

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

January 14, 2016

Federal Reserve Bank of New York

Committee attendees:

Stephen Blyth, Harvard Management Co.
Tim Buckley, Vanguard
James Chanos, Kynikos Associates
Wellington Denahan, Annaly Capital Mgmt, Inc.
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Dawn Fitzpatrick, O'Connor
Joshua Harris, Apollo Management

Alan Howard, Brevan Howard
Bob Jain, Credit Suisse
Paul T. Jones, Tudor Investment Corp.
Eric Mindich, Eton Park Capital Mgmt
Scott Miner, Guggenheim Partners
Rick Rieder, BlackRock, Inc.
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
Tobias Adrian
Sarah Bell
Michael Held
Sandra Lee
Matthew Lieber
Lorie Logan
Meg McConnell

Michael Nelson
William O'Boyle
Simon Potter
Matthew Raskin
Michael Schetzel
Alexa Shotan
Michael Strine
Benedict Wensley

Global Developments

Committee attendees discussed developments related to China, and generally viewed the recent turmoil in global financial markets as being driven by concerns over realized and expected Chinese capital outflows. Specifically, they viewed a slowing growth trajectory and expectations for further renminbi depreciation as exacerbating these flows. Committee attendees viewed recent developments as similar in nature to the market turbulence observed following the devaluation of the renminbi in August 2015, generally framing the various Chinese policy responses as undermining confidence domestically and among foreign investors.

Committee attendees expected developments in China to continue to buffet global risk asset prices, and expected the renminbi to depreciate further against the U.S. dollar. However, some also viewed the magnitude of the currency adjustment that would be necessary to restore equilibrium as too large to undertake over a short time frame, and thus expected Chinese official reserves to continue to decline in the near term.

Committee attendees briefly discussed developments in Latin America, generally seeing a bifurcation between countries with sound fundamentals and those with significant vulnerabilities. They discussed fiscal and debt challenges facing Brazil, particularly in light of recent sovereign downgrades.

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Domestic Developments

In their discussion of U.S. monetary policy, Committee attendees expected the path of rate hikes to be gradual and suggested that the December FOMC statement gave the FOMC flexibility in responding to shifting global developments. Specifically, they felt that the FOMC could pursue a gradual path of hikes on the grounds that realized inflation remained below mandate and levels of forward inflation compensation remained low.

Committee attendees viewed recent U.S. economic data as having softened somewhat, though generally expected moderate growth and continued labor market improvement. They viewed further appreciation of the U.S. dollar as the primary risk to the U.S. economic outlook. However, Committee attendees offered their view that there was not a strong understanding in financial markets of how U.S. dollar strength factored into the FOMC's economic outlook and policy reaction function.

Financial Landscape

Committee attendees suggested the sharp decline in oil prices was having a significant impact on the U.S. high-yield credit sector. They generally expected the declines in energy-sector earnings and the widening in credit spreads to translate into increased defaults, which they thought could impact risk sentiment more broadly. Committee attendees also discussed public reports of the recent liquidation of the Third Avenue Focused Credit Fund, but generally viewed it as not indicative of the high-yield mutual fund sector as a whole given Third Avenue's reportedly high concentration in CCC-rated or unrated securities.