Gold, S&P 500 and M1 Money Supply

Let's put the argument for Decentralized Finance (DeFi) to the side, and focus on the case for gold. Here we compare the price of gold to two other major financial indicators: (a) S&P 500; and (b) M1 money supply.

The S&P 500 tracks the performance of 500 large companies, and is one of the most commonly followed equity indices. This indicator is considered a broad view of the economic health of the United States and a good proxy of the US stock market. M1 money supply represents the most liquid portions of the US money supply and consists of currency and assets that can be quickly converted into cash. We are interested in the M1 money supply because it indicates potential cash that can readily move into the S&P 500 and/or gold, where gold is typically seen as a safe haven asset during times of market uncertainty.

In this discussion, we focus on three major financial events:

- **Nixon takes US Dollar off the Gold Standard** (August 1971)
- **Stock Market crash of the Great Recession** (September 2008)
- **Start of COVID-19 Pandemic** (March 2020)

We focus on these events as it is arguable that they have made significant impacts on the price of gold and the world financial system at large. In Figure 1, we plot each of these three financial indicators with shaded regions marking these three financial events serving as demarkation points in the rate of money creation.

Abandonment of the Gold Standard (Nixon Shock)

Gold is among the rarest of natural elements making up 3 parts per billion of the earth's crust and has been a form of money for over 6000 years. The inception of the Federal Reserve Act of 1913 meant that every US dollar managed by the US Treasury was to have a 40% gold backing. On August 15th, 1971 the world began operating on a 100% fiat currency reserve backed entirely on the faith of centralized banking. This date is known as the Nixon Shock which consisted of a series of economic measures that US President Nixon took to mitigate inflation. Prior to this date, various countries were nervously demanding gold delivery in exchange for dollars in response to the inflation which ultimately led up to this decision. While the international bureaucrats of the time peppered the world with their assurance in the US dollar, (through various maneuvers in global monetary policy), common wisdom tells us that this decoupling would only spell the beginning of the end. Hence, as stated by the great philosopher Voltaire:

"*Paper money eventually returns to its intrinsic value zero*"

Upon further investigation, one could make an argument, that since 1971, US dollar hegemony has been upheld through its military control of a significant portion of the world's oil production, however that's a topic for another discussion. If we look at the chart in Figure 1, we can visually see an inverse correlation between the S&P 500 and gold prices (USD) during the period of

1971 to 2008. However, M1 money supply rose at a consistent rate with a tapering in the mid 1990s. During this time period, we see percentage growth in the gold prices (USD) outperformed percentage growth in the S&P 500 and M1 money supply (Table 1). We see that gold prices (USD) rose by 1811% compared to a 1191% rise in the S&P 500, and a 548% increase in M1. From a top down view, the fact that S&P 500 significantly outpaced the growth in M1 during this time indicates innovative healthy market activity. However, what's interesting is the growth in gold prices (USD) outpaced growth in the S&P 500 as the central bankers honour gold's known store-of-value (as done for centuries prior) despite the US dollar decoupling from the Gold Standard.

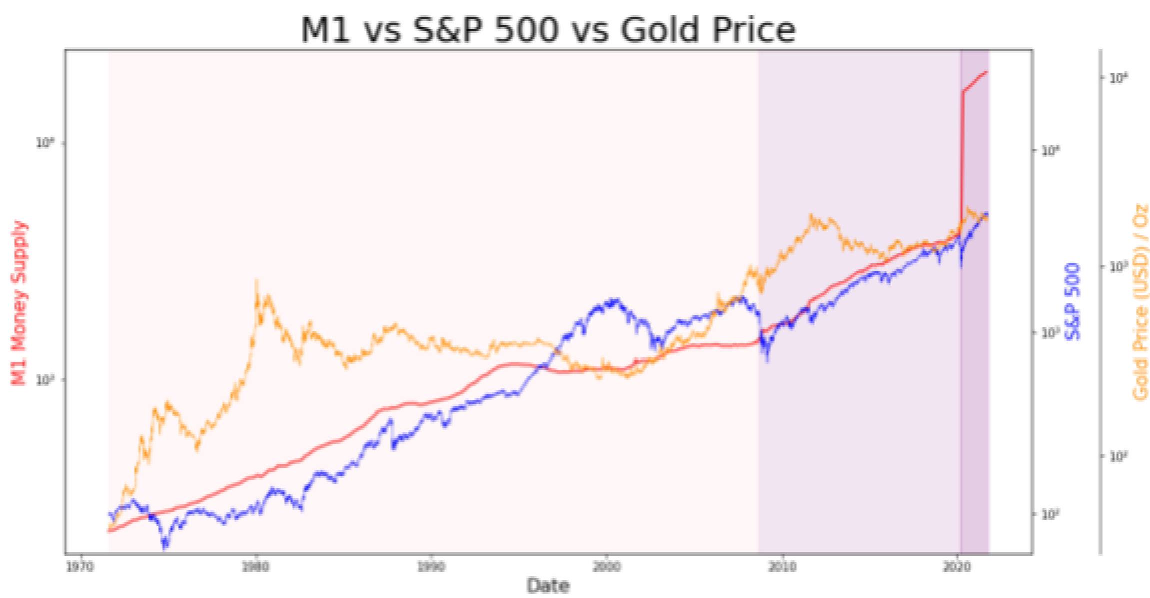

Fig 1: M1 Money Supply vs S&P 500 index vs Gold Price / oz. The shaded three regions of interest are marked by three significant dates: (a) US Federal Reserve decoupling from the Gold Standard (Aug 1971); (b) beginning of the great recession (Sept 2008); and (c) COVID-19 Pandemic (Mar 2020)

