The Federal Reserve continues to signal its intention to reduce its $4.5 trillion balance sheet, with the markets anticipating the first move to occur in September. Much of the liquidity, and consequently, asset returns, in the global markets today could be attributed to the substantial bond and other securities purchases made by the major central banks, thereby ballooning their balance sheets.

Our chart this week shows the Federal Reserve (Fed), European Central Bank (ECB) and Bank of Japan (BOJ) balance sheets over time, totaling $14 trillion today. While the Fed has effectively stopped growing its balance sheet since 2014, the ECB and BOJ continue to expand their balance sheets. With the U.S. enjoying the strongest economy relative to Europe and Asia, the Fed will be the first to taper its balance sheet. This move would effectively slow down stimulus in the U.S., with the ECB and BOJ’s balance sheet tapering to follow at some point in the future when their economies have resuscitated. The Fed has been broadly communicating the mechanics of its tapering, and we expect the markets to respond relatively moderately to the first reduction event.