Minutes of the Investor Advisory Committee on Financial Markets

April 20, 2023

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
Leda Braga, Systematica Investments
Hari Hariharan, NWI Management, L.P.
William H. Heyman, The Travelers Companies, Inc.
Kim Lew, Columbia Investment Management
Holly H. MacDonald, Bessemer Trust
Belita Ong, Dalton Investments
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management, LLP
Jeffrey Talpins, Element Capital
Anastasia Titarchuk, New York State Common Retirement Fund

Federal Reserve Attendees:

John C. Williams
Dianne Dobbeck
Tiffany Hewlin
Beverly Hirtle
Anna Kovner
Meg McConnell
Timothy C. Nash, Jr.
Michelle Neal
Michael Nelson
Roberto Perli
Julie Remache
Maneesha Shrivastava
Ben Wensley

Discussion of the U.S. Banking Sector

Committee members noted that the U.S. banking system was healthy overall and largely viewed recent developments at a couple of domestic regional banks and global banks abroad as reflecting pockets of perceived deficiencies in risk management practices. Actions taken by the official sector were perceived by members as supporting confidence in the broader banking system. Still, while some data seemed to suggest to members that the situation had stabilized, they noted that stresses remained for some banks. Members noted that market participants were attentive to a few key metrics to help them understand the risks associated with regional banks, including the level of uninsured deposits and the composition of their assets. Committee members flagged weakness in office-related commercial real estate as a potential vulnerability for regional banks, where they viewed exposures of some banks as sizeable. Some Committee members noted differing outlooks for other types of commercial real estate, such as multifamily housing, where an ongoing structural shortage of housing was seen a source of fundamental support.

Looking ahead, members anticipated increased competition among small- and mid-sized banks for bank deposits, and thought that higher funding costs could weigh on the profitability of smaller U.S. banks. At the same time, as banks seek to manage the risk from their exposures, members expected some banks to adopt more conservative lending practices. A few members noted that banks had already been tightening their lending standards since last year. Some members noted that it had become more costly to finance transactions in commercial real estate, especially in the office sector, while in some pockets early-stage venture capital financing was reportedly harder to secure. Committee members broadly agreed that data had not yet revealed the full impact of a tightening cycle, and noted considerable uncertainty about the extent to which credit conditions could tighten further as well as the implications for small- and medium-sized businesses, broader financial conditions, and the economy.

Discussion of the U.S. and Global Economic Outlook

Committee members generally agreed that recent labor market and inflation data in the U.S. have pointed to a more resilient economy than many expected, though noted other measures that have suggested some signs of slowing economic activity. While most members anticipated headline inflation would gradually ease, some noted that core services inflation excluding shelter could remain elevated in the near term. Amid a relatively wide range of expectations, members generally anticipated a slowdown in growth this year and some continued to anticipate a mild recession. Some members noted uncertainty associated with lags with which monetary policy tightening would impact the economy and were uncertain about the extent to which some sectors of the economy had already adjusted to higher interest rates.

A few members noted additional downside risks to growth from challenges in the office-related commercial real estate market, stickier-than-expected inflation, and geopolitical developments such as the ongoing Russia-Ukraine war and tensions between the U.S. and China. Some noted a myriad of possibilities and risks around the rapid uptake in the use of artificial intelligence.

Discussion of the U.S. and Global Outlook for Monetary Policy

Committee members noted that the relative resiliency of incoming U.S. economic activity data generally supported the view that monetary policy would be tightened further at the May meeting and that afterwards policy would remain data dependent. A few members believed a pause at the May meeting could be appropriate, so that policymakers could have more time to assess the degree to which credit conditions were tightening and slowing the economy. Others believed that recent data supported further policy tightening, given risks of a re-acceleration in inflation. Many members thought that market pricing of some rate cuts later this year suggested only some probability that policymakers could have to bring rates down substantially.

Committee members also noted some differences in policy expectations abroad, given persistent core inflation in the euro area that may necessitate ongoing monetary policy tightening by the ECB. Members awaited more information from the Bank of Japan’s new leadership under Governor Ueda. Lastly, members were attentive to the ongoing reopening in China, though noted spillovers to the broader global economy had thus far been limited.