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Show Me the Money (supply)

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You do not have to possess the investigative skills of Sherlock Holmes to identify one of the compelling reasons why stocks are at all-time highs while the economy is mired in COVID-related lockdowns. The growth rate of the M2 money supply has spiked this year as both the Fed and Congress find new ways to try and keep the economy afloat. We are currently at 23% year-over-year growth in the M2 which includes all cash, checking deposits, savings deposits, and money market funds. The punch bowl has essentially been spiked to a level where it is mostly booze with a little punch. With bond yields so low, it is not surprising that much of this excess liquidity is finding its way into risk assets.

- Economists note that if the supply of money grows faster than the ability to produce, inflation is the natural consequence. I expect for the Fed to declare that inflation is not a concern right up to the day when it is.

- Another impact of the rapidly rising M2 is dollar weakness and gold at all-time highs. The USD is at the lowest level since mid-2018 and has fallen almost 10% against other major currencies year-to-date.

- Inflation has not dramatically risen because the velocity of money has declined at almost the same pace as the rise in M2. If cash is not spent on consumption and supply exceeds demand, there will not be inflation.