and broader economic slowdown.
- **Dollar Direction as a Global Liquidity Constraint**
  Relative equity performance across regions remains sensitive to currency dynamics. Renewed dollar strength would tighten global financial conditions.
- **Liquidity Stabilization vs. Liquidity Impulse**
  The cessation of balance sheet contraction reduces tightening pressure, but absent a meaningful liquidity impulse, risk expansion remains constrained.
- **Breadth of Labor Softness vs. Nonlinear Break**
  Employment deterioration remains gradual. A shift toward sustained layoffs would represent a regime change rather than continuation.

Scope & Limitations

This memo evaluates liquidity structure, labor dynamics, equity durability, yield configuration, financial conditions, housing activity, sector rotation, and crypto market structure to assess the prevailing macro regime. It does not attempt to forecast precise turning points or short-term price movements. The objective is to evaluate risk asymmetry and regime alignment to determine whether conditions favor broad beta expansion or disciplined, selective capital allocation.

This report is for informational purposes only and does not constitute investment advice.

Executive Summary

The macro environment in early 2026 reflects restrictive digestion rather than early-cycle expansion. Quantitative tightening concluded in December 2025, yet liquidity conditions remain constrained by elevated real yields, a policy rate that remains above market-implied neutral, and the potential for renewed dollar strength. Markets can rally on the belief that tightening is over, but sustained risk expansion typically requires a meaningful easing impulse. At present, the slope of liquidity has flattened, yet the conditions that historically support broad speculative leadership are not clearly in place.

The labor market remains stable in aggregate terms, though breadth measures indicate diffusion of weakness across states. Layoffs remain subdued, preventing nonlinear unemployment acceleration. That is the key point: unemployment can drift higher for extended periods without recession, but the regime changes when layoffs rise persistently and hiring behavior turns defensive. Whether that occurs is highly sensitive to equity durability and financing conditions.

Yield structure and financial conditions remain consistent with late-cycle dynamics. Curve normalization or re-steepening has historically coincided with rising recession probability more often than renewed growth acceleration. Real yields remain elevated relative to prior expansionary regimes, constraining valuation multiples and speculative risk appetite. Financial conditions have eased modestly but remain restrictive.

Housing reflects late-cycle cooling rather than systemic stress. Construction activity has moderated, price growth has decelerated, and affordability remains constrained. Credit quality and balance sheets appear stronger than in prior systemic downturns, which supports the view that housing is slowing rather than breaking, absent a sharp labor deterioration.

Sector leadership favors tangible demand exposure over speculative duration. Energy and capital-intensive industrial exposures are supported by structural investment themes, including electrification and AI-related infrastructure buildout. Metals remain structurally supported, though cyclical consolidation risk persists.

Bitcoin peaked in Q4 2025 consistent with post-halving timing. The current structure aligns with prior midterm-year contraction phases. Liquidity sequencing remains central. Durable expansion likely requires either a stronger monetary impulse or equity stress sufficient to force policy recalibration.

The regime favors capital discipline, selective deployment, and caution toward broad high-beta exposure until liquidity becomes more decisively supportive.

1. Liquidity Conditions

Liquidity remains the dominant macro variable shaping cross-asset behavior. In our framework, liquidity reflects the interaction between policy rates, balance sheet dynamics, monetary aggregates, and the front end of the yield curve. While quantitative tightening formally concluded in December 2025, the level of policy restrictiveness relative to neutral remains elevated.

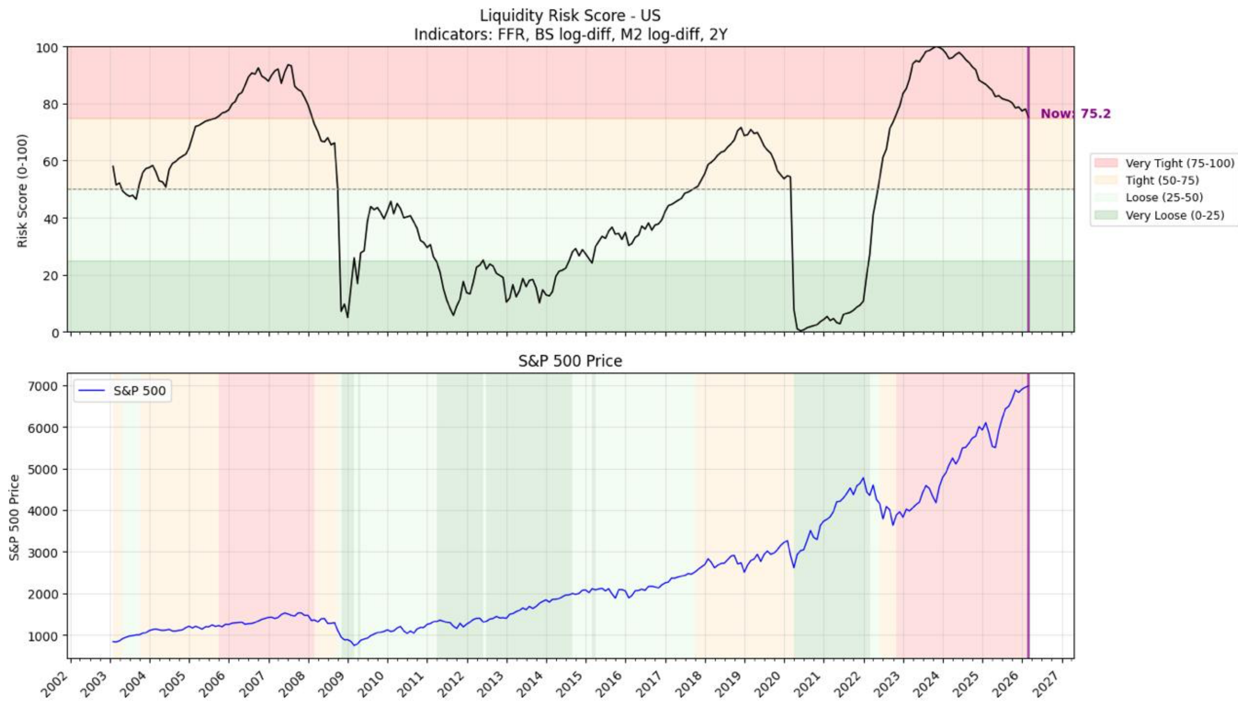

Figure 1: US Liquidity Risk Score.

The Liquidity Risk Score currently resides in the upper quartile of its historical range, firmly within the "tight" to "very tight" regime. Although the rate of tightening has slowed following the end of balance sheet contraction, the absolute level of restrictiveness remains elevated compared to periods that historically supported broad risk expansion.

It is important to distinguish between *liquidity direction* and *liquidity level*. Liquidity may no longer be deteriorating aggressively, but that does not imply that conditions are accommodative. The system remains restrictive relative to prior bull market environments.

That said, history demonstrates that equity markets can advance even when liquidity is tight. The 2006–2007 period and the 2023–2025 advance both occurred during regimes where policy was restrictive relative to prior easing cycles. The critical nuance is that those rallies were characterized by narrowing participation and concentration into perceived quality leadership rather than uniform risk expansion.

In 2023–2025, the advance was heavily concentrated in large-cap technology and the so-called "blue chip" segment of the market. Similarly within crypto, Bitcoin materially outperformed altcoins as liquidity conditions tightened. When liquidity dries up, higher-risk assets typically bleed first, while capital rotates toward the strongest balance sheets, highest cash flows, or most established networks. In this sense, bull markets can occur in tight liquidity regimes, but they tend to be flight-to-quality bull markets rather than broad speculative expansions.

This dynamic is consistent with the broader risk curve framework. When liquidity is in the process of tightening, capital moves up the quality ladder within each asset class. Smaller caps bleed to large caps. Altcoins bleed to Bitcoin. Speculative growth bleeds to durable cash-flow franchises. By the time the highest-quality assets begin to roll over, much of the excess risk has already been repriced lower.

That sequencing matters. It helps explain why we can observe index-level strength even while underlying breadth deteriorates. It also suggests that when leadership finally weakens, the transition can be more consequential because the system has already compressed speculative excess beneath the surface.

The current environment appears consistent with late-cycle restrictive digestion rather than early-cycle expansion. Liquidity is not collapsing, but it is not sufficiently loose to justify broad risk appetite.

A secondary risk factor is the dollar. Over the past year, dollar weakness has provided a modest offset to domestic restrictiveness. However, if this cycle begins to resemble 2018, a renewed dollar upswing could effectively tighten global liquidity conditions even in the absence of renewed balance sheet contraction. A stronger dollar historically pressures commodities, emerging markets, and speculative risk assets. Until that dynamic clarifies, liquidity remains conditionally tight rather than structurally supportive.

Figure 2: DXY

Persistently positive real yields elevate discount rates and compress valuation multiples. This creates a persistent headwind for long-duration equity exposure and speculative assets. Real yields also increase the opportunity cost of non-yielding assets and keep risk appetite disciplined unless liquidity becomes decisively easier.

