Global liquidity, M2 money supply, and implications for risk assets into 2026

ChainBridge Investment Research

Executive summary:

ChainBridge's base case is that risk assets outperform into the 2026 and particularly into the 2nd half of 2026, with strength extending through Q3 and Q4. The primary driver of this view is global liquidity. While economic growth and earnings matter, history consistently shows that liquidity conditions determine the direction, magnitude, and durability of risk asset cycles. Liquidity shapes discount rates, leverage capacity, and investor behaviour, making it the dominant macro variable over medium-term horizons.

The current environment is characterised by easing US monetary policy, supportive fiscal cash-flow dynamics, and a stabilisation in global money growth following one of the most aggressive tightening cycles in decades. Although risks remain, particularly from Japanese monetary policy and heavy sovereign debt issuance, ChainBridge believes these forces are more likely to introduce volatility rather than derail the broader liquidity-driven uptrend.

What liquidity means in a market context:

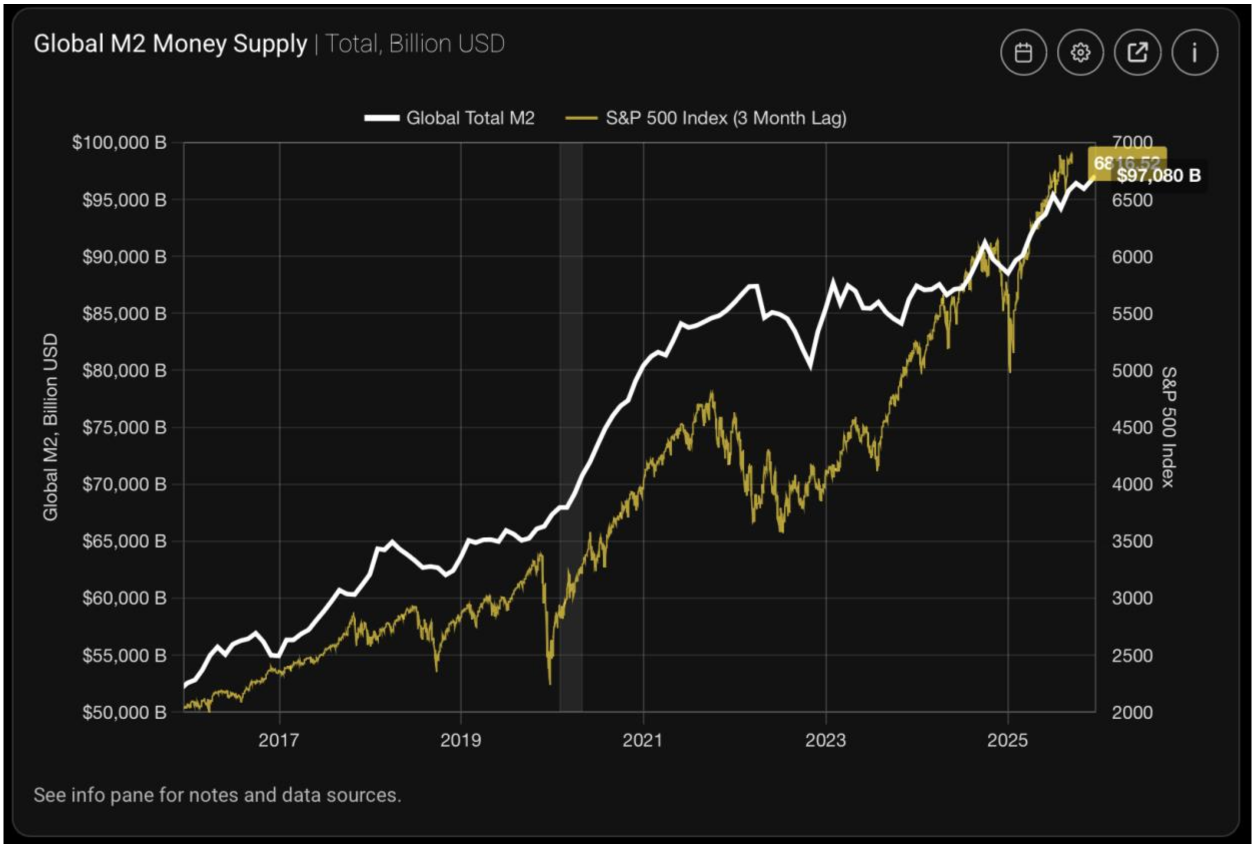
Liquidity refers to the ease with which capital can move through the financial system and be deployed into consumption or financial assets. In markets, liquidity is not a single variable but the interaction of money creation, credit availability, and financial system plumbing. Broad money growth and fiscal flows determine how much cash exists in the system, while funding markets, collateral availability, and balance sheet constraints determine how easily that cash can be mobilised.

