FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

April 10, 2014

Federal Reserve Bank of New York

Committee attendees:

Nicole Arnaboldi, Credit Suisse Group
Tim Buckley, Vanguard
James Chanos, Kynikos Associates
Mary Callahan-Erdoes, JP Morgan Asset Mgmt
Britt Harris, Teacher Retirement System of Texas
Alan Howard, Brevan Howard
Derek Kaufman, Citadel LLC
Scott Minerd, Guggenheim Partners
Michael Novogratz, Fortress Investment Group LLC
Rick Rieder, BlackRock, Inc
Jes Staley, BlueMountain Capital Management LLC
Morgan Stark, Ramius LLC
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
James Bergin
Joyce Hansen
Tom Kennedy
Sandy Krieger
Matthew Lieber
Jamie McAndrews
Meg McConnell
Alberto Musalem
Matthew Raskin
Michael Schetzel
Kevin Stiroh

Monetary Policy

Committee attendees discussed the U.S. economic outlook and the likely path of monetary policy. They suggested that the unemployment rate is likely to continue to decline and the labor force participation rate is likely to continue to fall. They also generally stated that the inflation rate is likely to remain below the FOMC's 2 percent target for some time, as inflation pressures are not clearly evident in the broader economy.

Committee attendees noted that recent Federal Reserve communications had led them to expect a more gradual pace of increases in federal funds target rate after liftoff, with most pointing to the FOMC's Summary of Economic Projections (SEP) as informing this view. Committee attendees anticipate further clarification with regard to the sequence of steps the FOMC will take in normalizing monetary policy. Some felt that such clarification would reduce market participants' reliance on the SEP as a means to inform their target rate expectations and would reduce volatility in the wake of FOMC communications. In addition, committee attendees generally concluded that the long-run equilibrium real interest rate is likely lower than before the financial crisis; a few cited subdued levels of capital investment as driving their expectations lower.

Financial Market Developments

Committee attendees discussed geopolitical tensions between Russia and Ukraine. Overall, they did not interpret the situation in Ukraine as posing significant risks to developed markets and most suggested that financial markets are not pricing in a material probability of an escalation in tensions. Committee attendees felt that any incremental unrest would likely result in further sanctions on Russian individuals or enterprises by US and European authorities and that Russian banks' access to external financing would be at risk.

Committee attendees generally expect the Chinese economy to weaken some, and anticipate that growth this year will fall below Chinese authorities' 7.5 percent growth rate target. Capital investment in China, particularly in residential real estate, was cited as being overextended. Commodity financing trades were discussed, and committee attendees highlighted the difficulties in deciphering how much of the associated activity constitutes financial carry trades versus commodity financing to support construction projects. Nonetheless, committee attendees suggested the recent depreciation of the renmimbi likely prompted market participants to unwind speculative commodity financing carry trades.

Financial Landscape

The meeting concluded with a discussion of equity market valuations and recent innovations to investment products and strategies. Committee attendees suggested that valuations in domestic equity markets are attractive, citing that global financial conditions are relatively loose compared to historical standards. Additionally, committee attendees concluded that equity market valuations are somewhat below long-term historical levels. In the discussion of recent investment strategies, committee attendees highlighted that the low volatility environment has prompted some market participants to take on additional leverage to meet investment targets. Risk parity strategies were cited as becoming increasingly prevalent given the low interest rate and low volatility environment.