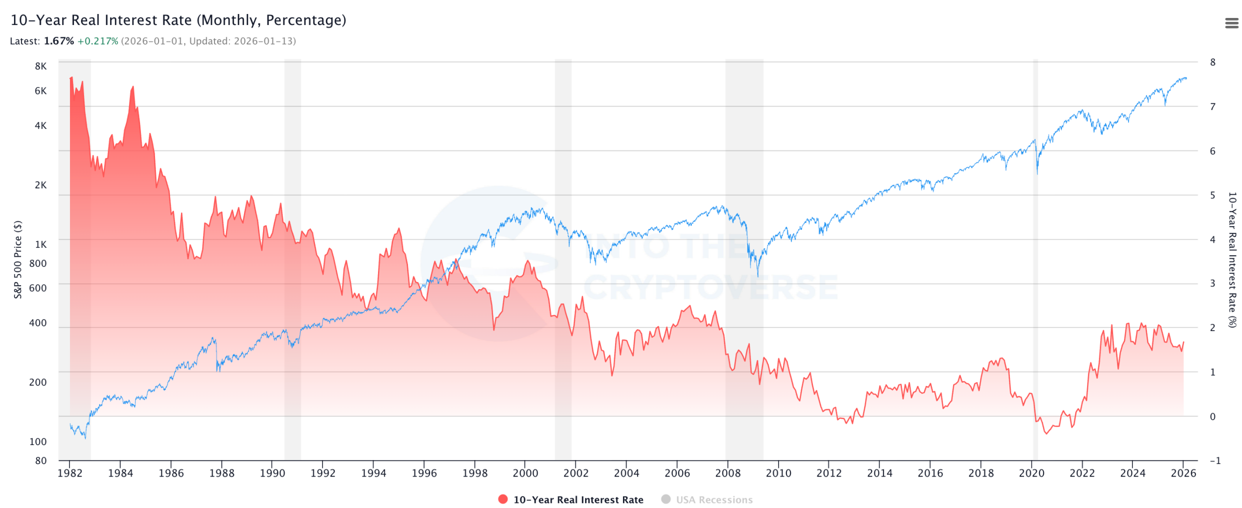

Figure 3: 10-Year Real Yield

Global money supply provides context, but timing and slope matter more than the level. Liquidity aggregates and asset prices do not move contemporaneously. In the prior cycle, Bitcoin peaked before M2 rolled over and ultimately bottomed shortly after M2 peaked. That sequencing is consistent with the broader pattern that risk assets respond to inflections and slope changes rather than mechanically tracking the timing of aggregate peaks. If liquidity expansion proves gradual rather than forceful, compression and dispersion can persist even after tightening formally ends.

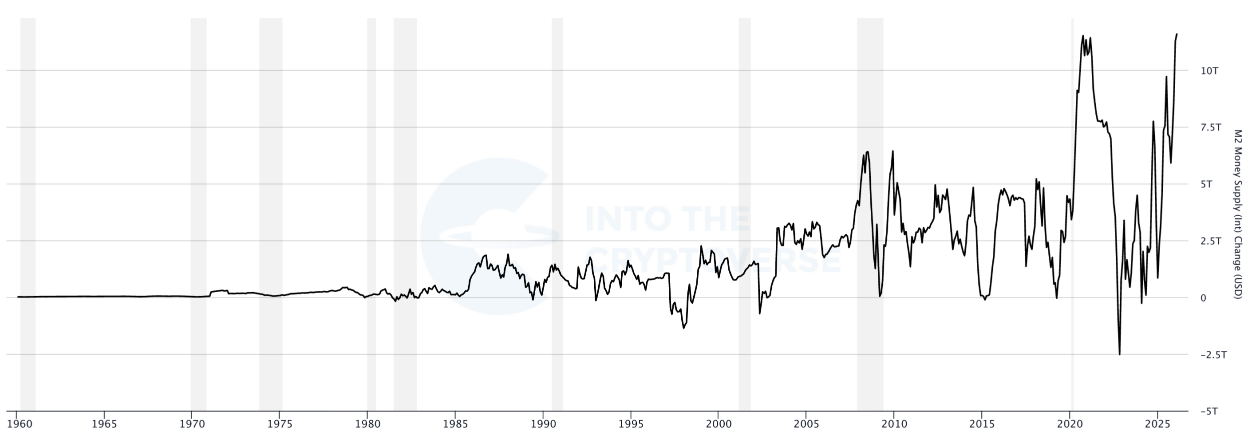

Figure 4: Global M2 Year-Over-Year Change

The base-case interpretation is that liquidity pressure has moderated relative to peak tightening, but conditions remain restrictive and vulnerable to renewed tightening through dollar strength and elevated real yields.

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2. Labor Market

The labor market remains the pivotal determinant of whether late-cycle moderation transitions into recession. The current environment exhibits broadening softness without nonlinear deterioration, which is an important distinction for regime classification.

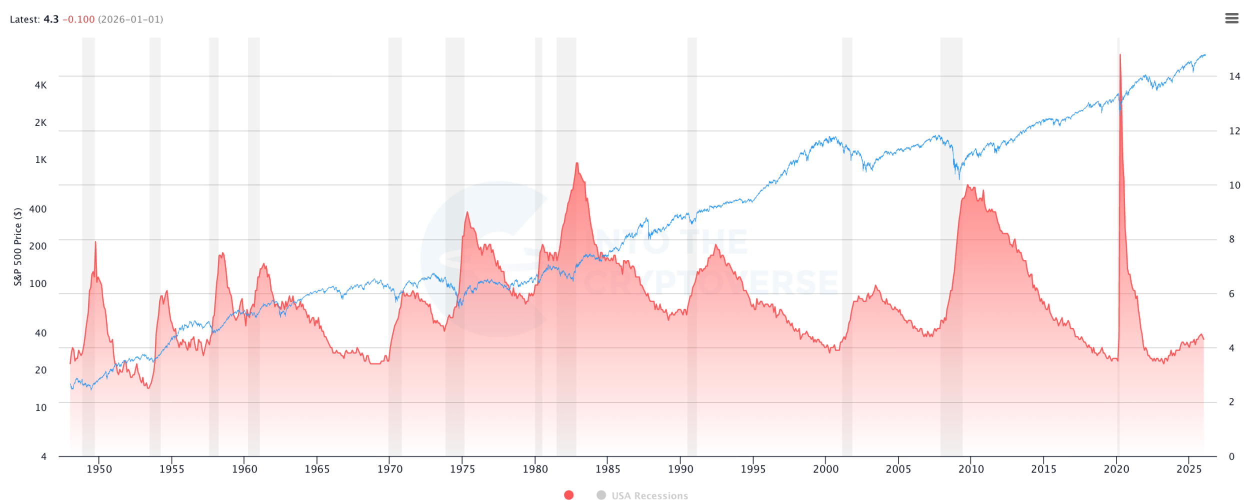

Figure 5: US Unemployment Rate

Unemployment has risen gradually from cycle lows, yet the slope remains controlled. Recessions are typically defined not by gradual increases but by nonlinear acceleration. That nonlinear transition usually emerges after layoffs rise persistently, triggering a negative feedback loop in demand, corporate revenues, hiring, and profitability.

Layoffs remain historically subdued. This is the primary reason unemployment has not accelerated sharply. In prior cycles, unemployment often drifted modestly higher before layoffs surged and pushed the system into nonlinear deterioration. As long as layoffs remain contained, the labor market tends to behave like late-cycle cooling rather than recession onset. Breadth measures indicate diffusion, which matters because diffusion often precedes acceleration.

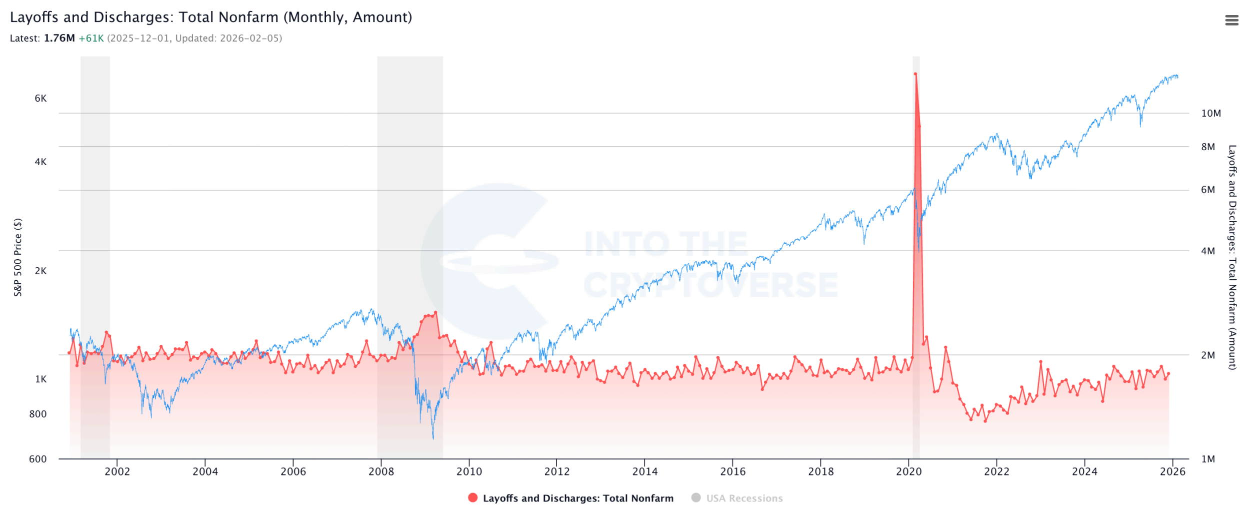

Figure 6: Layoffs and Discharges

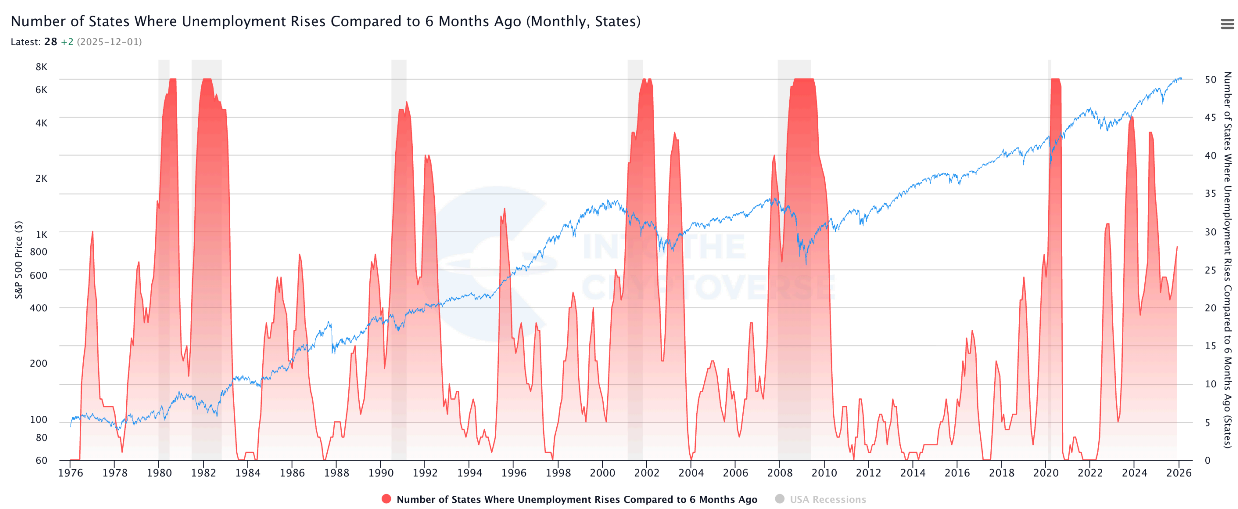

Figure 7: Number of States Where Unemployment is Higher Than Six Months Ago

The number of states experiencing rising unemployment over the last six months has expanded meaningfully. Historically, recession onsets coincide with synchronized increases across the majority of states. Current diffusion reflects broadening weakness but has not yet reached the type of near-universal participation typically observed during recessionary transitions.

