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Minutes of the Investor Advisory Committee on Financial Markets

October 21, 2020

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital Management, L.P.
Ray Dalio, Bridgewater Associates, LP
Gregory Davis, Vanguard
Dawn Fitzpatrick, Soros Fund Management
Britt Harris, The University of Texas/Texas A&M Investment Management Company
William H. Heyman, The Travelers Companies, Inc.
Bob Jain, Millennium Management
Paul T. Jones, Tudor Investment Corp.
Scott Minerd, Guggenheim Partners
Rick Rieder, BlackRock, Inc.
John W. Rogers, Jr., Ariel Investments
David M. Rubenstein, The Carlyle Group
Matthew E. Zames, Cerberus Capital Management

Federal Reserve Attendees:

John C. Williams
Jim Cronin
Samuel Earl
Suzanne Elio
Michael Held
Beverly Hirtle
Sandra Lee
Matthew Lieber
Lorie Logan
Rebecca McCaughrin
Meg McConnell
Michael Nelson
Matthew Raskin
Julie Remache
Michael Schetzel
Daleep Singh
Kevin Stiroh
Benedict Wensley
Patricia Zobel

Discussion of the domestic economic, fiscal, and monetary policy outlooks

Committee attendees generally viewed the U.S. economy as having continued to improve over recent months with activity in some sectors bouncing back toward pre-pandemic levels. They noted that Federal Reserve monetary policy settings were likely appropriate, though highlighted downside risks to the outlook from coronavirus. They expected the Fed to likely add additional accommodation should these downside risks materialize.

Several committee attendees also discussed how a ramp up in U.S. Treasury issuance to fund an additional fiscal stimulus package would exert upward pressure on Treasury yields. They expected that if this prompted an undesirable tightening in financial conditions, the Fed would likely respond by increasing the size of its asset purchase program or terming out its purchases; a few noted that under this scenario it could be a surprise if the Fed did not respond. Some committee attendees also saw valuations in bond markets as particularly high, and saw a risk that a lower expected return could reduce investor demand for fixed income assets going forward. A few noted that some investors may increase the proportion of equities in their portfolio in order to increase absolute returns.

Committee attendees viewed the path of the spread of the coronavirus as a principle factor driving the outlook. Several noted they were optimistic on the prospects for a vaccine, and noted that therapeutics have also seen recent effectiveness. Nonetheless, they still struck a cautious tone as some saw another surge in COVID-19 cases as a key risk.

Discussion of the global economic, fiscal, and monetary outlooks

Committee attendees generally noted that many emerging market economies faced notable risks stemming from the coronavirus as many are running deficits which might be difficult to finance if a downside shock materializes. Several committee attendees, however, noted that China was an exception and that the virus risk has largely been overcome there.

Several committee attendees noted that the European Central Bank would also likely have to increase its level of accommodation via additional asset purchases, particularly as progress on the EU recovery fund has slowed. Some also noted the Bank of England also appeared likely to cut interest rates into negative territory amid recent lockdown measures to combat the spread of the virus.

Discussion of market liquidity and funding market dynamics around year end

Committee attendees generally viewed markets as functioning smoothly, and indicated that liquidity in most major markets had been restored to pre-pandemic levels.

Committee attendees also discussed their expectations for funding markets around the year end turn. Generally speaking they saw funding markets as unlikely to exhibit signs of stress around year end due to several factors. Those factors include amply liquidity provided through Fed operations including both temporary and permanent open market operations, the recent regulatory change exempting Treasuries and reserves from SLR calculations at bank holding companies, and expectations that certain banks might be more willing to maintain a larger balance sheet through year end.