

# The Framework That Predicted Every Bitcoin Bull Run Just Stopped Working -- Here Is Why

M2 Up 12 Percent. Bitcoin Down 12 Percent. CF Benchmarks Confirmed. Fidelity vs Capriole. ETF Flows New Transmission Channel. Fed QT Ending. -- Q2 2026

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For the better part of a decade, one of the most reliable frameworks in digital asset analysis has been the relationship between Bitcoin and global M2 money supply. The logic was intuitive and the data was compelling: as central banks expanded the monetary base, a portion of that liquidity found its way into asset markets, and Bitcoin -- with its fixed issuance schedule and absolute supply cap of 21 million coins -- historically saw outsized returns when the global money printer was running. The rolling four-year correlation between Bitcoin and global M2 ranged between 0.4 and 0.6 throughout the 2017 to 2024 period -- a statistically meaningful relationship that formed the basis for widely cited bullish price predictions. Analysts built models around it. Institutional research teams cited it. Retail investors used it to time their entries. If M2 was expanding, Bitcoin was going higher. If M2 was contracting, Bitcoin was going lower. The framework worked. Then, beginning in mid-2025, it stopped. CF Benchmarks confirmed the breakdown in March 2026 with the most precise quantification yet: over the last twelve months, global M2 has grown more than 12% while Bitcoin has declined roughly 12%. Two assets that were supposed to move together diverged by 24 percentage points. The US broad money supply reached an unprecedented \$22.442 trillion in January 2026 -- a record high representing \$922.4 billion in year-over-year growth -- while Bitcoin traded below its 2024 all-time highs and experienced its worst ETF outflow streak since the ETFs launched. The M2-Bitcoin correlation that predicted every major Bitcoin bull run from 2017 through 2024 has broken. The question that every serious Bitcoin investor needs to answer is why -- and whether the break represents a temporary disruption of the framework or a permanent structural change in how Bitcoin relates to global monetary conditions. Analysts are sharply divided. Fidelity Digital Assets maintains that the correlation will reassert itself when the Fed's quantitative tightening ends and monetary easing accelerates. Capriole Investments founder Charles Edwards argues that the break is the first of its kind in Bitcoin's history and reflects structural changes in the market that the old M2 framework cannot capture. CryptoRank's analysis concludes that market structure and ETF flows have become a larger driver of Bitcoin's short-run price discovery than broad monetary aggregates. This report presents the complete analysis of all three positions and the investment framework that emerges from their synthesis.

## 01 -- WHAT THE M2-BITCOIN CORRELATION WAS AND HOW IT WORKED

M2 is the broad measure of money supply that includes physical currency in circulation, demand deposits in checking accounts, savings deposits, money market securities, and other time deposits

below \$100,000. It is the most widely cited measure of how much money is available in an economy for spending and investment. Central bank policies -- interest rate decisions, quantitative easing, and quantitative tightening -- directly affect M2 growth by expanding or contracting the monetary base that ultimately flows into M2 through the banking system's money multiplier.

The historical logic connecting M2 growth to Bitcoin price appreciation operated through a specific transmission mechanism: when central banks expand the money supply through quantitative easing or low interest rate policy, the additional liquidity eventually flows into financial assets as investors seek higher returns than cash or low-yield bonds can provide. Bitcoin, as a fixed-supply, non-sovereign digital asset, benefits disproportionately from liquidity expansion because it absorbs excess capital more strongly than other assets due to its scarcity. When the monetary base was expanding rapidly -- as during the COVID-19 QE programs of 2020 and 2021 -- Bitcoin received a disproportionate share of the additional capital entering financial markets, producing the 2020 to 2021 bull market that saw Bitcoin rise from approximately \$9,000 to \$69,000 as M2 expanded from roughly \$15 trillion to over \$21 trillion.

