



Bitcoin. Where Next? The Liquidity Lie

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1. Executive Summary

- Bitcoin cannot and should not operate in a vacuum. It is an asset like any other and the global macro environment has a huge impact on its performance.
- The Liquidity Lie focuses on the contention that rising global liquidity is a driver of Bitcoin price appreciation and vice-versa. However broad measures of liquidity have been rising since October 2025 and yet Bitcoin is down more than 50% during that period.
- The Liquidity Lie is the reason. Global liquidity is not very important for BTC. It is the flows of liquidity that drive BTC price, in particular flows in and out of the financial system, to and from the real economy.
- Liquidity in the financial system topped in September of 2025. This correlates with the start of the decline in BTC from its high on the 6th October.
- A Global Liquidity Shock is imminent and inevitable. To a certain extent BTC has pre-empted this but the current global macro environment and geopolitical situation make a liquidity shock certain.
- A bounce in assets from any Iran War resolution will be short lived as this Liquidity Shock hits.
- The policy response to this Liquidity Shock will result in a broad rebound in risk assets, including BTC. The market is conditioned to look to the Federal Reserve as the safety net, but it is highly likely that the US Treasury will lead the way, through more unorthodox measures. Nonetheless, the Fed will embark on QE sooner than the markets expect.

Portfolio implications for the medium term;

- BTC will rebound to new All Time Highs
- USD will decline significantly
- US Treasury Yield Curves will flatten and will probably invert
- Gold will continue to outperform



2. Bitcoin. Where Next? – The Liquidity Lie

“Our liquidity is fine. As a matter of fact, it’s better than fine. It’s strong.”

— Kenneth Lay, CEO of Enron

Liquidity is by far the most important lead indicator and driver of both financial markets and the real economy. Global Liquidity is an additive function of liquidity that sits inside the financial economy and liquidity inside the real economy. Money cannot be in two places at once and the flow of global liquidity is by far the most important driver of outcomes in both places. As I write this in April 2026, we are beset by Geopolitical risks. Iran, Ukraine, Gaza, Lebanon, tariffs, NATO, Taiwan. The list goes on and one of the most important side effects of these geopolitical risks is the effect that they have on global liquidity, but more on that later. Suffice to say that liquidity sits at the top of the tree in predicating outcome. The creation, destruction and flows of liquidity within the global economy is extremely important.

So how does all this affect Bitcoin, and crypto in general? Fundamentally. Since October 10th 2025 Bitcoin has suffered a severe price shock. On the 6th October BTC traded a high above 126k and 3 days later it traded a low of under 107k. A move of over 15%. Since then, it has fallen to 60k, a peak to trough decline of over 50%, a move of a magnitude quite familiar to many long-term holders of Bitcoin. At the same time as this calamitous fall in the price of “digital gold”, the real thing has rallied from \$3,970 to a high of \$5,600 and is currently trading at \$4,720, a rise of 20%. A move which has seen BTC decouple from gold and fall from 34 BTC an oz to 15 BTC an oz. A decline of over 50%. So what is going on?

Figure 1: Gold Priced in Bitcoin



3. The Global Financial System and Liquidity

“Money is good. And the more, the better.”

