FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

July 12, 2023

Federal Reserve Bank of New York

Committee Attendees:

Leda Braga, Systematica Investments
Ray Dalio, Bridgewater Associates, L.P.
Greg Davis, Vanguard
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
Andrew Haughwout
Tiffany Hewlin
Anna Kovner
Matt Lieber
Rebecca McCaughrin
Meg McConnell
Timothy C. Nash, Jr.
Michelle Neal
Michael Nelson
Roberto Perli
Manisha Ratakonda
Julie Remache
Maneesha Shrivastava
Ben Wensley

Discussion of the U.S. Economic and Monetary Policy Outlook

Committee members generally viewed recent U.S. data as suggesting a more resilient economy than many had expected. Some thought inflation indicators appeared to be moderating, though noted that continued tightness in labor market conditions was supporting wage growth. Members generally anticipated disinflation to continue this year, though some noted the possibility that inflation could remain slightly above mandate-consistent levels in the near- to medium-term. Some noted that higher policy rates may be needed to continue to temper inflation. Most members broadly expected one or two more increases in the target range, noting that their expectations seemed generally consistent with market pricing.

Members noted that even as household savings continue to deplete, consumer spending has remained more resilient than expected. Some members questioned whether the interest rate sensitivity of segments of the economy had changed relative to past economic cycles, pointing to a seemingly shallower trough in residential housing market indicators than was expected, despite higher mortgage rates. Looking ahead, members noted that they remained attentive to several factors, including the increased marginal cost of corporate borrowing, higher government spending and financing needs, and impacts on the banking sector and broader economy from continued monetary policy tightening.

Discussion of the Global Economic and Monetary Policy Outlook

Committee members noted a mixed outlook for international economies. In the euro area, members noted recent softer data but held a generally positive economic outlook. Some anticipated more sustained inflationary pressures than were forecasted by policy officials. Committee members anticipated a rate increase at the European Central Bank's July policy meeting and noted the possibility of a subsequent increase in September, though highlighted uncertainty further out. In the U.K., members viewed above-expectations inflation data for May as potentially suggesting more sustained inflationary pressures. Following the data, markets priced in more rate increases bringing the peak rate markedly higher. Several noted that constraints on labor supply appeared to be exacerbating tightness in the labor market.

In Asia, members were highly attentive to signs of an improvement in Japanese economic activity data alongside higher levels of inflation, buoyed by wage increases across industries. Some members thought the Bank of Japan might adjust the policy framework soon, while others believed that policymakers would wait to see whether inflationary pressures moderated over the course of the year. In China, members viewed recent data as suggesting a growth slowdown, with a smaller-than-expected bounce back in economic activity after the government lifted COVID-related restrictions and continued concern around the property sector. Members also remarked on higher levels of unemployment, particularly youth unemployment. Members discussed the possibility for more stimulus, though noted some constraints with respect to risks related to the property sector. Some members noted more positive longer-term outlooks for jurisdictions like India.

Discussion of Structural Economic Changes

Committee members noted several structural changes that shaped their longer-term growth outlook, including their estimates of the longer-run neutral interest rate. A few members noted some factors that could put upward pressure on longer-run neutral rates, such as a higher level of fiscal spending and government financing needs, stemming from COVID-related stimulus and investments in infrastructure. Heightened geopolitical tensions were seen as driving both increased defense-related spending globally and contributing to the near-shoring of supply chains amid slowing rates of globalization. However, some thought that slowing demographic trends, including a rising proportion of savers in the U.S., Europe, and parts of Asia, particularly China and Japan, may continue to put downward pressure on longer-run rates. Some noted mixed implications from technological advancements relating to investment needs and productivity, while some viewed the longer-term impacts of technologies like generative artificial intelligence as underappreciated by markets.