FEDERAL RESERVE BANK of NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

April 13, 2022

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
Leda Braga, Systematica Investments
Gregory Davis, Vanguard
Dawn Fitzpatrick, Soros Fund Management
Hari Hariharan, NWI Management, L.P.
William H. Heyman, The Travelers Companies, Inc.
Bob Jain, Millennium Management
Kim Lew, The Columbia Investment Management Company
Holly H. MacDonald, Bessemer Trust
Belita Ong, Dalton Investments
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management, LLP
David Rubenstein, The Carlyle Group

Federal Reserve Attendees:

John C. Williams
Jim Cronin
YoonHi Greene
Naureen Hassan
Beverly Hirtle
Samuel Kanson-Benanav
Anna Kovner
Lorie Logan
Rebecca McCaughrin
Meg McConnell
Michelle Neal
Michael Nelson
Julie Remache
Michael Schetzel
Ben Snodgrass
Benedict Wensley
Patricia Zobel

Discussion of the Economic and Inflation Outlook

Committee members first discussed their views on the outlook for inflation and economic growth. Overall members were optimistic about the near-term growth trajectory of the domestic economy though noted uncertainty about the long-term global outlook and emphasized the risk of persistently high inflation. Members noted that the labor market was robust, with unemployment at a historical low and wage gains broad-based.

Members discussed how consumer expectations for near-to-medium-term inflation have risen over the last year and current measures of inflation readings remain elevated. While some considered whether the U.S. had hit peak inflation, others noted several structural forces, including housing demand, commodity prices, ESG standards, and de-globalization trends could lead to persistently elevated inflation prints over the longer-term. Members remarked, however, that market implied far forward inflation expectations still seemed to remain well anchored. The committee also discussed the possibility that inflation expectations are divided between generations with older generations biased towards recollections of higher inflation in the 1970s, while younger generations may instead expect a reversion towards lower inflation levels of the recent past.

Discussion of the Outlook for U.S. Monetary Policy

Members next turned to a discussion of their views and expectations for the stance of monetary policy in the U.S. Some perceived aggressive action, including multiple 50 basis point rate increases and a faster pace of balance sheet reduction, would be required in light of elevated inflation readings. Many expected the Fed to raise the target policy rate rapidly towards the neutral rate. Expectations for the start of balance sheet runoff centered around May or June. A few noted some surprise that Treasury bills would be redeemed up to the cap amounts in months when Treasury coupon principal payments were below the caps and characterized the plan for balance sheet normalization as perhaps slightly less aggressive than previously expected given this approach. Some noted their focus was now on whether and how MBS sales would be implemented.

Most members did not take much of an economic signal from recent inversions in the U.S. nominal yield curve. Certain members suggested the flattening was driven in part by expectations of higher policy rates, which lifted short-dated rates, while strong pension demand pushed down longer-term rates.

Discussion on the War in Ukraine

Committee members also reflected on the market reaction to the war in Ukraine. Members noted the war presented greater challenges to the European economy than that of the U.S. given the United States' relatively high energy independence. Contacts also noted the war presented serious risks to emerging markets, and specifically mentioned challenges in controlling food inflation. The committee also discussed the role of sanctions. Some noted sanctions will not be easy to reverse. Many noted that some U.S.-led sanctions had prompted additional discussions on whether the global reliance on the U.S. dollar would continue. Certain members thought this would encourage use of cryptocurrencies, while others suggested neither cryptocurrencies nor alternative fiat currencies as of now poised material challenges to the dollar's status as a reserve currency. Committee members also noted the emergence of new COVID variants and worsening outbreaks in China as a key risk to the economic outlook.

Lastly, committee members discussed market functioning during the early days of the Russian invasion of Ukraine. The most acute phase of illiquidity for most markets occurred during the initial risk-off reaction to the outbreak in geopolitical tensions, though committee members noted sentiment recovered rather quickly. Members charactered market functioning as strained though manageable across a variety of asset classes. Many agreed strains were most concentrated in the commodities space.