Milliman FRM Insight

**ACTIONABLE PERSPECTIVES ON TOPICS THAT IMPACT WEALTH**

# Bursting Bubbles vs. Missing the Rallies: Which do you fear more?

During the months following the February 2020 market drawdown, bonds, commodities, and stocks have all had a remarkable run, leading many investors and advisors to contemplate both the prospect of asset bubbles and the portfolio implications of those bubbles bursting.

At the same time, powerful monetary and fiscal forces are contributing to broad price increases, creating FOMO for many investors and tempting them to put sidelined cash to work.

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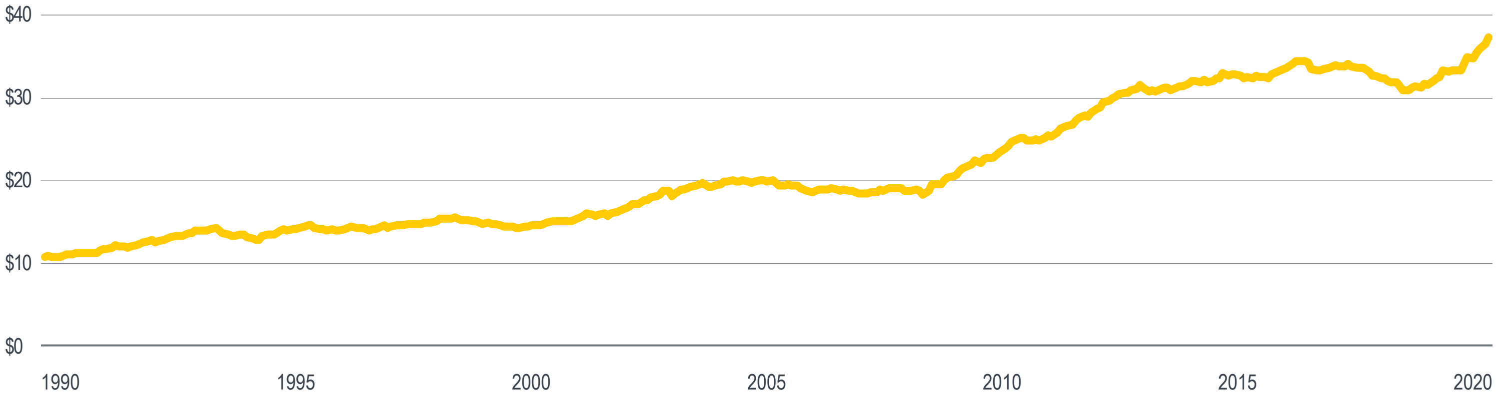
## BONDS

For bond investors, interest income from the investment grade bond market has never been more expensive:

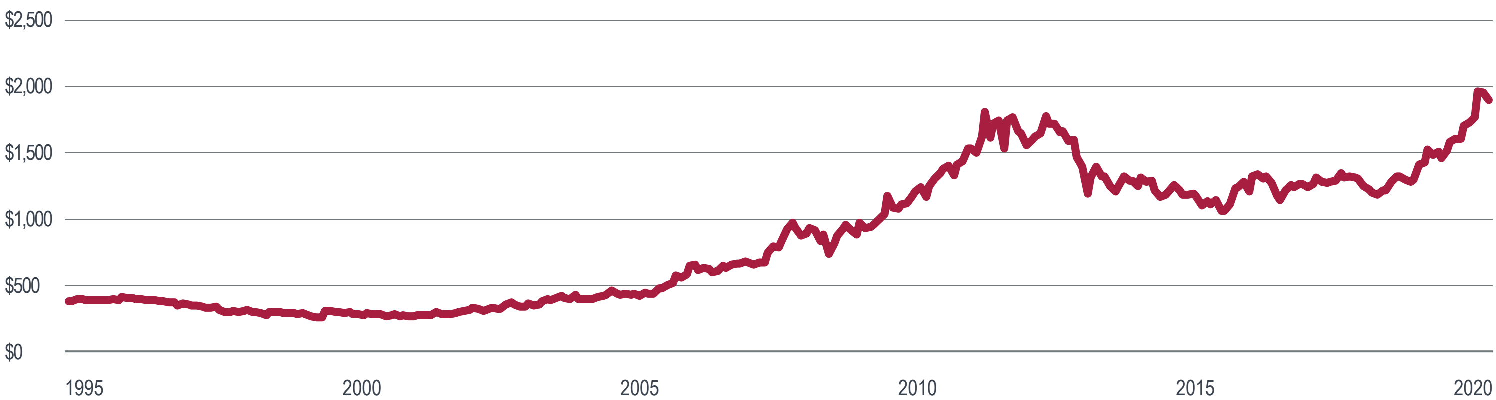
BLOOMBERG BARCLAYS US AGG INDEX: DOLLARS REQUIRED TO GENERATE $1 OF INTEREST INCOME