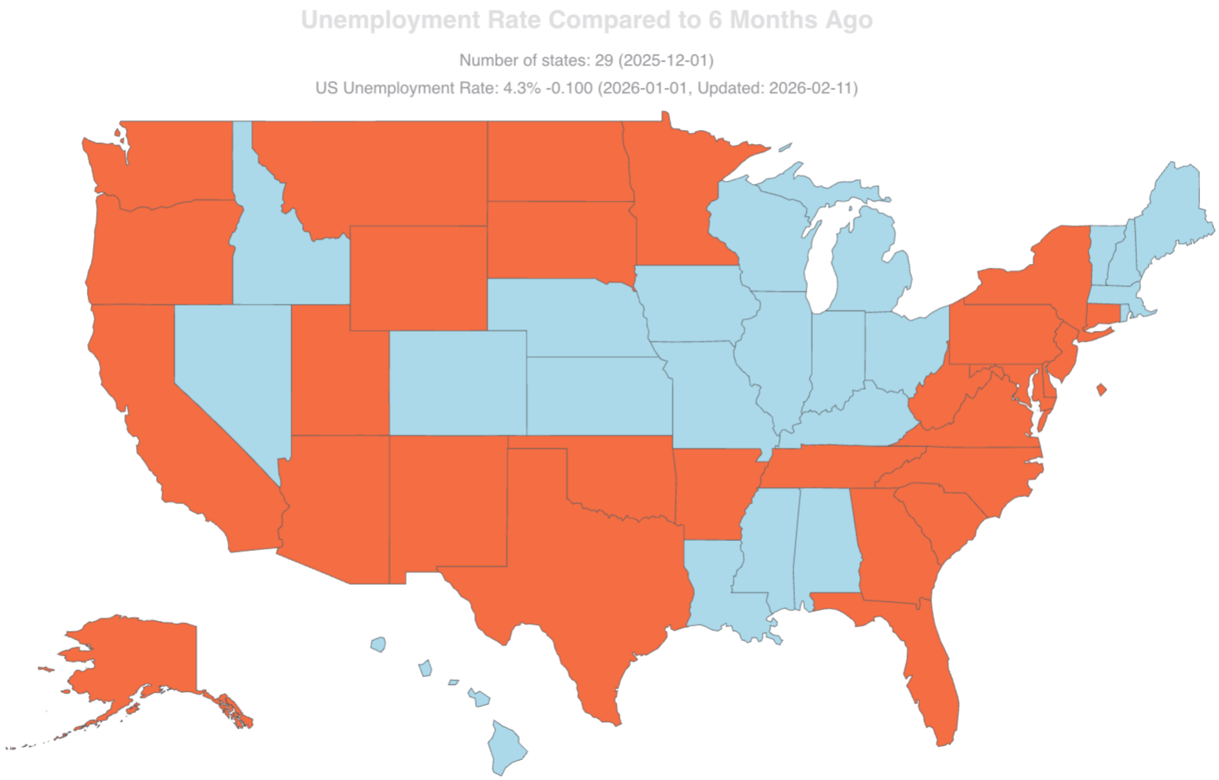

Figure 8: State-Level Unemployment Change Map (orange means rising unemployment)

Regional variation persists. Weakness is spreading, but it remains uneven rather than uniform. That pattern is consistent with a late-cycle environment where pockets of resilience coexist with pockets of deterioration.

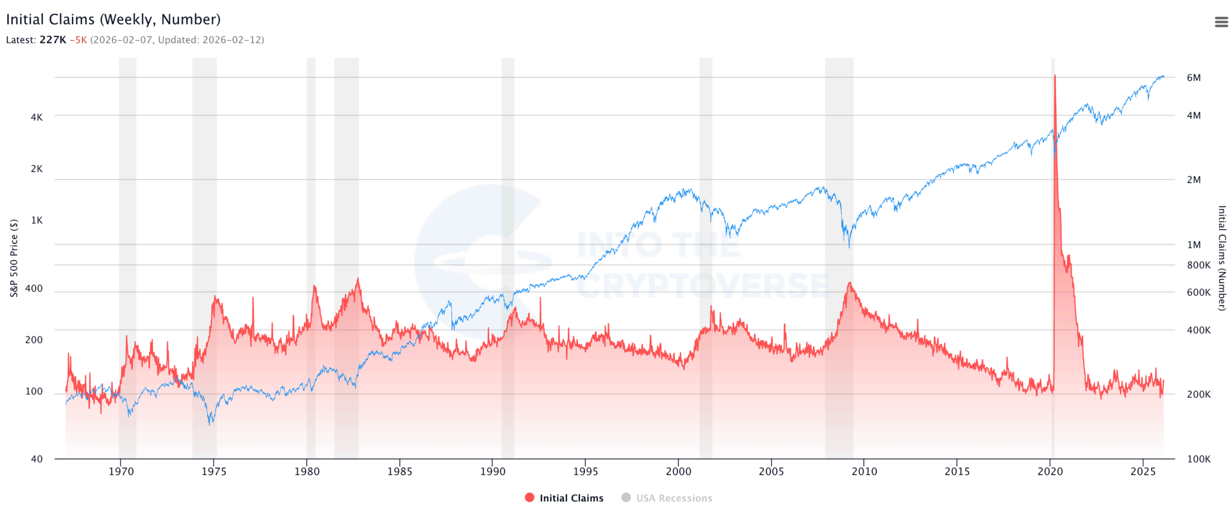

Figure 9: Initial Jobless Claims

High-frequency indicators add another layer of confirmation. Claims have drifted upward from cycle lows but remain within ranges historically associated with cooling rather than contraction.

The key is persistence and trend. A sustained acceleration in claims alongside rising layoffs is typically what precedes nonlinear unemployment dynamics.

Employment stability remains conditional on equity durability and financing conditions. Corporate behavior tends to change when markets remain depressed long enough to alter forward earnings expectations and access to capital. That conditionality leads naturally into the equity durability discussion.

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3. Equity Durability and Midterm Seasonality

Equity durability determines whether labor remains stable or transitions into contraction. The magnitude of a correction matters less than its duration. Short-lived drawdowns are often absorbed without meaningful retrenchment. Persistent weakness compresses earnings expectations, tightens credit access, and increases the incentive for layoffs, which can then initiate the negative feedback loop that makes unemployment nonlinear.

The early 2025 drawdown is instructive. Markets corrected materially but recovered quickly, limiting spillover into corporate employment decisions. That episode resembles 1998 more than 2000. In 1998, a significant correction was followed by recovery and recession did not occur for years. In 2000–2001, weakness persisted, confidence deteriorated, and layoffs accelerated.

Midterm seasonality adds conditional risk.

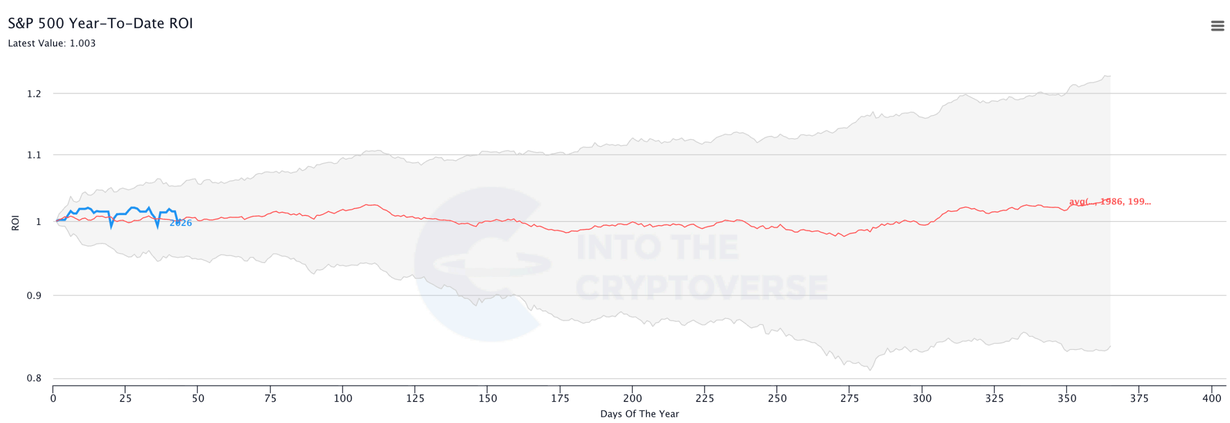

Figure 10: S&P 500 Year-To-Date Performance vs Average Midterm Year

Midterm years historically exhibit greater volatility and periods of weakness relative to other years in the presidential cycle. This does not guarantee a drawdown, but it raises the probability that any weakness that appears could persist.

