FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

April 12, 2017

Federal Reserve Bank of New York

Committee attendees:

Tim Buckley, Vanguard
James Chanos, Kynikos Associates
Ray Dalio, Bridgewater Associates, LP
Mary Callahan Erdoes, J.P. Morgan Asset Management
Dawn Fitzpatrick, Soros Fund Management
Vicki Fuller, Office of the New York State Comptroller
Britt Harris, Teacher Retirement System of Texas
Joshua Harris, Apollo Management
Alan Howard, Brevan Howard
Bob Jain, Millennium Management
Paul T. Jones, Tudor Investment Corp.
Scott Minerd, Guggenheim Partners
Rebecca Patterson, Bessemer Trust
Rick Rieder, BlackRock, Inc.
John W. Rogers, Jr., Ariel Investments
David Tepper, Appaloosa Management L.P.

FRBNY attendees:

William Dudley, Chair
Sarah Bell
David DeCarlo
Julia Gouny
Michael Held
Sandra Lee
Lorie Logan
Meg McConnell
Michael Nelson
Anna Nordstrom
Simon Potter
Michael Schetzel
Michael Strine
Benedict Wensley

Domestic Developments

Committee attendees discussed their interpretations of the March FOMC meeting and their outlooks for the U.S. economy. They saw the FOMC's decision to raise the target range for the federal funds rate as consistent with their expectations ahead of the meeting. Going forward, they also expected the FOMC to continue gradually raising the target range, with at least one additional 25-basis-point increase in the target range this year. In addition, some Committee attendees expected the FOMC to announce a plan for reducing the pace of reinvestments before the end of the year.

With respect to the economic outlook in the U.S., Committee attendees generally expressed the view that the labor market is nearing full employment while inflation shows signs of increasing. However, they also saw productivity growth and business investment as remaining low. Some assessed the likelihood of the U.S. Congress passing major economic proposals, such as corporate tax reform, to be low as a result of ongoing challenges in the political process.

Committee attendees also discussed what they viewed as a recent discrepancy between relatively low volatility in U.S. financial markets and anecdotal reports of relatively high investor uncertainty about the outlook for U.S. economic policy and the U.S. economy. Several Committee attendees suggested that equity market volatility tends to be cyclical, with periods of low volatility leading businesses and consumers to take on additional debt and the economy ultimately reaching a tipping point where deleveraging leads to higher volatility. Nonetheless, Committee attendees generally saw the risk of a U.S. recession in the next year to be low.

Global Developments

Committee attendees next discussed potential risks to the global economy and financial markets over the next year. Several Committee attendees highlighted geopolitical risk, European political risk, concerns over the stability of China's economy and financial sector, and the risk that major central banks could tighten monetary policy faster than economic conditions would warrant. Some Committee attendees mentioned investor complacency with the current low volatility environment and U.S. political risk. A few expressed their concern about a possible upward shock to longer-term interest rates, a cyberattack on critical U.S. infrastructure, and systemic risk among major European and Asian banks.

Committee attendees also discussed recent increases in inflation compensation across major advanced economies. They suggested that recent macroeconomic data surprises in both advanced and emerging market economies have led investors to expect stronger cyclical economic growth; as such, investors appear to be preparing for a corresponding reflationary environment. They also discussed historical data indicating that equities and corporate credit tend to underperform in such environments whereas real assets and inflation-linked bonds tend to outperform.

Finally, Committee attendees discussed their expectations for the normalization of central bank balance sheets, focusing on the Federal Reserve and the European Central Bank. They observed that investor expectations for balance sheet normalization do not appear to be reflected in U.S. and German sovereign bond yield curves. Some Committee attendees suggested that investors believe the Federal Reserve will reduce its balance sheet in a deliberate and gradual manner.