This distinction is critical. Markets can experience liquidity stress even when money supply appears stable if funding markets tighten or intermediaries reduce balance sheet usage. Conversely, improving market plumbing can amplify the impact of even modest money growth. For this reason, ChainBridge treats liquidity as a regime rather than a data point, with M2 serving as a useful but incomplete proxy.

What M2 is and why it matters:

M2 is a broad measure of money supply that includes physical currency, checking deposits, savings deposits, and other near-money instruments. It captures the portion of money that can be readily deployed into spending or investment. While definitions vary across jurisdictions, M2 is widely followed because it provides a transparent view of whether liquidity is expanding or contracting at the macro level.

For investment analysis, the direction and rate of change in M2 are more important than its absolute level. Expanding money supply tends to lower risk premia as excess cash is reallocated into financial assets. Contracting or decelerating money supply typically coincides with higher volatility and tighter financial conditions as investors rebuild cash buffers and reduce leverage.

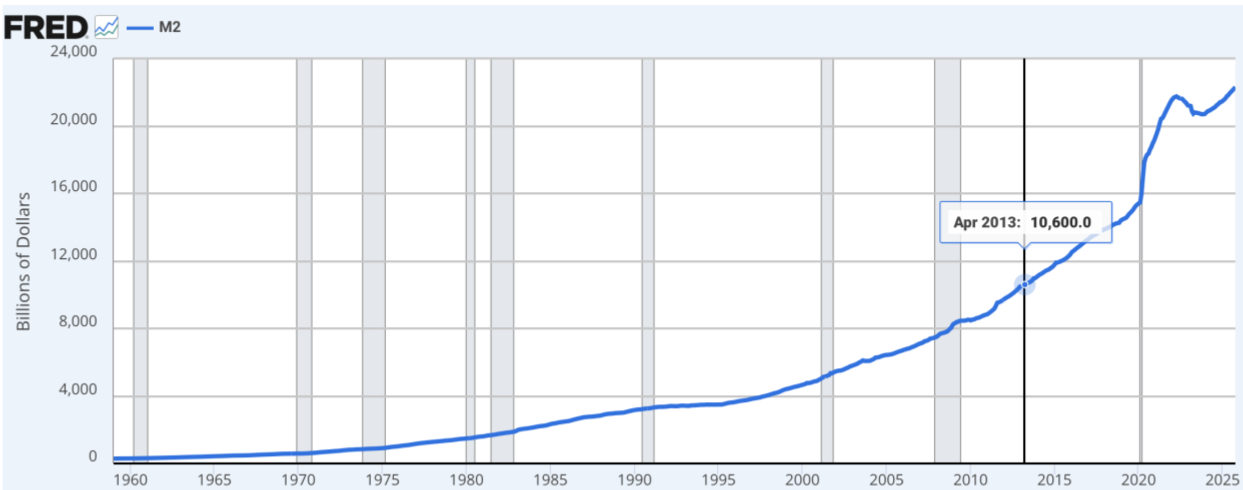


ChainBridge uses this chart to highlight that while growth slowed materially after 2022, the global liquidity base remains significantly higher than pre-pandemic norms, contributing to longer and more liquidity-sensitive asset cycles.

How liquidity transmits into risk assets:

Liquidity affects risk assets through valuation, financing conditions, and reflexive market dynamics. Lower interest rates and abundant liquidity reduce discount rates, increasing the present value of future cash flows and supporting higher asset prices. Easier funding conditions allow leverage to expand, compress credit spreads, and encourage risk-taking across equities, credit, emerging markets, and crypto.

As asset prices rise, collateral values improve, enabling further borrowing and reinforcing the cycle. This feedback loop explains why liquidity-driven markets often experience strong momentum and why reversals can be abrupt when liquidity tightens.



ChainBridge emphasises that stabilisation in money growth, even without aggressive expansion, historically coincides with improving risk appetite and declining volatility.