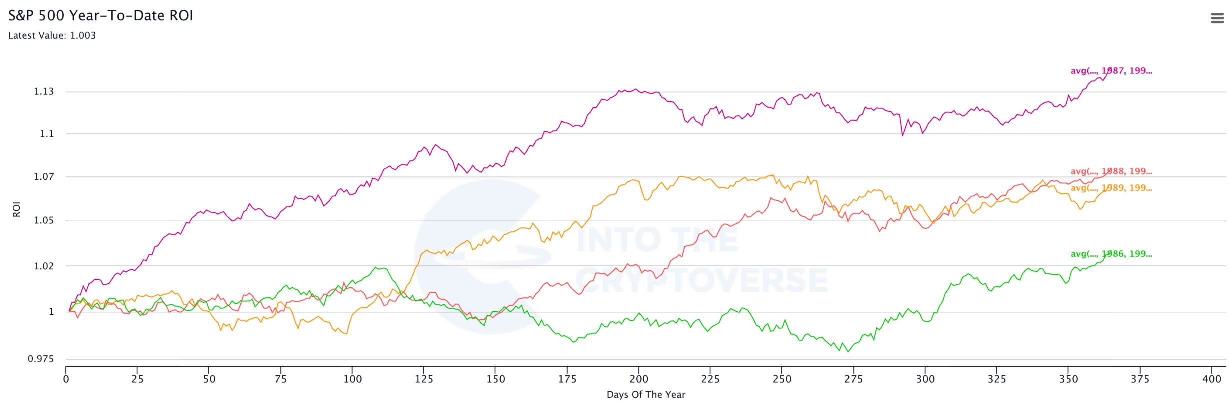

Figure 11: Average Annual Returns by Presidential Cycle Year. Averaged years include pre-election years (purple), election years (yellow), post-election years (orange), and midterm years (green).

Midterm years underperform pre-election, election, and post-election years on average. The practical implication is that sustained equity weakness is more plausible in midterm years. If weakness proves durable, corporate hiring behavior may shift, increasing the probability of layoffs and nonlinear unemployment acceleration.

This section frames a conditional trigger: a shallow correction that reverses quickly is economically manageable. A correction that persists changes behavior and raises recession risk materially.

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4. Yield Structure and Financial Conditions

Yield configuration and financial conditions remain consistent with late-cycle restrictive transmission. Interpreting the curve correctly matters, because normalization is often treated as inherently positive. Historically, curve behavior is more nuanced. A curve can normalize because growth is accelerating, or because the market is pricing deterioration and policy response. Those two outcomes have very different implications for risk.

The curve experienced prolonged inversion and has begun partial normalization. Historically, recession risk tends to rise during re-steepening phases rather than at peak inversion. The reason is that re-steepening frequently occurs because the front end begins to price growth deterioration and eventual policy easing, not because long-run growth expectations are improving. Put differently, the curve can “look healthier” while the underlying economy is worsening. This is why curve normalization should be evaluated alongside labor breadth, credit availability, and financial conditions.

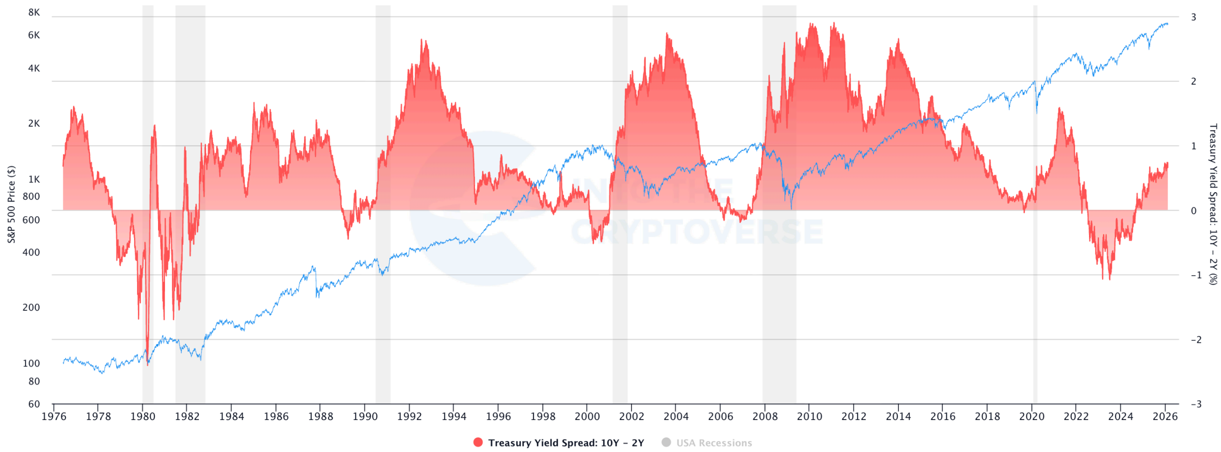

Figure 12: 10-Year minus 2-Year Treasury Spread

The 2y/10y spread reflects the market's expectation for the forward path of monetary policy relative to long-term growth and inflation. Prolonged inversion in this segment of the curve historically signals that policy is tight enough to constrain economic momentum over time. The depth and duration of inversion matter more than the initial crossover itself. In prior cycles, recession risk has tended to increase not at the first inversion, but during the subsequent re-steepening phase, when short-end yields fall in response to deteriorating growth expectations.

In the current cycle, the persistence of inversion reinforces the late-cycle interpretation. The curve configuration suggests that policy remains restrictive relative to the economy's forward trajectory. Until normalization occurs through stronger growth rather than policy easing in response to weakness, the signal remains consistent with restrictive digestion rather than renewed expansion.

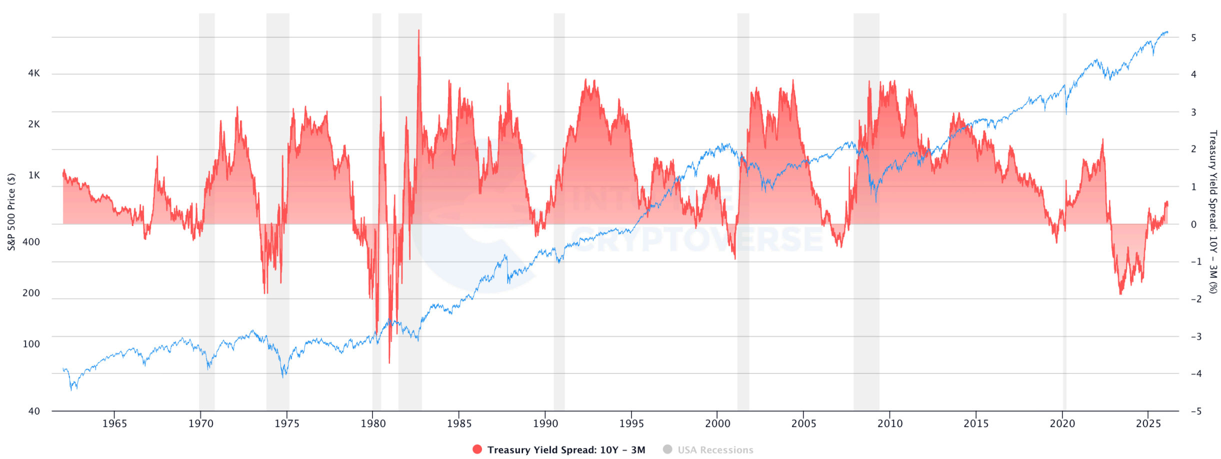

Figure 13: 10-Year minus 3-Month Treasury Spread

The 3m/10y spread remains particularly informative because it captures the relationship between policy-proximate rates and long-term growth expectations. Persistent inversion reflects ongoing restrictiveness. Even if investors perceive that tightening is finished, an inverted 3m/10y often signals that the real economy has not yet fully absorbed the restrictive stance, and that financial conditions remain tight enough to restrain risk appetite. Policy restrictiveness relative to market-implied neutral remains visible in the front end.

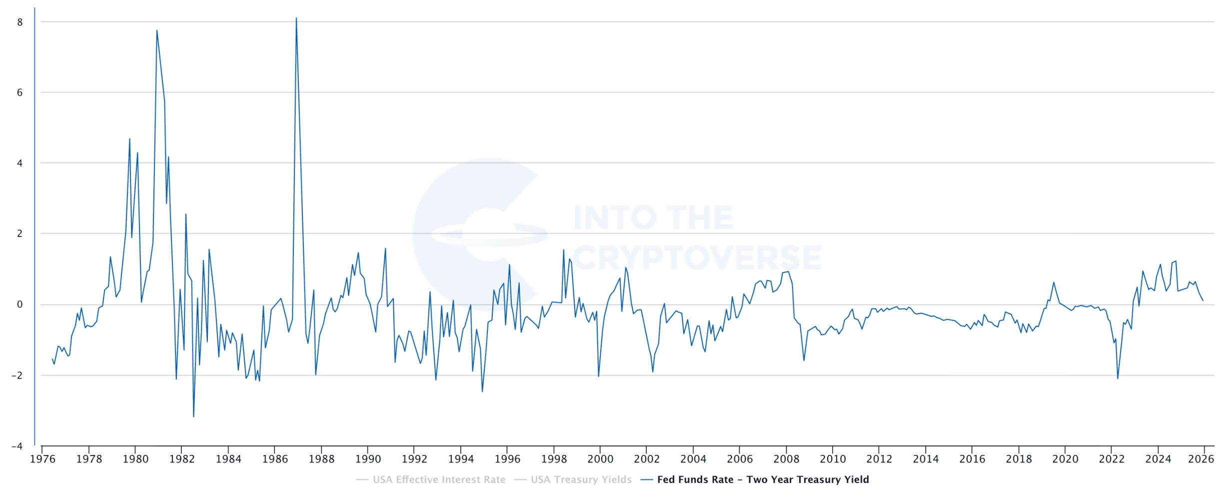

Figure 14: Federal Funds Rate minus 2-Year Treasury Yield

A positive spread between the policy rate and the 2-year yield indicates policy remains restrictive relative to near-term neutral expectations. When the policy rate sits above the 2-year yield, it typically reflects that the market is pricing weaker growth or future cuts, while policy remains tighter in the present. Historically, durable risk expansions occur when this relationship becomes clearly accommodative, not when it remains positive and restrictive.

Real yields reinforce the restrictive regime. Elevated real yields raise the hurdle rate for capital deployment and compress valuation multiples, especially for long-duration equity exposures. Even modest persistence of elevated real yields can keep risk premia from compressing meaningfully, limiting the ability of high-beta assets to sustain broad leadership. Financial conditions synthesize these crosscurrents.

