FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

**Minutes of the Investor Advisory Committee on Financial Markets**

October 19, 2023

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
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
Shafat Alam
Andrew Haughwout
Tiffany Hewlin
Anna Kovner
Matt Lieber
Rebecca McCaughrin
Meg McConnell
Timothy C. Nash, Jr.
Michelle Neal
Roberto Perli
Manisha Ratakonda
Julie Remache
Maneesha Shrivastava
Ben Wensley

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

Committee members maintained their view that U.S. economic data suggested a more resilient economy than most had expected at the beginning of this year. That said, members noted greater uncertainty around the outlook next year, though anticipated the economy would start slowing more meaningfully, given their expectations for impacts from tighter financial conditions. Some also thought monetary policy lags may be longer in this cycle, as households and corporates had locked in lower borrowing rates. Members expected higher borrowing costs to eventually weigh more heavily on corporate sector activity and the depletion of savings to weigh on household consumption. Still, other members saw upside risks to the economic outlook and pushed out their expected timing of any recession. Members remained focused on the impacts of higher rates across different sectors of the economy and how these compared to tightening cycles historically. There was some divergence among members regarding their perception of how restrictive real interest rates were. Some viewed real rates as already in restrictive territory, pointing to impacts on rate-sensitive segments of the economy. Others questioned that view, noting the resilience of the U.S. labor market and broader economy.

With respect to the path of monetary policy, Committee members generally assessed the policy rate at or near the peak level, which they viewed as consistent with market pricing. As with the economic outlook, members noted a higher level of uncertainty around the policy outlook for next year. Some anticipated rate cuts given their expectations for a recession, while others noted the possibility that the policy rate could move higher if the economy remained stronger than expected.

**Discussion of Longer-Term U.S. Interest Rates**

Committee members noted several factors that could be contributing to the notable increases in longer-term U.S. Treasury yields since late July. Members attributed the increases in large part to the economy remaining more resilient than expected. In addition, some thought this reflected potential structural economic changes that could be pushing the neutral interest rate higher. Many members thought the current environment of larger fiscal deficits and higher Treasury issuance could be putting upward pressure on longer-term rates, though a couple of members noted that moves in some market indicators did not necessarily corroborate these attributions.

Members discussed several factors that could raise estimates of the longer-run neutral interest rate, including increased geopolitical tensions and slowing rates of globalization. In particular, members discussed potentially higher investment needs related to defense, technology, and the green energy transition. Some noted that global demographic trends could continue to put downward pressure on the long-run real neutral rate. Overall, Committee members shared some differences in views on changes to long-run r-star: some members thought that r-star had moved up while some others characterized any changes as modest.

**Discussion of the International Economic and Monetary Policy Outlook**

Committee members noted a mixed outlook for international economies. Regarding China, members noted that recent data were providing mixed signals about the trajectory for growth. Members noted ongoing concerns related to the property sector, geopolitical risks, and slowing demographic trends. Some remarked on limited insight into the labor market, particularly levels of unemployment for younger workers. On the other hand, a few members noted some reduction in regulatory uncertainty, especially with respect to the technology sector. They also raised the possibility for stimulus measures that could help boost growth in key sectors, including climate-related technologies, or help limit negative impacts from the real estate sector.

Members generally viewed the growth outlook for most advanced foreign economies as lagging their expectations for U.S. economic growth. Europe and the U.K. were seen as facing structurally higher input costs, especially related to energy and manufacturing. In particular, members thought the U.K. also had higher wage pressures than in most other advanced economies, given structural changes in the labor market.