## COMMODITIES

From its 2020 trough in April, the S&P GSCI has climbed 50%, due in part to the rise in the price of gold, which continues to hover near its all-time high:

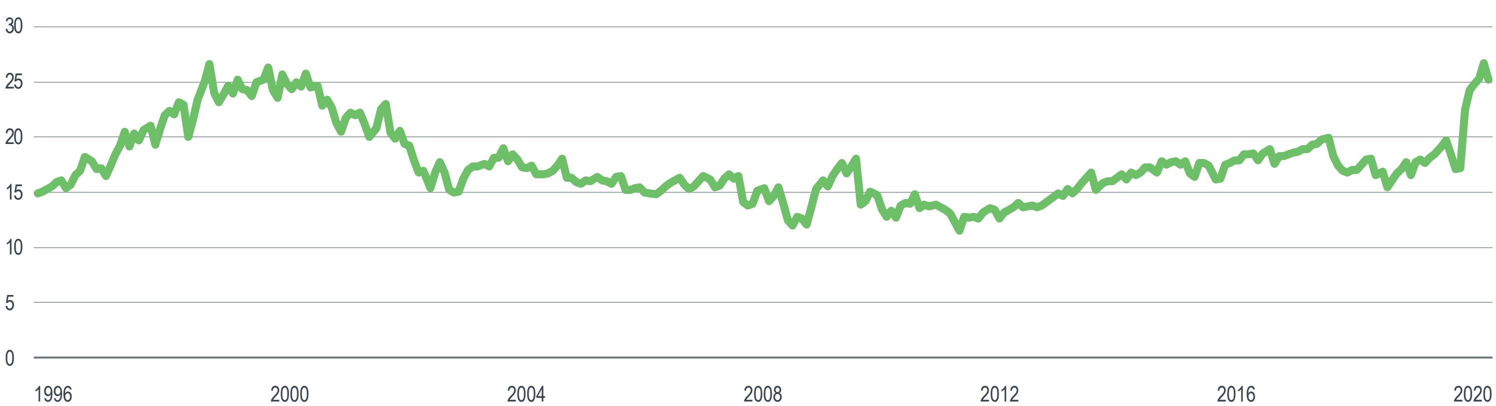
GOLD $/OUNCE




## STOCKS

In addition to being 50% higher from their low in March, U.S. equities are now trading at valuations near their tech-bubble peak:

S&P 500 FORWARD P/E RATIO

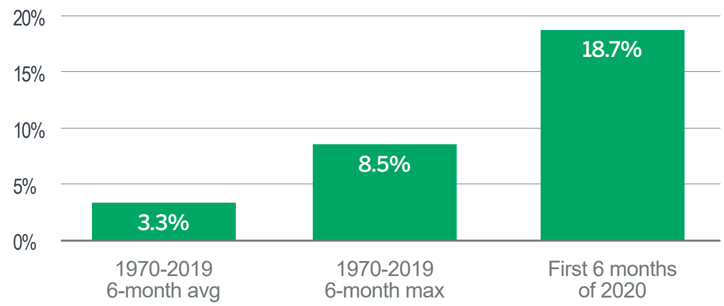


## MONEY SUPPLY

Is it any coincidence that these market conditions and price increases are occurring in the wake of the fastest growth in money supply in 50 years?