Financial conditions have eased modestly from peak tightness, but the level remains far from loose. Stabilization is meaningful because it reduces immediate tail risk, but stabilization alone does not generate a strong impulse for broad risk expansion. Historically, the strongest bull phases have occurred when liquidity is improving and financial conditions are loosening simultaneously. The current configuration looks more like stabilization under constraint: enough to prevent rapid deterioration, but not enough to support indiscriminate beta exposure.

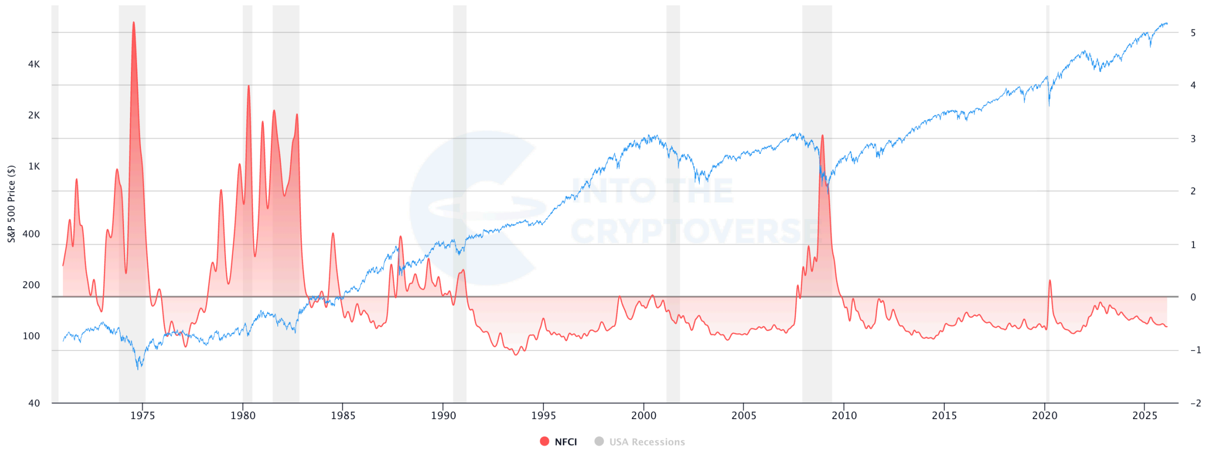

Figure 15: Chicago Financial Conditions Index

This environment tends to produce dispersion. Some sectors and themes can perform well, particularly those with cash-flow resilience or structural demand support, while broad index-level risk appetite remains capped.

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5. Housing

Housing is one of the clearest transmission channels of restrictive policy into the real economy. Elevated mortgage rates and persistently positive real yields reduce affordability, dampen transaction volumes, and moderate construction activity. The key macro question is whether housing is simply cooling in response to higher rates, or whether it is becoming a stress amplifier through forced selling and credit impairment.

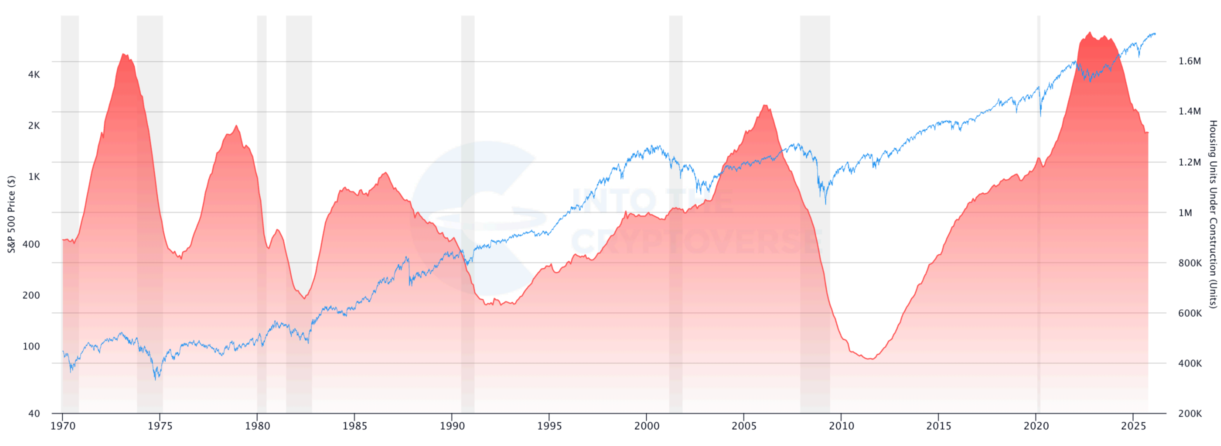

Figure 16: Housing Units Under Construction

Units under construction have rolled over from cycle highs. While still elevated relative to pre-pandemic norms, the direction of travel reflects moderation. Construction is typically sensitive to both financing costs and forward demand expectations. A sustained decline in construction can have broader macro implications through construction employment, materials demand, and regional service economies.

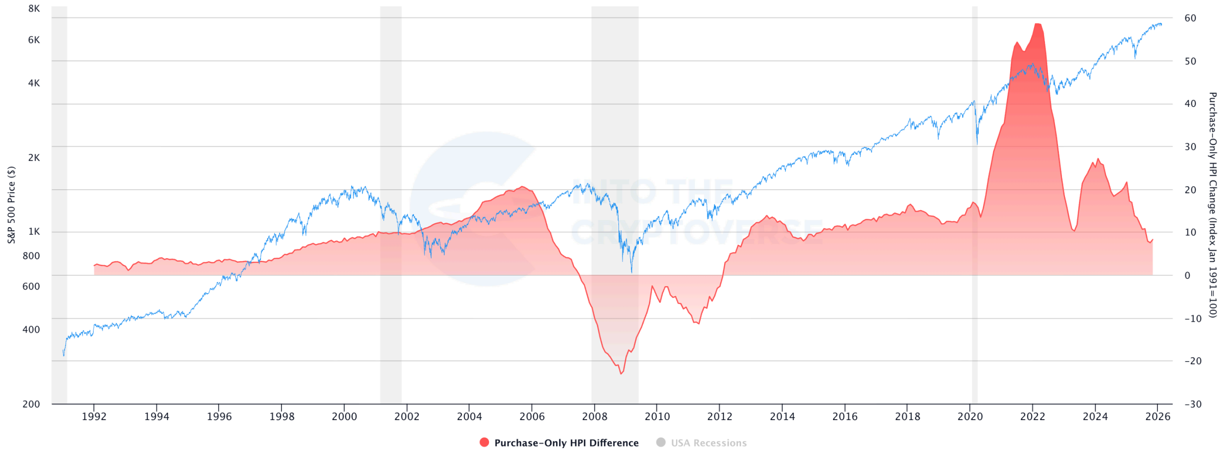

Figure 17: Purchase-Only House Price Index Year-Over-Year

Home price growth has moderated materially from prior highs. The deceleration reflects affordability constraints rather than forced liquidation. Importantly, this regime differs from 2006–2008 in that household balance sheets and underwriting quality appear stronger. That reduces the probability that modest price deceleration turns into a systemic credit event without a labor shock.

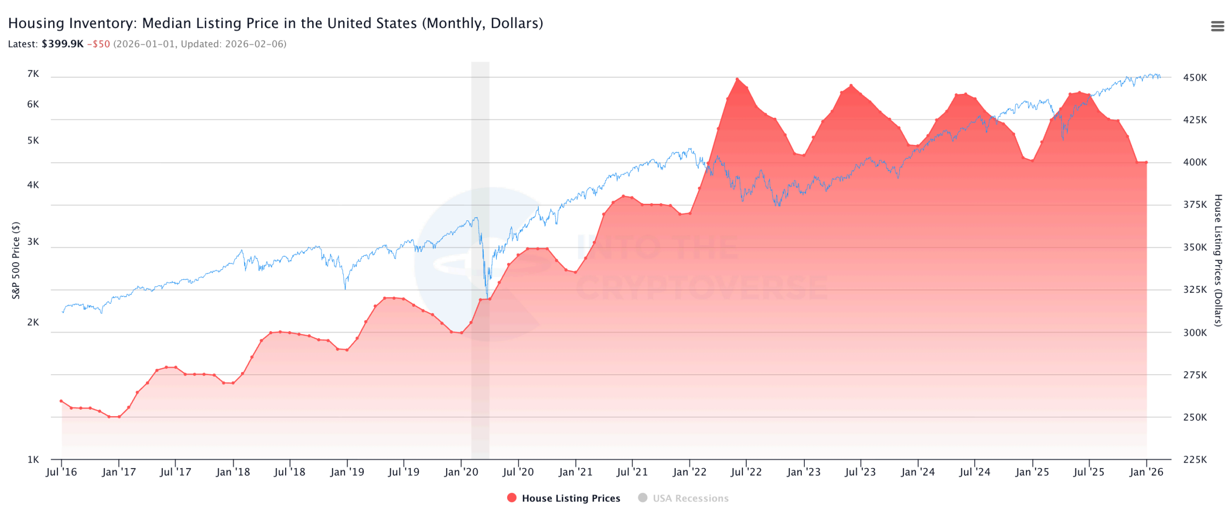

Figure 18: Median Listing Prices

Listing prices have plateaued rather than collapsed. Sellers are adjusting expectations, but widespread capitulation is absent. Inventory normalization appears gradual. This pattern is more consistent with cyclical cooling than with stress-driven liquidation.

Housing today looks like restrictive-rate cooling rather than systemic fragility. The regime would likely change if unemployment were to rise materially, if financial conditions tightened further, or if equity weakness became durable enough to trigger layoffs that reduce demand and push sellers into forced behavior. In the current configuration, housing reinforces the broader macro assessment: late-cycle deceleration under restrictive real yields, not collapse.

6. Sector Rotation and Metals

The Economic Policy Uncertainty Index has risen meaningfully in recent months, approaching levels that historically coincided with late-cycle stress, geopolitical uncertainty, and monetary inflection points. While the S&P 500 has remained resilient on an absolute basis, elevated policy uncertainty tends to coincide with greater dispersion across regions and sectors.

Periods of elevated US policy uncertainty often weaken confidence in domestic growth leadership. When that occurs alongside a softening dollar, international equities can begin to outperform US benchmarks on a relative basis. A declining or stable dollar eases global financial conditions, supports emerging markets, and reduces the external funding pressure that typically constrains non-US risk assets.

