FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

April 17, 2024

Federal Reserve Bank of New York

Committee Attendees:

Michael Arougheti, Ares Management
Leda Braga, Systematica Investments
Ray Dalio, Bridgewater Associates, L.P.
Greg Davis, Vanguard
Hari Hariharan, NWI Management, L.P
Belita Ong, Dalton Investments
Holly H. MacDonald, Bessemer Trust
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management, LLP
David Rubenstein, The Carlyle Group
Jeffrey Talpins, Element Capital
Anastasia Titarchuk, New York State Common Retirement Fund
Anne Walsh, Guggenheim Partners Investment Management

Federal Reserve Attendees:

John C. Williams
Shafat Alam
Kartik Athreya
Jim Cronin
Tiffany Hewlin
Anna Kovner
Matthew Lieber
Timothy C. Nash, Jr.
Roberto Perli
Manisha Ratakonda
Julie Remache
Maneesha Shrivastava
Ben Wensley

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

On the U.S. economic outlook, Committee members generally agreed that recession risks were receding for this year and noted the resiliency of the economy. Some members continued to perceive a bifurcation in the economy, with large firms and homeowners, who had earlier locked in their borrowings at lower rates, experiencing less sensitivity to higher interest rates and more positive wealth effects than other segments of the economy. Members expressed some divergence in expectations for GDP growth this year, with some expecting growth to moderate materially in the second half relative to last year while others anticipated growth to remain close to trend. Members noted that the most recent inflation data showed an unexpected persistence of inflation in some core services components. Some anticipated inflationary pressures to ease in coming months and expected two rate cuts this year. Other members saw greater upside risks to inflation and, consequently, the policy rate. A few members noted that resilient economic activity and inflation remaining above mandate-consistent levels suggested greater underlying economic strength. They also indicated that their estimates of the neutral level of interest rates had risen and thus, that policy might not be as restrictive as some thought.

Committee members agreed that U.S. growth appeared to be outpacing the rate of expansion in other advanced economies, and believed that several central banks would likely begin cutting rates sometime this summer—before the Federal Reserve. Most members noted optimism around the economic outlook in Japan and asserted that the Bank of Japan may increase the policy rate again this year following the recent exit from unconventional monetary policies. Members noted a mixed outlook for China, with positive developments in some sectors, like electric vehicle manufacturing, offset by ongoing challenges in the property sector. Members continued to note that other economies, including India and parts of Southeast Asia, were benefitting from the relocation of supply chains away from China, driven in part by regulatory, political, and policy uncertainty.

Discussion of Risk Asset Valuations

Committee members discussed valuations across risk asset markets, primarily equities, and any potential risks to the financial system. Most members generally viewed equity market valuations as elevated but not stretched relative to history. Some members pointed to a few factors as contributing to investor optimism. Many members noted that developments related to generative artificial intelligence had been providing strong tailwinds to segments of the equity market, with some chip manufacturers experiencing material earnings growth related to AI. That said, some members thought that the beneficial impacts from AI will take longer to materialize because they require investment in other areas of the economy, such as data centers and power grids. Members highlighted risks to valuations across risk asset classes from interest rates remaining at high levels for longer than expected. Members also discussed other market segments, and noted that they continued to monitor risks related to commercial real estate markets, particularly office- and multifamily-related developments. Members expressed a wider range of views on private capital markets. Some members noted that activity had been subdued in a higher rate environment, but that liquidity conditions would be supported by increased capital market and corporate activity.