Minutes of the Investor Advisory Committee on Financial Markets

January 7, 2014

Federal Reserve Bank of New York

<u>Committee attendees:</u>

Louis Bacon, Moore Capital Management LLC
Mary Callahan-Erdoes, JP Morgan Asset Mgmt
Garth Friesen, III Associates
Joshua Harris, Apollo Management LP
Alan Howard, Brevan Howard
Derek Kaufman, Citadel LLC
Scott Minerd, Guggenheim Partners
Michael Novogratz, Fortress Investment Group LLC
Rick Rieder, BlackRock, Inc
Lawrence Schloss, NYC Retirement Systems
Jes Staley, BlueMountain Capital Management
Morgan Stark, Ramius LLC
David Tepper, Appaloosa Management LP

<u>FRBNY attendees:</u>

William Dudley, Chair
James Bergin
Terrence Checki
Christine Cumming
Jack Gutt
Tom Kennedy
Sandy Krieger
Matthew Lieber
Lorie Logan
Jamie McAndrews
Meg McConnell
Michael Nelson
Simon Potter
Matthew Raskin
Kevin Stiroh

At the beginning of the meeting Federal Reserve Bank of New York (FRBNY) staff reported that all members had been invited to participate in a pilot survey of market participants. The proposed pilot would be similar to the FRBNY's Survey of Primary Dealers, but aim to understand the expectations of a wider range of market participants.

Committee counsel reviewed the antitrust guidelines that are applicable to all participants, asked if there were any questions or concerns regarding the guidelines, and invited members to share the guidelines with counsel at their institutions.

Monetary Policy

Members focused on the FOMC's decision to reduce the pace of asset purchases and qualitatively strengthen the forward guidance on the path of the target federal funds rate at the December FOMC meeting. While a few stated that the first pace reduction was announced somewhat sooner than market participants expected going into the December meeting, members suggested that FOMC communications prior to the meeting adequately presaged the move. The qualitative strengthening of the forward guidance was generally perceived as less binding than other options that were believed to be under consideration, including reducing the unemployment threshold or introducing an inflation floor.

Committee members characterized the U.S. growth outlook as improving and cited the reduction in fiscal drag as a dominant driver. The declining trend in the labor force participation rate and the low level of realized inflation were identified as potential risks to the growth and policy outlook going forward.

Committee members generally characterized the impact of domestic policies on emerging market economies as somewhat diminished compared to the middle of 2013. They suggested that a reduction in the pace of asset purchases was widely expected and that investors had generally pared back emerging market investments following the sharp increase in global yields witnessed in the late spring and summer of 2013.

Financial Landscape

The Committee next turned to the impact of the Volcker rule on financial markets. Overall, members suggested that the rule has not substantively impacted market liquidity thus far, but acknowledged that the ultimate effect of the rule will not be fully understood until it is tested under strained market conditions. Members suggested that the cost of Volcker rule compliance for banks is likely to be substantial.

Outlook

The meeting concluded with a roundtable discussion of some of the main upside and downside risks to the global economy in the year ahead. Members discussed the improving domestic growth outlook in the context of the FOMC’s decision to reduce the pace of asset purchases at the December meeting. The impending U.S. federal fiscal budget and debt limit negotiations were cited as a potential risk to the economy. On a longer horizon, investors discussed potential risks around the FOMC’s exit from accommodative monetary policy.

Members discussed the outlook for the Japanese economy in the context of the Bank of Japan’s monetary policy stance. Separately, members suggested that growth prospects in the euro area are better than last year, but indicated that the ECB’s Asset Quality Review remains a risk. Geopolitical risks were also identified as a potential headwind to the global growth outlook, particularly a possible escalation of tensions in the Middle East.