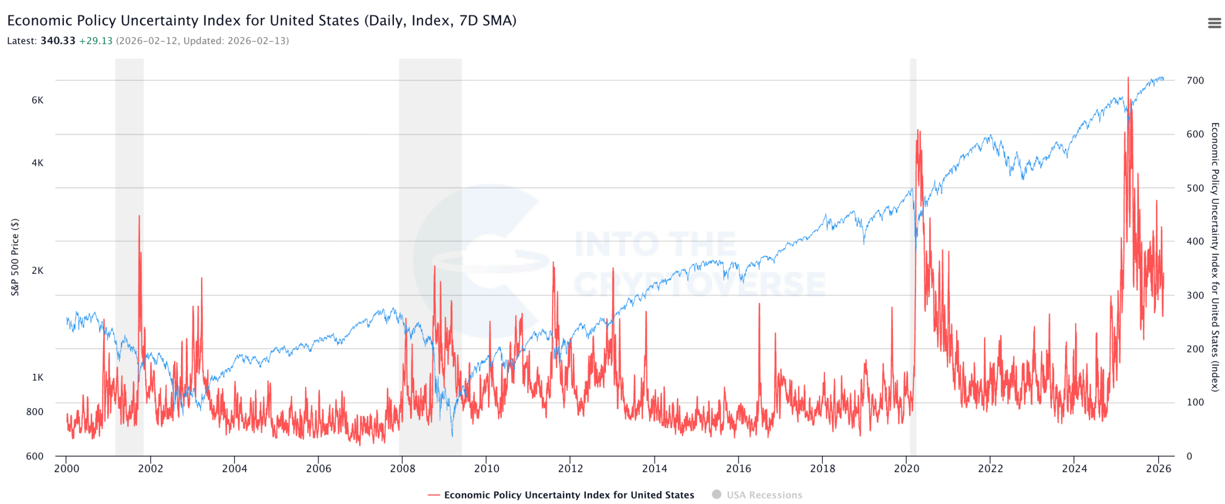

Figure 19: Economic Policy Uncertainty Index

Over the past year, the dollar has trended lower, which has coincided with improved relative performance from international equities versus US indices. This dynamic is consistent with prior late-cycle regimes in which global markets outperform during phases of US policy ambiguity and dollar softness.

However, this relative leadership is conditional. If the dollar were to reverse higher in a manner similar to 2018, global financial conditions could tighten even if US balance sheets are expanding gradually. A sustained dollar rally would likely pressure international assets first, reduce the relative performance advantage, and potentially reassert US defensive leadership. In that sense, dollar direction remains a critical variable for assessing whether international outperformance persists or fades.

Late-cycle regimes tend to reward selectivity and cash-flow resilience. When real yields remain elevated and policy is restrictive relative to neutral expectations, long-duration growth assets often struggle to sustain leadership. In contrast, sectors tied to tangible demand, intensity, and real assets can demonstrate relative resilience.

Energy and industrial exposures remain comparatively stable in this environment. Energy has historically outperformed high-beta assets during midterm years, particularly when liquidity is not aggressively expanding. Structural demand drivers such as electrification, grid expansion, and AI-related compute buildout strengthen the long-run case for power and fuel inputs. The positioning implication is not that energy avoids volatility, but that it often holds up better relative to speculative duration when monetary conditions are only gradually easing.

Manufacturing and industrial themes can also benefit from dispersion. Even in late-cycle regimes, markets are rarely uniformly weak. Pockets of optimism can persist in areas supported by fiscal policy, capital expenditure cycles, or secular infrastructure investment. Late cycle does not eliminate opportunity, but rather concentrates it. That broader rotation dynamic can be seen clearly when evaluating equities relative to gold.

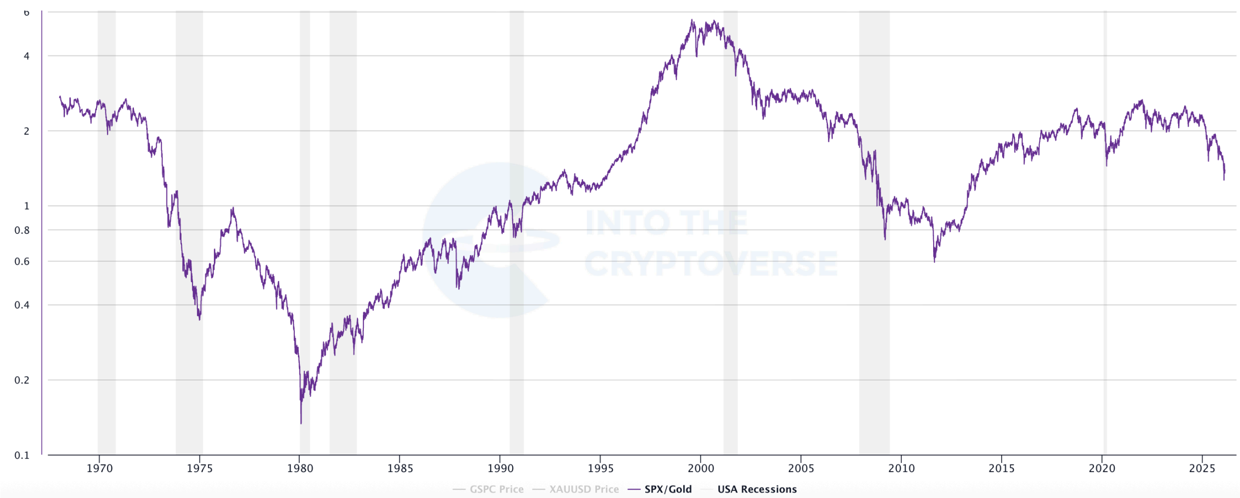

Figure 20: S&P 500 / Gold Ratio

This chart illustrates the long-term relationship between equities and gold. Extended periods of equity leadership are characterized by a rising SPX/Gold ratio, while late-cycle and stress regimes often see the ratio reverse as capital rotates toward defensive real assets.

The current structure suggests that equity outperformance versus gold has stalled. In prior cycles, sustained reversals in this ratio have coincided with periods where investors de-risk incrementally rather than abruptly. The pattern mirrors what is often observed within crypto markets, where high-beta assets bleed into Bitcoin, and Bitcoin can eventually bleed into more defensive stores of value when macro pressure persists. Stocks bleeding to gold reflects the same hierarchy of risk compression.

Metals remain relevant within this structure. They often benefit from late-cycle uncertainty, real asset demand, and diversification flows, though they are not immune to volatility.

Figure 21: Gold/Silver Ratio

The gold-silver ratio reached a major support area as silver's rally intensified, and silver subsequently cooled. Historically, silver frequently peaks before gold during late-cycle phases, reflecting a rotation away from higher-beta real assets toward the more defensive metal. The 1973–74 and 2011 cycles offer precedent, where silver topped first and gold followed later.

That said, history also shows that silver can consolidate for extended periods and later make new highs within the same broader secular cycle. The correct framing is not to declare a structural top, but to recognize cyclical cooling risk while leaving open the possibility of renewed upside if macro uncertainty increases or liquidity conditions become more forceful.

Gold itself behaves differently across regimes. In prior secular gold bull markets, recessions occurred during the broader uptrend and gold proved more resilient than equities, recovering to new highs before risk assets stabilized. In some cycles, gold peaked without a recession. The implication is regime awareness rather than certainty. Metals can provide structural support during late-cycle conditions, but risk management remains essential.

Taken together, the sector rotation landscape suggests continued caution toward high-beta duration and selective overweight toward energy, industrial exposure, and defensive real assets. The opportunity set remains active, but it is increasingly dependent on relative positioning rather than broad index expansion.

7. Recession Risk Indicators and Composite Signals

While the preceding sections evaluated liquidity, labor dynamics, yield structure, and sector rotation independently, this section assesses composite recession risk signals derived from integrated macro inputs. These indicators synthesize employment trends, income flows, and production activity into forward-looking regime measures. Historically, such composite models do not peak at cycle highs; they rise meaningfully only once financial stress becomes durable and self-reinforcing.

This distinction is critical. Recessions are rarely triggered by a single data point. They emerge when multiple economic channels deteriorate simultaneously and persistently. The following recession risk metrics are designed to detect that transition.

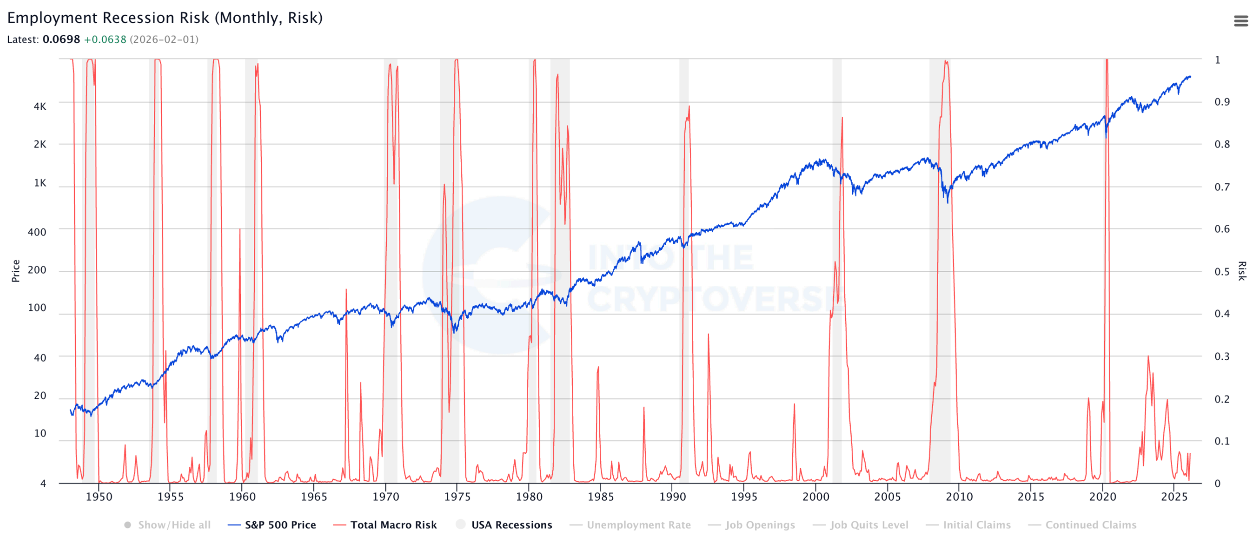

Figure 22: Employment Risk Indicator

The Employment Risk Metric has risen from its expansionary lows and now reflects late-cycle cooling. However, it remains below levels historically associated with confirmed recession regimes.