The Sarsonfunds analysis quantified the historical relationship precisely: during the pandemic-era money printing that saw M2 supply surge from roughly \$15 trillion to over \$21 trillion, Bitcoin experienced its most explosive bull run. This correlation created the widely accepted investment thesis: Federal Reserve money printing equals Bitcoin price appreciation. The framework was not unique to retail investors -- Fidelity Digital Assets, one of the most institutionally credible digital asset research teams, published analysis in January 2026 maintaining that Bitcoin bull cycles usually coincide with periods when M2 accelerates, and that Bitcoin, due to its scarcity, absorbs excess capital much more strongly than other assets.

The Federal Reserve's quantitative tightening program -- which began in mid-2022 and reduced the Fed's balance sheet from a peak near \$9 trillion to roughly \$6.7 trillion as of early 2026 -- is the primary monetary policy factor that the CF Benchmarks analysis identifies as a persistent headwind for the M2-Bitcoin transmission channel. Even as headline M2 has grown through other mechanisms -- bank lending, money market fund flows, and other non-Fed components of broad money supply -- the absence of direct Fed asset purchases has reduced the velocity of the liquidity expansion that historically drove the M2-Bitcoin transmission most powerfully. QT has been shrinking the Fed balance sheet at the same time that headline M2 was growing, creating a divergence between the M2 number that analysts track and the Fed-driven liquidity impulse that historically mattered most for Bitcoin.

***M2-BITCOIN HISTORICAL RELATIONSHIP: Rolling 4-year correlation 0.4 to 0.6 from 2017 to 2024. COVID M2 surge from \$15T to \$21T drove Bitcoin from \$9,000 to \$69,000. Transmission mechanism: QE expands monetary base, excess liquidity flows into risk assets, Bitcoin absorbs disproportionate share due to fixed supply. Fed QT from mid-2022 reduced balance sheet from \$9T to \$6.7T -- persistent headwind for transmission channel even as headline M2 grew.***

## 02 -- THE BREAKDOWN: WHAT THE DATA ACTUALLY SHOWS

The CF Benchmarks analysis published in March 2026 provides the most rigorous quantification of the M2-Bitcoin correlation breakdown. The rolling four-year correlation between Bitcoin and global M2,

which ranged between 0.4 and 0.6 throughout the measurement period, broke down by Q4 2025. Over the twelve months from Q4 2024 to Q4 2025, global M2 grew more than 12% while Bitcoin declined roughly 12% -- a 24 percentage point divergence between two assets that were historically expected to move in the same direction.

The MEXC analysis confirmed the specific magnitude of the US M2 expansion during the breakdown period. The US broad money supply reached an unprecedented \$22.442 trillion in January 2026, representing a \$922.4 billion increase -- 4.29% year-over-year growth. This milestone marked the continuation of expansionary monetary policy as the Federal Reserve discontinued its balance sheet runoff and initiated reserve management purchases to ensure adequate bank reserves. Despite this massive liquidity injection, Bitcoin was trading significantly below its 2024 all-time high and had experienced what MEXC described as its worst five-month losing streak since 2018, with institutional flows into spot ETFs showing unprecedented weakness.

The CryptoRank analysis from March 2026 provided the most analytically precise description of what the breakdown period looked like in real time: M2 can look tight in a bull phase and noisy or negative in a drawdown, especially when the market is repricing real yields, a surging dollar, or an exogenous shock that changes what investors want to hold in the moment. For 2026, M2 can be a supportive backdrop, but it still needs a transmission mechanism. For Bitcoin, that mechanism has increasingly run through market structure -- including who the marginal buyer is, which rails they use, and what prompts them to add or reduce exposure. Over the last six months, market structure and flow channels played a larger role than broad aggregates.

The specific market structure factor that the CryptoRank analysis identified as the dominant short-run price discovery mechanism in the breakdown period is spot Bitcoin ETF flows. Spot Bitcoin ETFs and the daily reality of allocation flows have become an outsized driver of short-run price discovery. Bitcoin's early 2026 weakness repeatedly pointed to ETF demand swings as a core explanation alongside broader macro volatility. The ETF outflow streak documented in the Alain AI Lab research series -- eleven consecutive days of record outflows totaling billions of dollars during the Iran conflict period -- is precisely the kind of institutional ETF flow event that CryptoRank identifies as having replaced M2 expansion as the primary Bitcoin price driver.

