The Potential Market Time Bomb Few are Talking About: Monetary Premium Unwind

Government policy can cause the redistribution of wealth in several ways. This article discusses what happens when the money supply is inflated, leading to currency debasement.

Money supply inflation is regressive. Rather than growing wealth for all it typically increases the prices of assets and essentials (like food, energy and shelter). In turn, this widens the wealth inequality gap and increases the chance of societal unrest.

All else being equal, money loses value when its supply goes up. For more on what money actually is, see the article series on our website, titled "what is money anyway?"

Printing money and storing value

Our money (£/$/euro) is debt-based in nature. The money supply is increased by increasing debt. This requires a higher money supply to avoid defaults, which creates more debt ad infinitum. Right now, we see very high government and consumer borrowing rates due to the combined hangovers from the 2008 financial crisis and 2020 COVID crisis. During these times, central bank balance sheets ballooned due to their effective printing of money. And these balance sheets are still very large.

People, quite rightly, want to find somewhere to store the value of their work. And, when they lose trust in governments (or, strictly, central banks) to protect that value they look beyond cash to hold their wealth.

More than just a home

Societally, people in the UK have viewed bricks-and-mortar as a safe place to store their accrued wealth (effectively using their house as a savings account) and this has served them well over many decades. Therefore, the multiples of house prices to earnings not only represents the utility value of a building and land rights, but also reflects the fact that the asset is expected to hold its "real" value, and protect what has been earned.

The monetary premium

The portion of an asset price that relates to "being used as a savings account" is defined as the "monetary premium". The monetary premium in an asset can fluctuate, sometimes significantly, depending on: the options available, risk appetites, the perceived risks, cultural preferences, and accessibility.

Unaffordable and over-valued

Over time, this monetary premium has increased so much that many (particularly younger) people now feel home ownership is beyond them.

A similar argument can be applied to other traditional financial assets, such as equities (company shares) and bonds (debt), held to seek higher returns over time to beat inflation.

The price of shares (considered as a multiple of company earnings) fluctuates and often moves below and above its longer-term average. Different measures, such as Robert Shiller's cyclically adjusted "CAPE" measures, seek to show how prices move, factoring in the longer-term inflation issue mentioned above. Currently, CAPE is generally indicating significant over-valuation relative to history.

On the basis that markets tend to correct themselves over time, but with uncertain timing, one may expect a sell-off to be due for global stock markets. However, this sell-off could be in inflation-adjusted terms so that nominal equity prices are flat or rising.

A risk in plain sight and how to hedge it

One major risk that's not being explicitly considered widely is the potential unwind of some of the monetary premium embedded in traditional financial assets. It cannot keep rising forever without societal unrest (e.g. where the average worker cannot reasonably afford the average house) and so it might be expected that, at some point, the premium stabilises or falls. Either of these could mean that a future market correction could be compounded by a correction in the monetary premium.

When markets scramble to protect value, they look for hard, real assets such as gold or, increasingly, Bitcoin. Therefore, a simple hedge against this risk for a diversified portfolio may simply be to make allocations to such assets, or to implement options strategies to protect against falls in nominal value (although put options would not provide sufficient protection if currencies are being significantly debased at the same time).

Possible further considerations (non-exhaustive)

- Socioeconomic pressures: At a nation state level, by making it difficult to hedge this risk, or making the idea or solutions politically unacceptable, the population would be in a weaker financial position relative to the rest of the world than they were beforehand. This is likely to be exacerbated by those people, who are able to, leaving for countries with brighter prospects. This scenario would put a lot of pressure on charities to support the increased number of people falling on hard times.
- Employer's covenant strength: could be a positive, neutral, or negative depending on the employer's industry. For example, heavily indebted companies may benefit and house builders may suffer. Also, some countries may experience the monetary premium unwind at

different times, potentially creating opportunities or stresses depending on where the parent and subsidiaries are located and do business.

- DB trust funding assumptions: it will be the overall impact that will matter most. For example, whilst equity returns may be lower than assumed, bond yields may rise, offsetting the impact if the DB scheme is not fully interest rate hedged.
- HR policy: whether or not a DC trust hedges this risk could impact when members can afford to retire given how DC pensions are currently invested. DC pensions are already struggling to provide a basic standard of living in retirement for a significant minority of members.

In short, the impact and mitigations should be judged on a case-by-case basis, but those with a fiduciary duty to look after other people's assets should not ignore this risk.

Please reach out to your Cartwright investment contact if you wish to discuss an appropriate approach to managing this risk for your portfolio.

June 2025

250 Fowler Avenue
Farnborough Business Park
Farnborough GU14 7JP

Marlborough House
Victoria Road South
Chelmsford CM1 1LN

T: 01252 894883
E: enquiries@cartwright.co.uk
W: pensiontrusts.cartwright.co.uk