This indicator incorporates trends across hiring, separations, wage growth, and broader labor-market breadth. Its historical behavior shows that it typically accelerates only after layoffs begin rising in a sustained fashion and unemployment shifts from gradual drift to nonlinear expansion.

At present, the model suggests deceleration but not contraction. The absence of persistent layoffs continues to restrain this measure. Importantly, the indicator has historically responded more to prolonged equity deterioration than to brief market corrections. When asset prices weaken and remain suppressed, corporate behavior shifts defensively, which then feeds into labor metrics. That transmission has not yet materialized. The implication is that employment risk is conditional rather than acute.

The National Income and Product Risk indicator integrates measures of aggregate income growth, real output dynamics, and underlying demand trends. It is designed to capture deterioration in the economic foundation rather than volatility in financial markets.

The model has drifted higher over recent months, consistent with late-cycle deceleration and restrictive monetary conditions. However, it remains below historical recession thresholds. Income-based measures typically confirm downturns after corporate margin compression and employment contraction take hold. They rarely lead them.

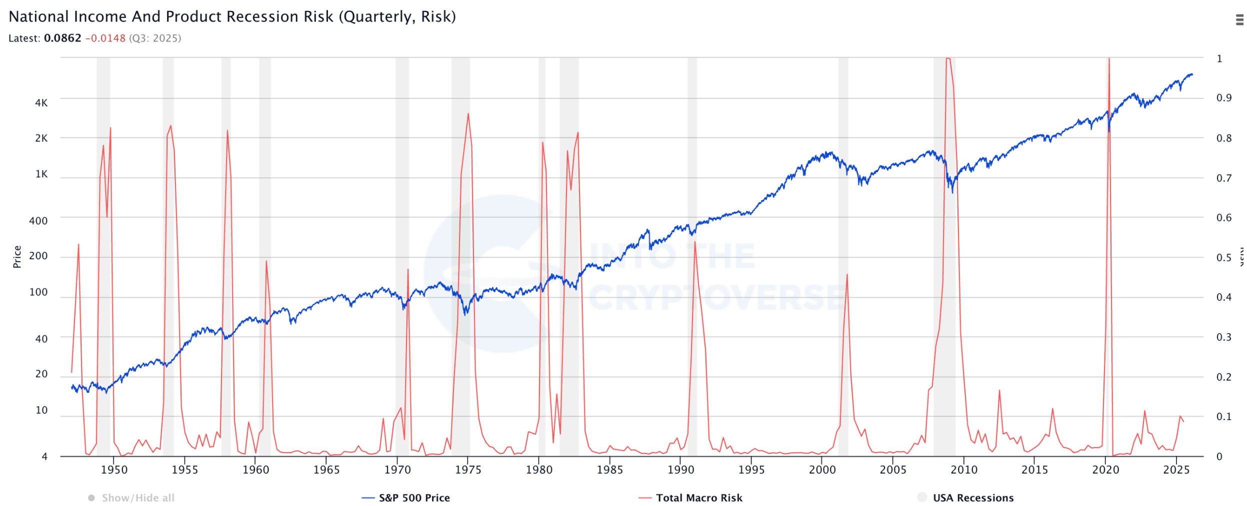

Figure 23: National Income and Product Risk Indicator

The current reading reflects slowing momentum rather than income collapse. Real output growth has moderated, but aggregate income remains sufficiently stable to prevent the feedback loop that defines recessionary contraction. From a portfolio perspective, this supports the view that broad economic stress has not yet become systemic.

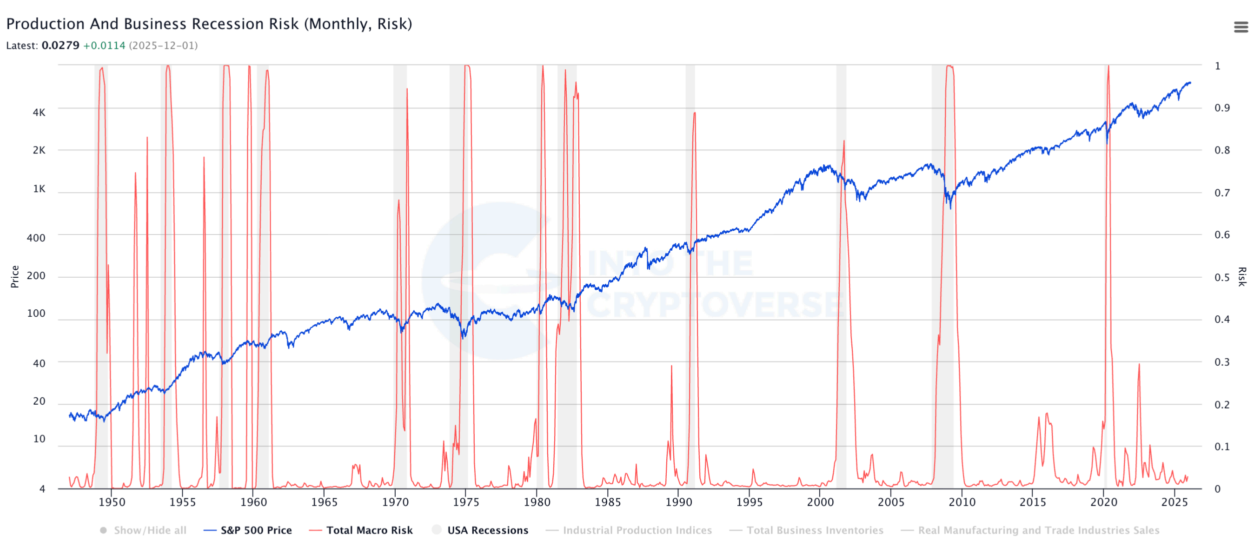

Figure 24: Production and Business Risk Indicator

The Production and Business Risk metric evaluates industrial activity, business investment trends, and forward-looking corporate signals. It tends to rise when demand compression begins affecting output decisions and capital expenditure plans.

This indicator has softened and reflects moderation in production growth, particularly within interest-rate-sensitive sectors. However, like the employment metric, it has not reached levels historically associated with full recession regimes.

In prior cycles, production risk escalated only after financial tightening translated into sustained demand contraction. At present, while financial conditions remain restrictive, the transmission has been gradual rather than abrupt. The model therefore suggests late-cycle digestion rather than systemic contraction.

Taken together, the three recession risk indicators convey a consistent message: the economy is decelerating within a restrictive late-cycle environment, but it has not transitioned into confirmed recession.

These models historically rise sharply only after a durable shock propagates through multiple channels simultaneously. In the current regime, liquidity has tightened and financial conditions have constrained speculative expansion, yet the self-reinforcing loop between equity weakness, layoffs, income contraction, and production decline has not developed.

This reinforces the broader framework of the memo. Recession risk has increased relative to earlier expansionary phases, but remains conditional. The most likely trigger for a material escalation would be sustained equity weakness that alters corporate hiring behavior and compresses income growth in a persistent manner.

Until that transition occurs, the regime is best characterized as restrictive digestion rather than confirmed contraction.

For allocators, this distinction matters. It argues for capital discipline, sector selectivity, and risk management rather than indiscriminate de-risking.

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8. Crypto Market Structure

Bitcoin appears to have completed its typical post-halving advance in Q4 2025 and appears to have transitioned into a midterm-year digestion phase (read the crypto-focused report published in January for a deeper dive - https://www.benjamincowen.com/reports/crypto-macro-risk-memo-q1-2026). Historically, the year following the post-halving peak tends to be characterized by compression, lower volatility expansion, and declining year-to-date returns.

The current structure bears resemblance to prior midterm years such as 2014, 2018, and 2022. While each cycle differs in magnitude, the pattern of early-year weakness and sustained digestion is consistent.

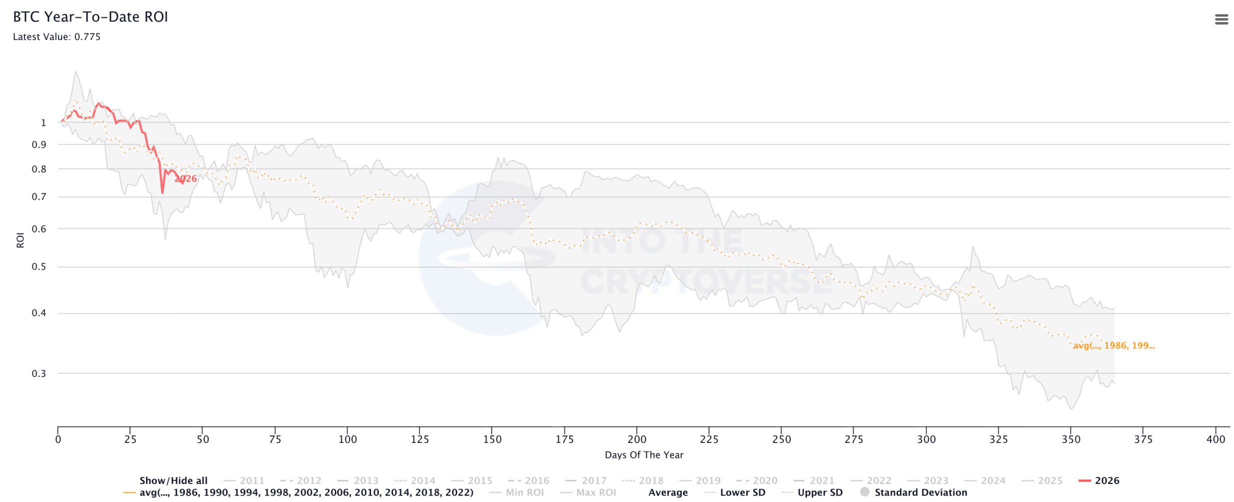

Figure 25: Bitcoin Year-To-Date ROI vs Midterm Years (2014, 2018, 2022, one standard deviation band)

Year-to-date performance in 2026 is currently tracking within one standard deviation of prior midterm-year paths. That alignment does not imply identical outcomes, but it reinforces the idea that current price action is not anomalous relative to historical cycle behavior.