### 03 -- THREE EXPLANATIONS: FIDELITY, CAPRIOLE, AND CRYPTORANK

The breakdown of the M2-Bitcoin correlation has produced three analytically distinct explanations from institutional research teams, each with different investment implications. Understanding each position and its supporting evidence is essential for any investor who has been using the M2 framework to guide their Bitcoin allocation.

The Fidelity Digital Assets position -- published in January 2026 -- is the most optimistic and the most consistent with the historical framework. Fidelity maintains that Bitcoin bull cycles usually coincide with periods when M2 accelerates, and that the current breakdown is temporary rather than structural. Fidelity's specific argument: as the global monetary easing cycle begins and the Federal Reserve's QT plan ends, M2 growth rate will continue to rise in 2026, which will be favorable for Bitcoin prices. The Fidelity position treats the current M2-Bitcoin divergence as a temporary dislocation -- M2 is growing but

the transmission mechanism from M2 growth to Bitcoin price has been temporarily interrupted by the Fed's QT program, institutional repositioning around the Iran conflict, and the May-June 2026 liquidation cascade. When the transmission mechanism reasserts itself -- specifically when the Fed ends QT and potentially begins net asset purchases -- the historical M2-Bitcoin correlation will return and Bitcoin will catch up to the M2 growth that has already occurred.

The MartyParty analyst position, as cited in the ChainCatcher analysis, supports the Fidelity optimistic view from a different angle: Bitcoin prices will rebound to catch up with M2 growth. This catch-up thesis treats the current divergence not as a breakdown of the relationship but as a lag -- Bitcoin is temporarily underperforming the M2 growth that has already occurred, and the catch-up move will be especially powerful when it comes precisely because the divergence has been so large. A 24 percentage point divergence between M2 growth and Bitcoin returns represents a significant tension that historically has resolved in Bitcoin's favor once the transmission mechanism reasserts.

The Capriole Investments founder Charles Edwards position is the most bearish and the most structurally significant. Edwards argues that the decoupling of Bitcoin prices from M2 typically signals a market top, followed by a 2 to 4 year bear market -- and that 2025 marked the first time in Bitcoin's history that Bitcoin has decoupled from money supply and global liquidity flows at a structurally meaningful level. Edwards's specific structural explanation is the quantum computing risk -- that the timeframe to a non-zero probability of a quantum machine breaking Bitcoin's cryptography is now less than the estimated time it will take to upgrade Bitcoin, and that money is repositioning to account for this risk. The quantum computing explanation is the most controversial of the three positions and the one with the least institutional research support, but Edwards's underlying point -- that the M2-Bitcoin decoupling is the first of its kind in Bitcoin's history -- is confirmed by the CF Benchmarks data.

***THREE ANALYST POSITIONS: Fidelity Digital Assets -- temporary dislocation, M2 transmission will reassert when Fed ends QT, bullish catch-up ahead. MartyParty -- Bitcoin will rebound to catch up with 12 percent M2 growth that already occurred. Capriole Charles Edwards -- first structural decoupling in Bitcoin history, typically signals 2-4 year bear market, quantum computing risk driving repositioning. All three positions agree the decoupling is real. They disagree on whether it is temporary or structural.***

## 04 -- THE NEW TRANSMISSION MECHANISM: ETF FLOWS AND MARKET STRUCTURE

The most analytically complete explanation of the M2-Bitcoin correlation breakdown is not that the relationship has permanently broken -- it is that the transmission mechanism through which M2 growth flows into Bitcoin prices has changed from the broad liquidity channel that characterized 2017 to 2024 to the specific institutional ETF flow channel that now dominates short-run Bitcoin price discovery.

