Minutes of the Investor Advisory Committee on Financial Markets

April 17, 2019

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital Management, L.P.
James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Management
Dawn Fitzpatrick, Soros Fund Management
William H. Heyman, The Travelers Companies, Inc.
Bob Jain, Millennium Management
Paul T. Jones , Tudor Investment Corp.
Scott Minerd, Guggenheim Partners
Rebecca Patterson, Bessemer Trust
Rick Rieder, BlackRock, Inc.
David M. Rubenstein, The Carlyle Group

Federal Reserve Attendees:

John C. Williams, Chair
Steven Block
Samuel Earl
Michael Held
Kevin Henry
Beverly Hirtle
Melanie Huryn
Sandra Lee
Lorie Logan
Meg McConnell
Michael Nelson
Jordan Pollinger
Simon Potter
Julie Remache
Michael Schetzel
Kevin Stiroh
Michael Strine
Benedict Wensley

Outlook and Recent Financial Market Developments

Committee attendees discussed recent financial market developments, with discussion centered on the domestic outlook for growth and monetary policy. Some Committee attendees noted that the outlook for domestic economic growth remained on solid footing but likely was moderating to some extent toward potential output. They also viewed monetary policy as close to the neutral rate and therefore unlikely to require changes in the near term, though some perceived a likely asymmetry in the path of policy, whereby any decreases in the target range could be larger in the event of slowing growth and subdued inflation.

Discussion also turned to the drivers of inflation amid tight labor markets. Committee attendees noted that structural aspects of the economy such as demographics and advances in information technology are likely dampening inflationary pressures. Several also noted higher inflation of certain goods and services -- such as housing in certain cities, healthcare, and education -- coupled with lower inflation in core services, may not have a uniform impact on consumers.

Committee attendees noted several risks to the outlook and to domestic monetary policy. Growth and policy abroad was seen as a principal risk, with Committee attendees noting limited space to ease monetary policy overseas, which was seen as potentially placing a greater burden on U.S. monetary policy to stimulate economic growth in the event of a negative growth shock overseas.

Outlook for Europe

More specifically, Committee attendees next discussed the outlook for growth and ECB monetary policy. Committee attendees generally assessed the ECB as having limited policy space available, and perceived constraints on the willingness in certain European countries to deploy fiscal stimulus in the event of an adverse economic shock. They also discussed risks to the outlook in Europe, which included political risks from local elections and leadership changes in the EU and at the ECB, ongoing Brexit risks, as well as risks from ongoing U.S.-China trade negotiations and likely future U.S.-Europe negotiations. Committee attendees also noted that European economic growth has been largely driven by exports while U.S. growth has been driven by government deficits, both of which were viewed as unsustainable in the longer-run.

Potential Risks Related to ETFs

Committee attendees next discussed some of the benefits and risks for broader markets related to exchange-traded funds (ETFs). Committee attendees generally viewed ETFs as having clear market benefits, though some also cautioned over potential liquidity risks stemming from ETFs with less liquid underlying assets. Others thought these risks were mitigated as ETF shares can continue to trade during market stress, albeit at a discount, and provide price discovery even when there is limited trading in the underlying assets. Some also highlighted the mismatch in settlement between ETF shares and underlying assets as a possible source of risk. Several also thought that ease of investing in ETFs has the potential to attract new classes of investors that might not be as familiar with the risks of the underlying asset market.