Metric	1971 to 2008	1971 to 2020	1971 to present
Gold / oz (USD)	1811 %	3663 %	3984 %
S&P 500	1191 %	3329 %	4312 %
M1 Money Supply	548 %	1798 %	8802 %

Table 1: Comparison of percentage growth between Gold / oz (USD), S&P 500 and M1 Money supply between: (a) 1971 to 2008; (b) 1971 to 2020; and (c) 1971 to present day

Post 2008 Great Recession (Let the Good Times Roll)

The great recession of 2008 was triggered by the subprime mortgage crisis which began in 2006 and triggered a stock market crash that resulted in a ~ 50% drop in markets around the world from all time highs. This led to a worldwide “too big to fail” banking crisis where the US Treasury enacted a massive bailout program for the banking sector. As we can see from Figure 1, this crisis also triggered a significant increase in the rate of M1 supply creation which maintained its trend between the years 2008 and 2020. We can also see from Figure 1 that growth in the S&P 500 is tracking pound-for-pound with growth in the M1 money supply. This period of time (2008 to 2020) is known as the longest bull run in modern stock market history. There are many in the trading community who see 2008 as when the economy broke; where an arguments can be made that stock fundamentals don’t matter as much, Warren Buffet style value investing is dead, and growth investing is what only matters. When simply looking at the growth patterns marked in Figure 1 and Table 2, a top down argument can be made that newly created capital resulting from the change in Federal Reserve policies made in 2008 is simply allocated (in some form or another) into the stock market.

By referencing Table 1, we see that growth in the S&P 500 since 1971 is now roughly on pace with the growth in gold prices (USD) and growth in M1 money supply is roughly half of these two metrics. We see in Table 2, that also during this time period, S&P 500 is a more favorable investment over gold. Many arguments can be made for this phenomena which can be discussed at a later time.

Metric	1971 to 2008	2008 to 2020	2020 to present
Gold / oz (USD)	1811 %	96 %	8.5 %
S&P 500	1191 %	166 %	29 %
M1 Money Supply	548 %	193 %	369 %

Table 2: Comparison of percentage growth between Gold / oz (USD), S&P 500 and M1 Money supply between: (a) 1971 to 2008; (b) 2008 to 2020; and (c) 2020 to present day

Post 2020 Pandemic (Central Banking Unhinged)

COVID-19 is currently an ongoing worldwide pandemic that was announced in early March 2020 by the World Health Organization. This formal announcement led to wide ranging and severe impacts to the global financial system, of which many are calling a Black Swan Event. Impacts included things such as a sharp 35% drop in the S&P 500, negative West Texas Intermediate (WTI) futures prices on crude oil and a near collapse of the global corporate debt bubble. On top of that, National Health agencies around the world responded with economic shutdowns in an effort to curb the rate of the spread of infection. This prompted governments around the world to run up their federal debts to provide economic relief funds for businesses and individuals that were directly impacted by these events.

The monetary funds for this activity was supported by Central banks which stepped in with a broad array of actions to keep credit flowing to limit the economic damage from the pandemic. Such actions included: supporting financial markets, encouraging banks to lend, supporting corporations and businesses, supporting households and consumers and supporting state and municipal borrowing.

If we refer back to our chart in Figure 1, we can see the byproduct of these US Federal Reserve policies which saw a 369% increase in the M1 money supply from March 2020 to present day, as seen in Table 2. This sharp immediate increase in the M1 money supply leaves an overall 8802% increase from 1971 to present day. Compare that to the 548% increase between 1971 and 2008 marked by 37 years of relative normal economic activity, we can see that the policies of centralized banking has effectively left growth of M1 money supply decoupled from both the growth in the stock market and gold prices. This decoupling has left gold as a severely undervalued asset as the amount of free floating capital must be brought back into its 6,000 year-old historical alignment to the price of gold.

The Looming Great Reset (The Return to Truth)

Gold is sometimes referred as Kryptonite to the so-called supermen of today's centralized banking network. By referring to the percentage growth figures in Tables 1 and 2, it is easy to make the case that gold should be valued somewhere north of $10K USD from its current value of ~$1800 USD (Dec 2021). A drastic increase such as this would have impacts to the global financial system so drastic that it would command (what many are calling) the "Great Reset" of the world economic system as central bankers make their pilgrimage back to the Gold Standard. Now let's bring the case for gold into the emerging ecosystem of DeFi (where returns can be made on hodling) and we have something truly amazing, but that is a topic of future discussion, so stay tuned!