The old transmission mechanism operated through a relatively diffuse channel: Fed QE expanded the monetary base, that expansion percolated through the banking system into M2, M2 growth reduced the opportunity cost of holding non-yielding assets like Bitcoin, retail and institutional investors allocated a portion of their excess liquidity into Bitcoin through crypto exchanges, and Bitcoin's fixed supply meant that increasing demand at stable supply produced price appreciation. Every step in this transmission

chain involved multiple actors and multiple time lags -- the Fed's QE decision translated into Bitcoin price appreciation over a period of months to over a year.

The new transmission mechanism is more concentrated and more reactive. The \$55.66 billion in spot Bitcoin ETF inflows documented in the Alain AI Lab research series has created a daily institutional flow channel that directly and immediately affects Bitcoin's price through a mechanism that is far more sensitive to short-term institutional risk appetite than to the broad M2 growth that unfolds over quarters. When institutional investors reduce their Bitcoin ETF exposure in response to geopolitical risk -- as happened during the US-Iran conflict period that produced the eleven-day ETF outflow streak -- the reduction in ETF demand is immediate, measurable in the daily flow reports, and directly transmitted to Bitcoin's spot price through the arbitrage mechanism that keeps IBIT's price aligned with NAV.

The implication is that M2 growth is now a necessary but not sufficient condition for Bitcoin price appreciation. M2 growth provides the liquidity backdrop that makes institutional Bitcoin allocation attractive -- when M2 is growing, the opportunity cost of holding Bitcoin is lower than when M2 is contracting. But M2 growth alone no longer automatically translates into Bitcoin buying the way it did when retail investors were the marginal price setters. The marginal price setter is now the institutional ETF investor, and institutional ETF investors respond to a broader set of considerations -- geopolitical risk, regulatory developments, macro volatility, and portfolio rebalancing dynamics -- than the simple M2 growth signal that drove the 2020 to 2021 retail-dominated cycle.

## 05 -- THE FED QT ENDING: WHAT HAPPENS WHEN THE TRANSMISSION CHANNEL REOPENS

The CF Benchmarks analysis identified the most important near-term catalyst for the M2-Bitcoin correlation's potential reassertion: the Federal Reserve's pivot back to net asset purchases. The Fed has been in active runoff mode since mid-2022, shrinking its holdings from a peak near \$9 trillion to roughly \$6.7 trillion as of early 2026. That quantitative tightening has been a persistent headwind for the M2-Bitcoin transmission channel, even as headline M2 has grown through other mechanisms. A pivot back to net asset purchases, whether driven by financial stress, Treasury market dysfunction, or a deliberate policy shift, would inject base money directly into the system and historically has been the single strongest accelerant for the M2-Bitcoin relationship.

The Federal Reserve's discontinuation of its balance sheet runoff -- confirmed in the MEXC analysis -- marks the beginning of the end of the QT headwind that has been suppressing the M2-Bitcoin transmission channel. As the Fed transitions from QT to a neutral balance sheet posture and eventually to net asset purchases, the direct Fed-driven liquidity injection that powered the 2020 to 2021 M2-Bitcoin correlation will return. Fidelity's position -- that as the global monetary easing cycle has begun and with the Fed's QT program ending, M2 growth rate will continue to the upside throughout 2026, a positive catalyst for Bitcoin's price -- becomes more credible with each Fed communication that signals accommodation rather than tightening.

Kevin Warsh's confirmation as Federal Reserve Chairman -- documented in the Alain AI Lab research series -- and his stated concerns about dollar dominance and the threat that China's monetary infrastructure poses to the US reserve currency status create an additional dimension to the Fed QT

ending story. A Warsh-led Federal Reserve that is explicitly concerned about maintaining US monetary dominance has an institutional incentive to support the conditions that make dollar-denominated assets -- including dollar-pegged stablecoins and the Bitcoin Strategic Reserve -- attractive relative to competing monetary systems. The macro alignment between the Warsh Fed's strategic concerns and the institutional Bitcoin adoption thesis is the dimension of the M2-Bitcoin correlation breakdown that most clearly points toward reassertion rather than permanent structural change.

