Here’s how you’ll know stock-market lows are finally here, says legendary investor who called ’87 crash

Billionaire hedge-fund investor Paul Tudor Jones, founder of Tudor Investment Corporation, said investors looking to time the bottom in stocks should keep a close eye on short-term Treasury yields.

Speaking Monday during an interview with CNBC’s “Squawk Box,” Jones said he expects stocks and bonds will continue to sink as the U.S. economy slides into a recession in the months ahead.

But while retail investors book losses on both their stocks and bonds, the explosion of volatility across markets is creating plenty of opportunities for macro traders like

Jones, who tend to outperform when markets turn choppy.

“These are spectacular times for macro, and great times for macro are generally not great times for general investment,” Jones said.

“Macro works when everything is broken a bit. That’s when you have the volatility that’s really best for the type of trading that I do.”

Volatility has soared across asset classes and markets as the Federal Reserve has begun the process of shrinking the size of its nearly $9 trillion balance sheet while hiking interest rates at the most aggressive pace since the 1980s. The Fed isn’t alone, of course — dozens of central banks around the world are raising interest rates as well.

The ICE BofA MOVE Index, which tracks fixed-income volatility, touched its highest level since 2007 late last month when it hit 158.99 before easing somewhat.

The CBOE Volatility Index **VIX, +3.48%**, otherwise known as the VIX, or the Wall Street “fear gauge,” climbed to 33.07 on Monday as the S&P 500 turned lower. The level of the Vix is based on trading in short-dated options on the S&P 500.

Currency-market volatility has also surged as the U.S.

dollar, the world's most popular reserve currency, has strengthened at the most rapid pace in years thanks in part to the Fed.

The ICE U.S. Dollar Index **DXY, +0.34%**, a measure of the greenback's strength against a basket of rivals, has climbed nearly 18% since Jan. 1. The index was up 0.3% on Monday to 113.15.

Asked how investors should navigate markets during a recession, Jones said he has a "playbook" that has worked in the past.

According to this playbook, Jones expects "short-term rates will stop going up, and start going down" before U.S. stocks finally bottom.

Based on this theory, Jones said 2-year Treasurys **TMUBMUSD02Y, 4.312%** are starting to look attractive as yields have risen more than 3.5 percentage points since the start of the year. Bond prices fall as yields climb.

Market strategists have been saying for weeks that moves in short-term yields have been driving swings in stocks and the dollar.

Ultimately, Jones expects the turning point for Treasury yields will help to usher in a massive rally for assets that have tumbled as inflation surged. Even cryptocurrencies like bitcoin **BTCUSD, -0.79%** will likely benefit, he said.

“When we get into that recession there will be a point when the Fed stops hiking and it starts to either slow down, or even at some point it will reverse those cuts, and you’ll have a massive rally in a variety of beaten down inflation trades including crypto,” Jones said.

Jones also said he keeps a small allocation to crypto.

“We’re going to have to have fiscal retrenchment. In a time where there’s too much money, something like crypto, specifically bitcoin and ethereum, that will have value at some point,” he said.

Stocks were on track to fall for a fourth straight session on Monday as the S&P 500 dropped 0.9%, while the Dow Jones Industrial Average **DJIA, -0.32%** shed 0.5% and the Nasdaq Composite **COMP, -1.04%** led the market lower with a decline of 1.3% as of early afternoon.