For the 50 years ended December 31, 2019, the average 6-month growth rate of the M2 money supply was 3.3%. The most it grew during any 6-month period was 8.5% (in 1983). During the 6-month period ended June 30, 2020, M2 money supply grew at a whopping 18.7%:

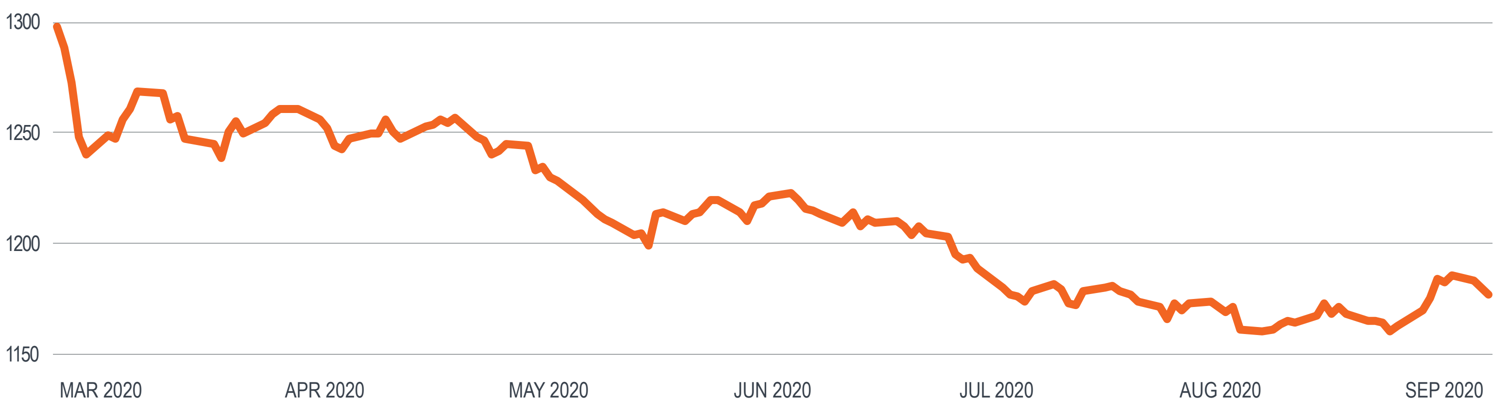
6-MONTH GROWTH RATE: M2 MONEY SUPPLY




## USD

The increase in M2 has generated downward pressure on the US dollar, which in turn has contributed to significant flows into non-USD denominated assets. Since its all-time high on March 23, 2020, the Bloomberg US Dollar Index has fallen more than 9%:

BLOOMBERG US DOLLAR INDEX




These conditions appear to be raising the prospect of asset bubbles, leaving investors and advisors feeling increasingly jittery about being in the market.

For equity investors specifically, it's reasonable to question how much this newly created money is propping up stock markets and how long it can continue.

At the same time, it can be difficult to simply sit on the sidelines and watch the market continue to climb higher, especially when the average money market fund is yielding just 0.07%.[1]

## WHAT TO DO?

The Milliman Managed Risk Strategy can be used to combat FOMO by enabling investors to stay invested and participate in potential upside, while also maintaining a dynamic risk management strategy, designed to limit portfolio volatility and reduce the effects of market drawdowns.

**Visit frm.milliman.com to learn more.**

Unless otherwise noted, all data sourced from Bloomberg, as of July 31, 2020.

1 Source: Morningstar, July 2020

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Milliman Financial Risk Management LLC is a global leader in financial risk management to the retirement savings industry. Milliman FRM provides investment advisory, hedging, and consulting services on approximately $143 billion in global assets (as of June 30, 2020). Established in 1998, the practice includes over 200 professionals operating from three trading platforms around the world (Chicago, London, and Sydney). Milliman FRM is a subsidiary of Milliman, Inc.

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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