— Hendrith Vanlon Smith Jr, The Wealth Reference Guide: An American Classic

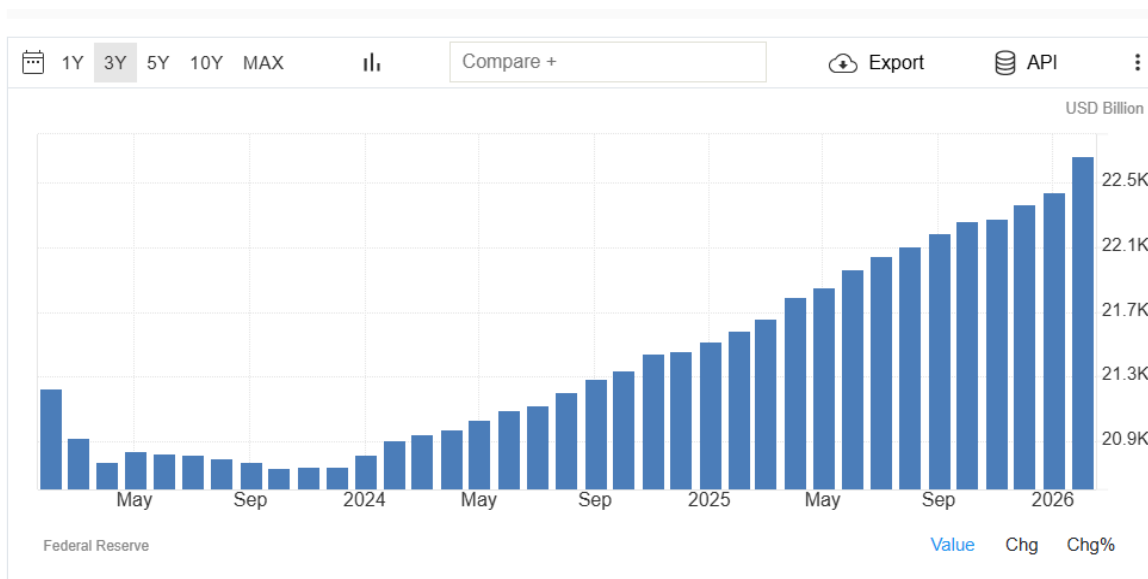
We are constantly being told that Bitcoin is driven by liquidity flows, and under that scenario, under traditional measurements of liquidity BTC should be doing very well indeed. It is a store of value. An inflation hedge. A debasement hedge. Yet it is collapsing in the perfect scenario. Let’s start by looking at a classic definition of liquidity, US M2.

M2 refers to the Money Supply M2 in the United States, which includes all components of M1 plus certain less-liquid assets. Specifically, it consists of M1 (cash and check deposits) plus small-denomination time deposits and balances in retail money market funds (MMFs). M2 is a key measure of the money supply that reflects the liquidity in the economy and is closely monitored by the Federal Reserve as an indicator of economic activity. In April 2026 M2 hit an all-time high. Since October 2024 it has been on an unmistakable upward trajectory. If BTC is a risk on asset, and liquidity is rising, why is BTC not following gold?

This rise in M2 was combined with the Federal reserve cutting rates three times in 2025, with the last rate cut on December 10th 2025. Unquestionably, this is a key indicator of liquidity being injected into the US economy. Yet Bitcoin is not responding. What is the problem?

The answer is much more complex than you would think. The US economy and the global economy is comprised of liquidity that is in one of two sectors. The financial economy or the real economy and it is the flow of liquidity between these two sectors that is much more important than liquidity in totality. This helps to explain the often-seen paradox of a strong growing economy and weak equity markets, and a weak real economy with a booming equity market. Liquidity is flowing from one to the other. And this explains the performance of Bitcoin perfectly.

