OUR TWO CENTS

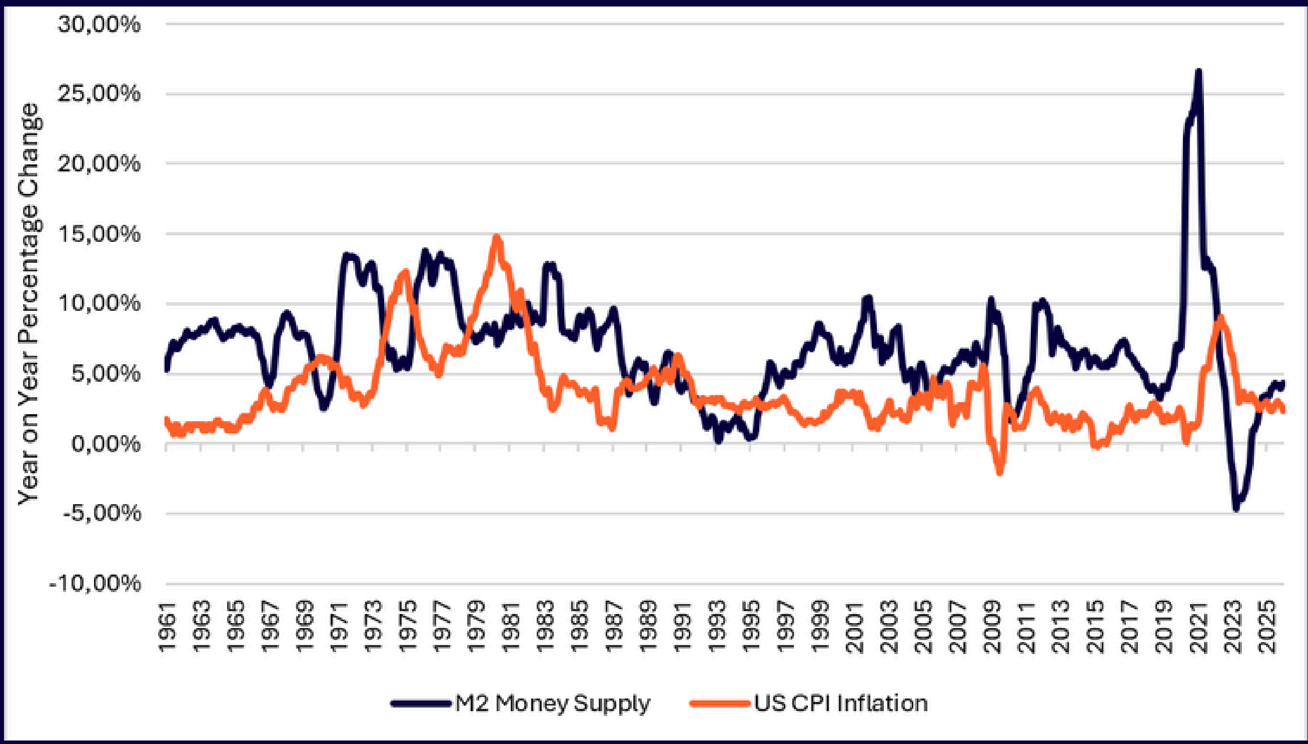
June 2026

NEW ROAD CAPITAL
INVESTMENT MANAGEMENT

Money Supply and Inflation: Signal or Noise?

Inflation has been one of the defining economic developments of recent years. After a prolonged period of stability, price pressures surged to multi-decade highs in 2022 before easing again. For investors, this raises a familiar question: what drives inflation, and can it be anticipated?

Money supply growth is often cited as a potential leading indicator. The chart below compares changes in US money supply with US consumer price inflation over time. While the relationship can appear intuitive, history shows it behaves very differently across economic regimes.



Source: Federal Reserve Economic Data (FRED)

There are periods where the two series move broadly in step. The 1970s and early 1980s are a clear example. Strong money supply growth was followed by a sustained rise in inflation, which eventually peaked near 15% in 1980. A similar pattern emerged in the post-pandemic period, when rapid expansion in money supply was followed by a marked increase in inflation. More recently, the slowdown in money supply growth has coincided with easing inflationary pressures.

However, this relationship is not stable over time.

In the decade following the Global Financial Crisis, money supply growth remained relatively steady, yet inflation stayed subdued for an extended period. Despite significant liquidity creation, price pressures remained contained. In this environment, additional money appears to have circulated more slowly through the economy, limiting its impact on consumer prices.

These differences suggest that money supply does not operate as a consistent, one-to-one driver of inflation. Its influence appears to vary depending on the broader economic environment, particularly the degree of spare capacity in the economy.

Put differently, similar changes in liquidity can result in very different inflation outcomes depending on the prevailing regime. In some environments, increases in money supply are associated with stronger price pressures. In others, the effect is more muted or delayed.

For investors, the implication is that money supply is best viewed as a contextual indicator rather than a forecasting tool. It can provide useful information when changes are large or sustained, but is less reliable in isolation during more normalised conditions.

As with many macroeconomic relationships, its usefulness depends less on whether it is “right” or “wrong”, and more on the environment in which it is being interpreted. Recognising that distinction is often more valuable than any attempt to extract a single predictive signal.

By Francois Smith

Deputy Portfolio Manager & Senior Investment Analyst:

BCom (Hons) Investment Management (UP) | MPhil in Finance (UP)
CFA Charterholder.

Francois is a Deputy Portfolio Manager & Senior Investment Analyst at New Road Capital. He focuses on company and economic research. He holds an MPhil in Financial Management Sciences (cum laude) from the University of Pretoria and is a CFA Charterholder. Francois started his career as an assistant lecturer at the University of Pretoria and before joining New Road Capital, he worked as both an equity and portfolio analyst for ultra-high-net-worth families. When Francois is not doing research, he is likely fly fishing, enjoying a book, or spending time with his family.