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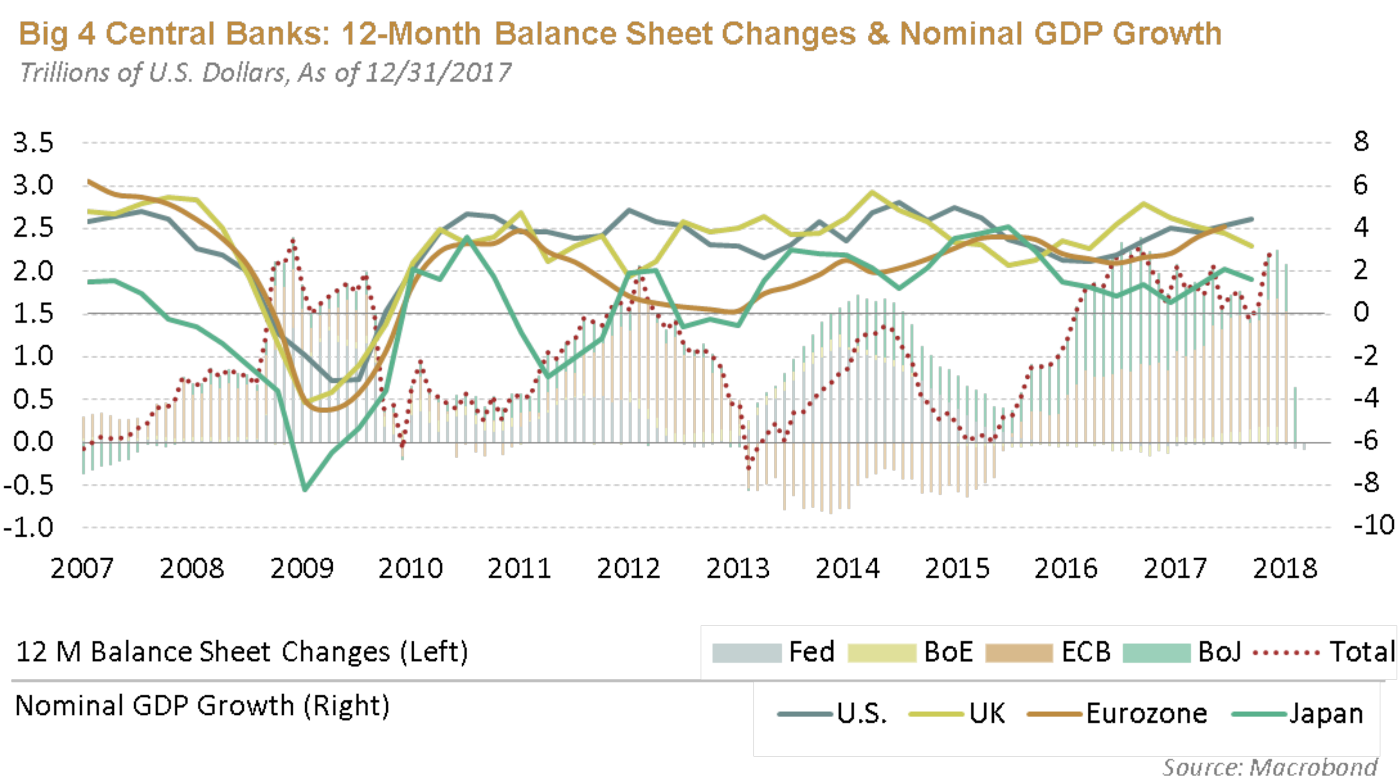
Chart of the Moment: Central Bank Balance Sheets and Nominal GDP Growth



This chart tracks changes to the four major central banks' balance sheets and their respective economies' nominal GDP growth. Has recent market volatility been a function of quantitative tightening? Out of the four major central banks, only the Federal Reserve (Fed) has taken decisive steps toward tightening. However, the anticipated move away from developed market central bank accommodation could be one of many contributing factors to market volatility. This shift in accommodation may change the constructive backdrop for risk assets. Over the last decade, monetary stimulus created a "cushion" for risk assets to fall back on during broad-based market selloffs. Now that key developed market central banks are pulling back on stimulus, nominal gross domestic product (GDP) growth should help a risk-on environment reemerge. We think steady nominal GDP growth could offset the effects of less central bank accommodation. We'll also be keeping an eye on countries' corporate earnings growth, another key indicator for risk asset performance. For example, the dividend discount model—which gauges equity valuations—is based on the idea that growth needs to stay robust when rates appear to be moving higher.

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