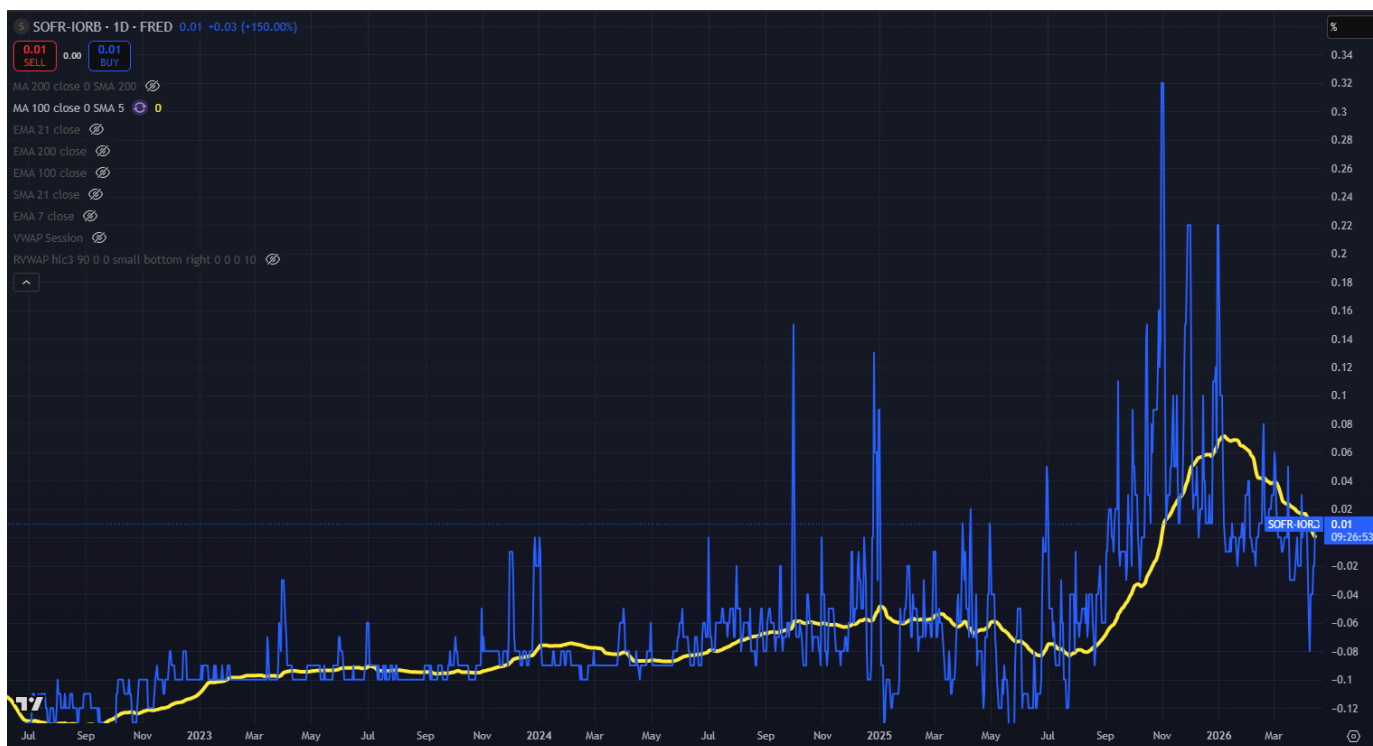
Figure 2: US M2



How do we monitor and track indicators that show liquidity in the financial economy? A ratio that highlights this very well is the Secured Overnight Financing Rate (SOFR)/Interest on Reserve Balances (IORB). SOFR is the cost of borrowing cash overnight collateralised by Treasuries. IORB is the rate the Federal Reserve pays on reserves held by depository institutions. A widening, positive spread signals a tightening of liquidity in the Financial Markets. Cash is becoming scarce and banks are paying a premium over what they earn at the Fed to source cash. Therefore, when liquidity in the financial system is high SOFR/IOBR will be negative as the SOFR is below the IORB floor. As liquidity tightens, banks pay for cash and the SOFR rises above IORB.

This ratio is subject to short term volatility from debt issuance and tax payments and Fed policy, but if you look at the graph below the moving averages clearly show that liquidity dramatically left the financial system from September 2025 onwards, signalling tighter liquidity in the financial markets and liquidity flowing out of the financial economy and into the real economy. On October 6th, the high of BTC the ratio was at -0.04 and over the next few weeks hit +0.32. The 100-day moving average clearly highlights this. It is the flows between the financial economy and the real economy that matters much more to predict the price of BTC, than the absolute level of global liquidity, or even the level of liquidity in the real economy.

Figure 3 – SOFR/IOBR ratio. Liquidity leaving the Financial system since September 2025



4. What are Some of the Drivers Pushing Liquidity From the Financial System Into the Real Economy?

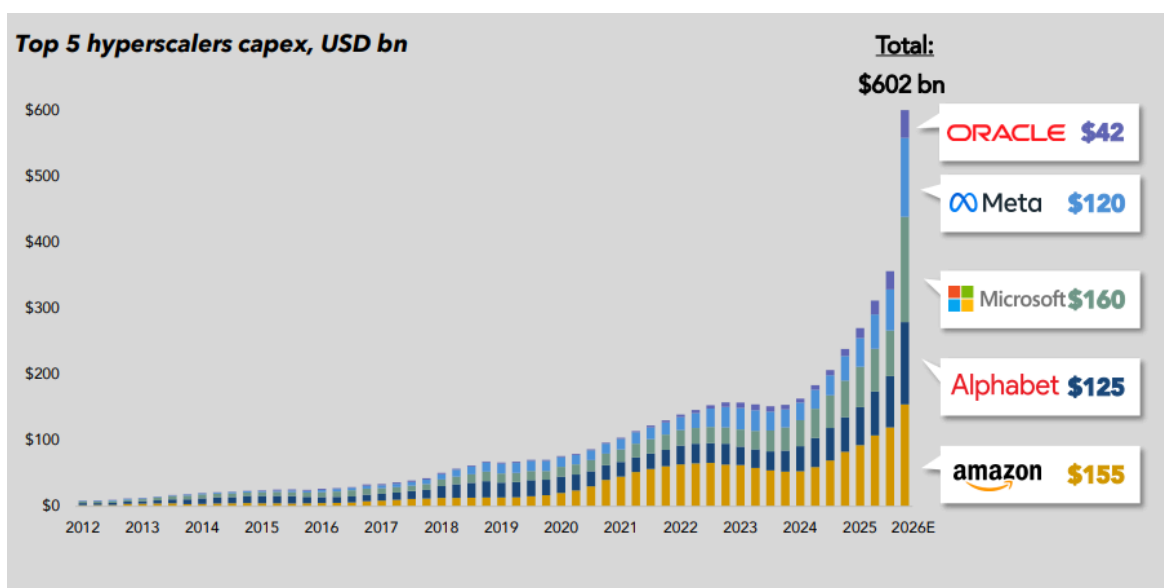
"I love pigs. I think they're very cute. I really want a pet pig, but those micro pigs, they don't stay micro."

— Nicole Byer

Microeconomics, very much like quantum physics, generally can help to explain the large Macro moves in life. From the graph above we can see financial liquidity tightening in financial markets starting in September 2025 after being flush with liquidity since Covid in 2020. But in September liquidity started to be sucked back into the real economy. There are many drivers of this, but two obvious micro components of this change are AI capex spending and tariffs.

The most obvious microeconomic driver of this is AI Capex spending. These huge hyperscalers raised huge amounts of capital and the business treasuries sat on very large cash balances which were used to provide liquidity into the financial system. In 2026, and particularly in the 2nd half of the year, capex spending exploded. This is cash that is directly flowing into the real economy and is no longer providing liquidity and owning assets in the financial system. In fact the move has reversed so much, that now the hyperscalers are actively sourcing liquidity, providing more pressure on liquidity.

Figure 4: Capex Spending by the Five Largest Hyperscalers



Tariffs have been another drain on financial market liquidity. Not simply in the form of funding for increased export costs, but also through heightened risk aversion via higher volatility, supply chain inefficiencies, reduced spending power and cash being diverted out of the private sector and into the public one. A growth in the Treasury General Account (The US Treasury's Account with The Federal Reserve) not matched by increased spending is a direct liquidity squeeze which lasts until the capital get redeployed.



5. What do Heightened Geopolitical Global Risks Mean for Global and Financial Liquidity?

“Geopolitics 101: don’t take democracy lessons from the West.”

— Abhijit Naskar, With Love From A Blue Rock

“When resources decide survival, power stops asking and starts taking.”

— Angelika Regossi, Russian Colonial Food: Journey through the dissolved Communist Empire

Geopolitical events are significant and to an extent they can buck the normal natural rhythm of things. Liquidity flows into markets, markets flow into economies and economies flow into geopolitics. It all starts with liquidity creation or destruction, and then how that liquidity flows into which markets. But it is inescapable that the current shopping list of global geopolitical risks are going to have a significant impact on global liquidity including liquidity in the financial markets. What are the main factors that are driving this contraction of liquidity?

- **Oil.** The price of oil is going to have a significant effect on liquidity. High oil prices are a tax on both consumers and businesses and are (at least in the short term) detrimental to inflation and may lead to central bank policy responses and tightening of interest rates, and result in a transfer of wealth from oil importers to oil exporters. A \$10 rise in oil drains something like \$115 billion from consumer spending, pushes up global inflation by around 0.4%, slows GDP by around 0.25% and due to the petrodollar time lags as oil is tied up, tankers sit idle full of oil, and the additional timescales involved tend to significantly delay the recycling of any liquidity back into the global system.
- **Volatility.** These current high oil prices have resulted in spikes in volatility as seen in both the VIX and the MOVE and that raises risk premiums and causes financial intermediaries to reduce lending and financing. They signal risk aversion.
- **USD.** A stronger dollar is a tightening of global liquidity. It’s a de facto USD rate hike domestically, which means USD debt servicing becomes more expensive, especially when combined with the significant spike in the MOVE we have seen. Emerging markets are impacted, and foreign economies import inflation via depreciating currencies, which leads to inflation rising around the world and subsequent central bank counter measures which ultimately drain liquidity. Trade finance is adversely impacted as trade volumes slow and overall transaction activity declines. Finally, within the Eurodollar system dollar funding costs rise in the FX swap market and the tighter credit conditions further drain liquidity.