## 06 -- WHAT REAL M2 TELLS US: THE INFLATION-ADJUSTED PICTURE

The CryptoRank analysis introduced a critical distinction that most M2-Bitcoin correlation analyses miss: the difference between nominal M2 and real inflation-adjusted M2. Inflation-adjusted real M2 supply peaked in September 2021 at 7,668 in billions of 1982 to 1984 dollars. January 2026 printed 6,871 -- still approximately 10.4% below that September 2021 peak. This means that despite nominal M2 reaching a record \$22.442 trillion in January 2026, the purchasing power represented by that M2 is still significantly below the 2021 peak that coincided with Bitcoin's bull market high.

The real M2 perspective reframes the M2-Bitcoin relationship in a way that is more analytically consistent with the correlation breakdown. If real M2 -- the inflation-adjusted purchasing power of the money supply -- is still 10.4% below its 2021 peak despite nominal M2 reaching a record, then the monetary conditions that supported the 2021 Bitcoin bull market have not yet been recreated in real terms. Nominal M2 is at a record but real M2 is still in recovery mode from the inflation-driven erosion of 2021 to 2023. The M2-Bitcoin correlation may be tracking real M2 more closely than nominal M2 -- and on a real M2 basis, the current monetary environment is less stimulative than the nominal M2 records suggest.

## 07 -- CONCLUSION: THE FRAMEWORK IS EVOLVING, NOT BROKEN

The M2-Bitcoin correlation breakdown from mid-2025 through mid-2026 is real, statistically confirmed, and analytically significant. The CF Benchmarks four-year rolling correlation, which ranged between 0.4 and 0.6 throughout the measurement period, broke down by Q4 2025. Global M2 grew 12% while Bitcoin declined 12% over the same period. The correlation that predicted every major Bitcoin bull run from 2017 through 2024 failed to predict the 2025 to 2026 period.

But the failure of the M2 framework to predict the 2025 to 2026 period does not mean the framework is permanently broken. It means the framework is incomplete. The M2-Bitcoin relationship describes the macro liquidity backdrop that makes Bitcoin allocation attractive. What it does not describe -- and what has become the dominant short-run price driver in the institutional ETF era -- is the market structure transmission mechanism that determines whether the available M2 liquidity actually flows into Bitcoin through the institutional ETF channel. In 2025 and early 2026, geopolitical risk, institutional risk-off behavior, Fed QT headwinds, and the eleven-day ETF outflow streak all interrupted the transmission of available M2 liquidity into Bitcoin demand. The liquidity was there. The transmission was blocked.

The investment framework that emerges from synthesizing the Fidelity optimistic position, the MartyParty catch-up thesis, and the CryptoRank market structure analysis is this: M2 growth is a

necessary condition for sustained Bitcoin appreciation but it is no longer a sufficient condition. The additional sufficient conditions are a functioning ETF flow transmission mechanism, a Federal Reserve posture that is transitioning from QT to accommodation, and an absence of the geopolitical or macro shocks that drive institutional risk-off behavior regardless of the M2 backdrop. All three of these additional conditions are improving simultaneously in mid-2026 as the Iran conflict stabilizes, the Fed ends QT, and the CLARITY Act advances toward passage. Proverbs 24:3 says by wisdom a house is built and through understanding it is established. The house of the Bitcoin investment thesis is built on multiple pillars -- M2, institutional adoption, halving supply mechanics, regulatory clarity, and market structure. Understanding each pillar and how they interact is the foundation of the patient investor who benefits from the cycles that confuse everyone else.

***CF Benchmarks March 2026: M2 up 12 percent, Bitcoin down 12 percent over last twelve months. Rolling 4-year correlation 0.4-0.6 broke down by Q4 2025. US M2 record \$22.442T in January 2026. Fidelity: temporary dislocation, catch-up bullish. Capriole: structural first-of-its-kind decoupling, bear risk. CryptoRank: ETF flows now primary transmission mechanism, M2 necessary but not sufficient. Fed QT ending removes headwind. The framework is evolving, not broken.***