To place the current cycle in broader context, it is useful to examine cumulative returns from prior cycle bottoms.

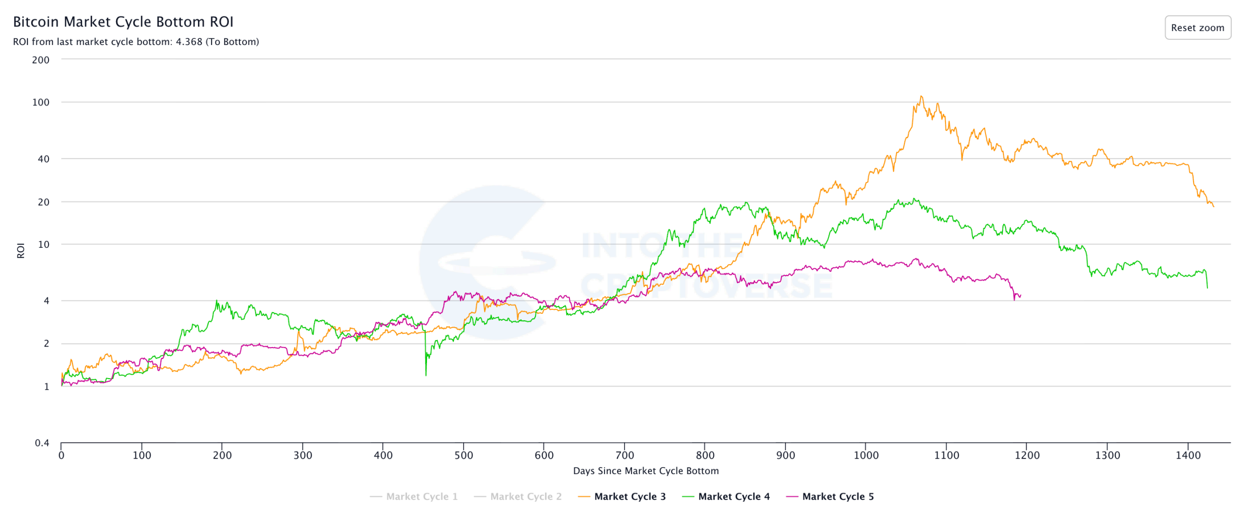

Figure 26: Bitcoin Market Cycle Bottom ROI Across Cycles

Measured from market cycle lows, Bitcoin has historically delivered diminishing peak multiples across successive cycles. The 2023–2025 expansion advanced materially but did not display the same magnitude of speculative blow-off seen in earlier eras. This supports the interpretation that the 2025 peak occurred under relatively muted speculative participation compared to 2017 or 2021.

That distinction matters. When markets top on euphoria, liquidation tends to be sharp and disorderly. When they top on apathy, the unwind often resembles 2019, marked by slower compression, reduced participation, and prolonged consolidation. The 2025 peak lacked the broad-based speculative excess that typically accompanies terminal cycle blow-offs.

Relative performance dynamics add another layer of structural context.

Figure 27: BTC/SPX Overlay with S&P 500

In prior late-cycle environments, Bitcoin has tended to weaken relative to equities before equities themselves exhibit sustained stress. In 2019, Bitcoin rolled over while the S&P 500 continued advancing. It was only after equity weakness became more pronounced that broader liquidity conditions shifted meaningfully.

This sequencing reinforces the concept of risk rolling down the curve. High-beta crypto typically reacts first to restrictive liquidity conditions. Equities often follow if financial stress becomes persistent. The absence of sustained equity weakness thus far helps explain why broader systemic stress has not emerged.

Bitcoin dominance provides insight into how much speculative excess had already been repriced prior to the 2025 peak.

Figure 28: Bitcoin Dominance excluding stable coins

From 2022 through 2025, altcoins experienced a prolonged bleed relative to Bitcoin. Much of the excess risk in the outer edge of the crypto risk curve was effectively deflated before Bitcoin itself topped. As a result, dominance has not accelerated sharply higher during the current decline. This behavior mirrors early 2019, when speculative excess had already been flushed before broader compression unfolded.

Liquidity sequencing remains central to the structural outlook. In the prior cycle, Bitcoin bottomed shortly after M2 peaked, not before. Crypto markets anticipate shifts in monetary conditions rather than respond contemporaneously to peak aggregates. Turning points in liquidity often precede durable recoveries, but confirmation typically follows rather than leads.

If liquidity expansion proves gradual rather than forceful, risk assets may continue compressing before a durable expansion phase resumes. Conversely, a more aggressive easing impulse or sustained equity stress sufficient to shift policy expectations could accelerate recovery timing.

Taken together, crypto remains in a midterm digestion regime. Tactical rallies are possible. Structural expansion likely requires either stronger liquidity impulse or broader equity weakness that materially alters monetary policy expectations.

Conclusion

The current macro regime reflects restrictive digestion rather than early-cycle expansion. Quantitative tightening has ended, but liquidity remains constrained by elevated real yields, restrictive policy relative to neutral expectations, and the potential for renewed dollar strength. The labor market is softening gradually and broadly, yet layoffs remain contained, preventing nonlinear unemployment dynamics. Equity durability remains the key conditional variable. If equity weakness is shallow and short-lived, the labor market can continue to cool without recession. If weakness becomes durable, corporate behavior may shift and layoffs may rise, increasing recession risk through a negative feedback loop.

Yield structure and financial conditions support a dispersion environment in which select sectors can outperform even if broad index-level risk appetite remains capped. Housing is cooling under restrictive financing conditions without clear systemic stress, but it would become more fragile if labor were to deteriorate materially or if financial conditions tightened again.

Sector rotation continues to favor tangible demand exposure such as energy and capital-intensive industrial themes over long-duration speculative duration. Metals remain structurally supported, while acknowledging the possibility of cyclical consolidation.

Crypto is behaving consistently with prior midterm digestion years. The absence of euphoric excess at the 2025 peak suggests a slower compression dynamic consistent with 2019-style mechanics. Durable re-expansion likely requires either a stronger liquidity impulse or equity stress that forces a clearer easing response.

In this regime, the appropriate posture remains capital discipline with selective deployment into areas of structural strength, while maintaining caution toward broad high-beta exposure until the macro impulse becomes decisively supportive.

Positioning Implications

The current regime favors capital discipline and selectivity over broad beta expansion. Restrictive real rates, defensive rotation, and midterm-year volatility argue for caution toward long-duration growth and high-beta assets.

Within equities, relative resilience remains concentrated in energy, industrial exposure, and sectors linked to tangible demand and capital investment. Metals can remain structurally supported in late-cycle uncertainty regimes, though volatility should be expected. International exposure may continue to outperform domestically while dollar conditions remain benign.

Crypto appears to be in a cyclical contraction phase following the post-halving advance. Tactical rallies are possible, but durable expansion likely requires a stronger liquidity impulse or sustained macro inflection.

The appropriate stance is not indiscriminate de-risking, but calibrated exposure with emphasis on regime alignment, liquidity awareness, and downside discipline.

What Would Change This View

The current assessment reflects a late-cycle restrictive digestion regime characterized by elevated real yields, gradual labor cooling, defensive rotation, and conditional recession risk. This framework is probabilistic, not dogmatic. Several developments would warrant reassessment because they would represent a structural shift rather than incremental evolution.

First, a nonlinear deterioration in labor conditions.

The base case assumes gradual softening, not abrupt contraction. Unemployment can drift higher without triggering recession if layoffs remain contained and corporate balance sheets absorb margin pressure. What would materially change the outlook is a sustained acceleration in layoffs accompanied by a persistent rise in initial and continuing claims. A shift from gradual cooling to reflexive labor shedding would signal that the negative feedback loop between equity weakness, corporate caution, and income contraction has begun. That would meaningfully increase recession probability.

Second, durable equity suppression rather than episodic corrections.

Short-lived drawdowns, such as those observed in early 2025, do not typically alter corporate behavior if they reverse quickly. What matters is persistence. If equities were to decline and remain depressed for an extended period, capital expenditure, hiring intentions, and credit risk tolerance would likely adjust defensively. Historically, it is not the initial equity decline that triggers recession dynamics, but the durability of weakness. Sustained suppression would increase the probability that labor and credit channels transmit more forcefully into the real economy.

Third, dollar strength that becomes structurally constraining.

The dollar does not need to rally to change the view, as upside dollar risk is already embedded within the late-cycle framework. However, a sustained and forceful dollar advance would tighten global financial conditions more materially, particularly across international equities, commodities, and higher-beta assets. A brief dollar bounce would be consistent with restrictive digestion. A durable uptrend that constrains global liquidity transmission would reinforce tightening pressures and potentially accelerate defensive rotation.

Fourth, a decisive policy pivot toward accommodation.

The base case assumes stabilization rather than aggressive easing. A rapid decline in real yields, policy positioning shifting clearly below neutral, or renewed balance sheet expansion at a scale that materially alters liquidity conditions would represent a transition from restriction to accommodation. That environment would likely support renewed duration expansion, improve risk appetite, and shift the opportunity set across equities and crypto.

In summary, the current regime remains conditional rather than static. Gradual labor cooling, selective leadership, and intermittent volatility are consistent with restrictive digestion. A nonlinear labor break, persistent equity suppression, structurally tightening dollar conditions, or forceful monetary accommodation would each justify a revised assessment.

Appendix

Table 1: Indicator Summary Table

Indicator	Current Regime	Risk Bias
Liquidity	Restrictive stabilization	Neutral/Defensive
Labor	Cooling, not nonlinear	Watch
Housing	Slowing	Late-cycle
Yield Curve	Restrictive	Elevated risk
Crypto	Cyclical Contraction	Defensive/Selective

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