So basically, in this current world environment, we are looking at a significant contraction in liquidity in both the financial economy and the real economy, and those impacts have yet to be felt. The overall Liquidity Shock is going to be between 20%-25% which is clearly very significant. That is clearly not a good environment for BTC to drive upwards from here, especially as financial liquidity conditions reached a peak in September 2025 and have been contracting since. Is there any light at the end of the tunnel for Bitcoin?



6. Federal Reserve Liquidity versus Treasury Liquidity

“Whoever controls the volume of money in any country is absolute master of all industry and commerce.”

— James A. Garfield, President of the United States

In all the turmoil and noise, quietly in the background there are a number of initiatives under way that could be seismic in scope and could have profound implications for US Monetary policy and the prices of global assets. To a large degree the outflow of liquidity in the financial system has already been discounted by BTC which is a highly reactive lead indicator of these flows changing. These developments are shaping my medium-term view on Bitcoin, which is constructive into the Mid Term elections in November, despite the negative liquidity profile painted above.

Since the Federal Reserve’s hawkish cut on the 10th December, concerns have been growing on a more hawkish Fed holding fire on more rate cuts and pulling liquidity out of the US economy. These concerns have solidified with the appointment of Kevin Warsh as designated Federal Reserve Chairman. Warsh is a well-known balance sheet hawk and the market is concerned by a Fed that might turn more hawkish.

The markets are missing some very important points here. Firstly, The US Treasury has significant tools to inject liquidity into the US economy irrespective of any Quantitative Tightening the Federal Reserve may carry out, which in and of itself is very unlikely having just ended QT in November. In March 2025 Scott Bessant told the Financial Stability Council that he would be reforming the Supplementary Leverage Ratio and plans are currently in place to implement changes this summer. These changes would effectively reprise the removal of US Treasuries from the SLR which was enacted during Covid, which expired in 2021, and which in Bessant’s own words said could be worth “30-70 basis points off Treasury yields”. Each point being \$1 billion a year.

However, much more importantly, reforming the SLR would green light potentially trillions of dollars flowing into US Treasuries, while supporting bank repo activity and encouraging much more aggressive and efficient capital deployment by banks.

In addition, Bessant has the Treasury General Account (TGA), and Trump and the Republicans have been making noises about drawing down the TGA through spending into the November Mid Terms which could drive significant liquidity into the US Economy, while cutting back on refilling the TGA through debt issuance. In fact, if you look at Figure 3, the SOFR/IORB ratio has actually been declining since mid-January, signalling that liquidity is returning to the financial system. This is entirely due to the replenishment of the Treasury General Account (TGA) after the debt ceiling was hit in the first half of 2025. As we can see from Figure 5, once the One Big Beautiful Act was passed into law, the Treasury aggressively refilled the TGA to the tune of over \$500bn USD via huge Treasury Bill issuance draining liquidity aggressively from the financial system. This caused bank reserves to fall, and with no liquid reserve repo market to protect banks, the SOFR rose dramatically as can be seen from Figure 3.



Figure 5 – Treasury General Account Balances 2024–2026



This had two significant impacts. Firstly, the Fed ended Quantitative Tightening in November 2025, and secondly in early 2026 the Fed launched its Reserve Management Purchases (RMP) programme that was used to control the repo level and inject reserves back into the banks. Currently this is being conducted at \$40bn per month and is exclusively through Treasury Bills. While this is not explicitly called Quantitative Easing by the Fed, it is very similar in all but name and has led to a dramatic increase in the Fed’s balance sheet (Figure 6) and has seen the SOFR fall and the ratio decline as this can be seen in Figure 3.

Figure 6: Total Assets of the Federal Reserve



The drawdown of the TGA in 2025 proved the vast pool of liquidity the Treasury has available to it, and shows that it does not explicitly need the Fed to conduct QE, (which in all likelihood Warsh will be very unwilling to do initially), although I think there is very little doubt the Fed will be engaging in significant QE sooner rather than later, as the liquidity pressures outlined above start to bite. It really is a case of when, not if, the Fed steps in.