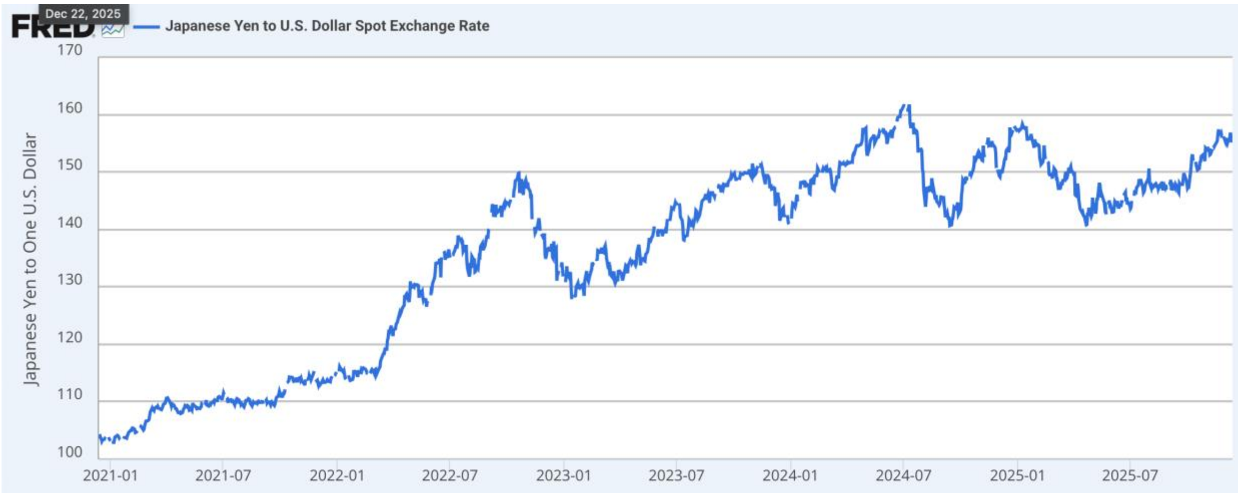
The macro liquidity backdrop into 2026:

The US policy environment has shifted meaningfully. Following three rate cuts, the federal funds target range now sits at 3.50 to 3.75 percent. This marks a transition away from restrictive policy and reduces the headwind from discount rates that dominated markets in 2022 and 2023. While rates remain well above pandemic-era lows, the direction of travel is what matters most for asset prices.

Fiscal dynamics add to the liquidity backdrop. The One Big Beautiful Bill Act has already been signed into law, and while framed as tax legislation, its cash-flow effects are relevant for markets. Tax changes that increase disposable income or accelerate refunds act as a liquidity injection into the private sector, supporting consumption, savings, and ultimately asset prices. From a market perspective, these flows can resemble stimulus even if they are not labelled as such.

Debt rollover and issuance remain an important offsetting force. Heavy Treasury supply can absorb liquidity and keep longer-term yields elevated, creating periods where financial conditions tighten temporarily despite easing policy rates. ChainBridge views this as a source of volatility rather than a structural bearish factor, provided monetary easing continues.

Japan represents the most significant global risk to liquidity conditions. A Bank of Japan rate hike would be a structural shift after decades of ultra-loose policy. Higher Japanese rates and a stronger yen can unwind carry trades and tighten global financial conditions episodically.



ChainBridge expects BOJ-driven volatility but does not view it as sufficient, on its own, to reverse a broader liquidity-driven uptrend.

Crypto, liquidity, and cycle dynamics:

Crypto assets, particularly Bitcoin, have increasingly behaved like high-beta liquidity instruments. While the traditional four-year halving cycle remains relevant, macro liquidity has become the dominant driver of performance. The extraordinary stimulus following COVID materially distorted historical cycle patterns, supporting the view that crypto has effectively shifted into a longer cycle framework.

ChainBridge interprets this not as a rejection of supply dynamics, but as evidence that liquidity regimes now dominate timing and magnitude. In an environment of easing policy and stabilising money growth, crypto tends to outperform traditional risk assets on the upside while remaining vulnerable to liquidity shocks.

Bitcoin and the relationship with M2:

Bitcoin’s relationship with M2 is often summarised by claims of a ninety percent correlation, typically based on charts that lag global M2 by roughly two to three months. These charts are useful but must be interpreted carefully. Correlation strength varies over time and depends heavily on the chosen window and construction of global M2.

What is consistently observable is that Bitcoin is highly sensitive to changes in liquidity at the margin. During periods when liquidity dominates macro-outcomes, Bitcoin has tracked global money growth closely, particularly with a lag. During other periods, idiosyncratic or regulatory factors can weaken the relationship.

ChainBridge uses this relationship as a directional input rather than a deterministic signal, combining it with real yields, dollar strength, and broader financial conditions.

ChainBridge base case into Q3–Q4 2026:

ChainBridge's base case is that easing monetary policy, supportive fiscal cash flows, and stabilising global money growth create a constructive liquidity environment that supports risk asset outperformance into the second half of 2026. Volatility driven by debt issuance and Japanese policy shifts is expected, but these forces are more likely to generate pullbacks than a sustained reversal.

Equities, credit, and crypto should all benefit from this backdrop, with the highest sensitivity in assets most exposed to liquidity and duration. If liquidity continues to ease at the margin, ChainBridge expects risk assets to trend higher into Q3 and Q4 of 2026.

Data and chart sources

https://www.federalreserve.gov

https://streetstats.finance/liquidity/money
https://fred.stlouisfed.org
https://www.lookintobitcoin.com
https://www.boj.or.jp

Disclaimer: