Minutes of the Investor Advisory Committee on Financial Markets

July 12, 2023

Federal Reserve Bank of New York

Committee Attendees:

Leda Braga, Systematica Investments                          Belita Ong, Dalton Investments
Ray Dalio, Bridgewater Associates, L.P.                     John W. Rogers, Jr., Ariel Investments
Greg Davis, Vanguard                                        Chris Rokos, Rokos Capital Management, LLP
Hari Harihara, NWI Management, L.P.                         Jeffrey Talpins, Element Capital
William H. Heyman, The Travelers Companies, Inc.            Anastasia Titarchuk, New York State Common
Kim Lew, Columbia Investment Management                      Retirement Fund
Holly H. MacDonald, Bessemer Trust

Federal Reserve Attendees:

John C. Williams                                            Michelle Neal
Andrew Haughwout                                             Michael Nelson
Tiffany Hewlin                                                Roberto Perli
Anna Kovner                                                   Manisha Ratakonda
Matt Lieber                                                   Julie Remache
Rebecca McCaughrin                                            Maneesha Shrivastava
Meg McConnell                                                 Ben Wensley
Timothy C. Nash, Jr.

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-expected 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.