In addition to this, I believe the market has got Warsh wrong. Goldman Sachs recently issued a research report articulating the same thing. Warsh believes the current deregulation and spending cuts are significantly disinflationary. He is a huge advocate of the disinflationary force of AI, and with the Truflation index currently running at 1.18%, significantly below CPI and PPI, it is likely he cuts rates aggressively when he comes into the Chair.

Robin Brooks (Brookings Institution) came out last month expecting 100 basis points of cuts into the November elections, and it does seem to stretch the bounds of possibility that Trump would appoint a hawkish Fed Chairman, given the current timelines. Obviously, the conversations the two men have had are private, but Trump is certainly a "Silence of the Lambs", quid pro quo President at the best of times. and is nothing if not pragmatic. He has the November mid-terms to negotiate, and he is aware that a poor result would render him a lame duck president and significantly impact his reforms and legacy. Therefore, it is highly likely that the Treasury is going to pursue significant injections of liquidity into the elections.



7. The 2026 CLARITY Act

“There’s no clarity. There was never meant to be clarity.”

— Charles Bukowski, You Get So Alone at Times That it Just Makes Sense

Crypto and Bitcoin have been under pressure since Mid-January on the delay on the markup of the CLARITY Act due to concerns on the scope of the Act and its inability to effectively address concerns related to creating an uneven playing field which favoured banks. I believe the CLARITY Act will pass this summer. It passed the House in July 2025 but was delayed in Committee due to firstly delays around the Government shutdown and then concerns from Coinbase on the non-level playing field being proposed around the crypto regulation vis-à-vis allowing competition with the banks.

The CLARITY Act needs to be seen in a much wider liquidity context, however. In November 2025 I did a podcast in Stockholm explaining how in my opinion, the growth of Stablecoins and the impact they will have on the global economy is totally underappreciated, and the Clarity Act needs to be seen very much within that framework. USD Asset backed stablecoins will eventually replace the \$19 trillion Eurodollar market. They will allow the US to export US economic policy to the world, and the argument, battle and war has already been won. Europe and the UK are following a ridiculous path down CBDC’s which nobody wants, will use and will not accept. However, that is a story for another day.

The central issue in relation to USD backed stable coins is that they completely embody the law of unintended consequences. Unlike bank deposits, they do not create a multiplier effect in the traditional way, as they are, by definition, backed by assets. Bank lending is the bedrock of economic growth through the multiplier effect as banks leverage their own balance sheets to make loans. A flight to capital from bank deposits into Stablecoins, has the definite possibility to directly impact growth, and very significantly reduce global liquidity, and so a pragmatic solution allowing both ecosystems to live in harmony needs to be established.

It appears that the Tillis-Alsobrooks amendment has achieved that and CLARITY is likely to go before the Senate Banking Committee in the last week of April. This is vital. If this Act does not get passed before the summer recess it will not be signed into the law before the November mid-terms and in all likelihood, Elizabeth Warren will be back chairing the Senate Banking Committee and it will be dead.



8. Portfolio Implications

“It is not a calculated risk if you haven’t calculated it.”

– Naved Abdali

“It may take some time, but capital will eventually flow to the most logical place.”

– Naved Abdali

Portfolio implications are best understood firstly by understanding the timeline of events. The calculation of the potential risks and the management of those risks can then be managed within an expected roadmap of how events may unfold.

In the short term it is highly likely that we are again seeing a TACO trade, and that there will be a significant easing of geopolitical tensions and a resolution of sorts in Iran/Lebanon/Israel. This would result in a rally in risk on assets, and with the SP500 only 0.5% under all time highs, it is highly likely we have a significant rally in assets and global falls in risk premia. This rally I believe will be short lived and it would be a rally to fade as the inbound liquidity shocks hit the global economy. BTC will probably outperform in any sell off as it is highly sensitive to these financial liquidity flows, and this move is largely discounted in the current price. This can easily be seen in the rotation out of BTC and into Gold in the last six months, which is a textbook marker of liquidity flowing out of the financial system and into the real economy.

Portfolio Implications – Short Term

- Equities up, then significantly lower as liquidity shock hits.
- BTC outperforms as liquidity shock is somewhat priced in, but it will not be immune. However, on a valuation basis it is much more likely to be resilient.
- US rates lower. Bonds higher.
- Gold higher.

Medium Term. The market believes inbound Fed Chairman Warsh is a balance sheet hawk. The Fed will do its part and is highly likely to cut interest rates much more than currently predicted by Fed Fund futures. In addition, the US Treasury is likely to inject more liquidity into the financial system via measures such as amending the SLR and injecting liquidity into the real economy via increased spending by drawing down on the TGA.



However, The Fed will in addition be forced (reluctantly given Warsh's balance sheet history) to reengage in Quantitative Easing, and we will see a sharp spike in both Financial and Global Liquidity driving up risk-on assets

significantly. Liquidity, given the historical liquidity cycle is likely to bottom anyway in 2027, but these measures could easily bring that bottom timeline forward considerably.

Portfolio Implications – Medium Term

- BTC to new all-time highs
- USD (DXY) lower.
- US rates lower.
- US Treasury Yield Curve flattens and potentially inverts.
- Equities new all-time highs.

Longer Term. The world has not fully appreciated how USD stablecoins are going to impact world economic policy. USD asset backed stablecoins will erode and overtake the \$19 trillion USD Eurodollar market. Considering Central Banks such as the Bank of England and the European Central Bank, favour Central Bank Digital Currencies (CBDC's), which will not even be in place before 2029, then the exporting of US Economic policy is going to take place via huge structural USD liquidity growth. The law of unintended consequences will undoubtedly be significant in this expansion, via things like the impact on the velocity of money, and how the multiplier effect will be impacted as deposits migrate from banks to stablecoins. Banks are the key driver of economic growth as they basically leverage the deposit base via a deposit expansion multiplier. This multiplier is driven by reserve requirements but is highly likely to rise with any reform of the SLR. USD asset backed stablecoins operate completely differently and require 1:1 reserves in liquid assets to back their issuance. They therefore have the potential to dramatically reduce the global deposit expansion multiplier if deposits move from banks to stablecoins.



9. Conclusion

“A light in the tunnel is worth a thousand at the end of it.”

– Pfano Percy Rathogwa

Global Liquidity is about to get considerably worse. Even with a resolution quickly in Iran, I do not believe that risk assets will rally for any sustainable time without outside help. Liquidity has weakened but bottomed out in the financial sector, primarily due to the enactment of RMP, but a significant tightening of global liquidity is on its way, possibly to the tune of around 20%-25%. This is very significant, and with that headwind BTC is going to struggle.

However, I firmly believe that the Federal Reserve and the Treasury are highly likely to act sooner rather than later, and these measures will include but not be limited to;

- Reform of the SLR
- A significant drawdown of the TGA which will not be offset by Federal Reserve bill issuance, therefore keeping the liquidity injections in the system
- A series of rate cuts by new Fed Chairman Warsh
- Clarity to be made into law before the summer recess
- A Federal Reserve that will be forced to expand its balance sheet sooner than expected in the light of disinflationary impacts on the US economy. (I believe higher oil prices are ultimately disinflationary though the growth effect), and a weakening labour market, which may or may not be exacerbated by stresses in the financial system, which we are already beginning to see in the private credit markets.

Markets are far too focused on the liquidity provision aspect of the Federal Reserve's mandate. That is understandable, as we have been conditioned to the Federal Reserve being the safety net through a whole variety of financial crises and they have been the lender of last resort to the market via interest rate cuts and Quantitative Easing. However, there is plenty of ammunition available to the US Treasury to inject liquidity into both the real economy and the financial markets, and with a Treasury secretary of the experience and excellence of Scott Bessant, I believe that the US Treasury will not be reticent to deploy those tools, such as the SLR and the TGA.

In short, BTC is likely to face short term headwinds, but medium-term tailwinds, and I fully expect BTC to be significantly higher than current levels come the end of the year as these liquidity issues play out. In any case, with the liquidity lag in the real economy we will probably see liquidity bottom out in 2027 whether I am right or wrong on the above, and 2027 should see new all-time highs (if we do not see them this year).

Hopefully this may serve as a small light in the tunnel prior to seeing the light at the end. Good luck out there.

Russell Thompson

Chief Investment Officer, Hilbert Group

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