33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

February 2, 2024

Federal Reserve Bank of New York

Committee Attendees:

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
Anne Walsh, Guggenheim Partners Investment Management

Federal Reserve Attendees:

John C. Williams
Kartik Athreya
Jim Cronin
Anna Kovner
Matthew Lieber
Rebecca McCaughrin
Timothy C. Nash, Jr.
Michelle Neal
Roberto Perli
Manisha Ratakonda
Julie Remache
Maneesha Shrivastava
Ben Wensley

Committee attendees reviewed anti-trust guidelines.

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

Committee members noted the unexpected strength of recent U.S. economic data and thought that strong labor markets were underpinning resiliency in consumer spending. Many members noted that labor market strength continued to reflect a recovery from the pandemic. Committee members expected disinflation to continue this year, though some believed the process could be more uneven than market expectations. A few members noted that some recent measures of core inflation appeared to be running at levels consistent with the 2 percent mandate, though others noted some upside risks to inflation. Members noted that investors had expected a recession last year, given the magnitude of monetary policy tightening, and noted those expectations were being pushed out to later this year. Some members expected a mild recession in the second half of this year.

On Federal Reserve monetary policy, some Committee members anticipated rate cuts to begin in mid-2024. Some members expected less easing than was priced by markets, given the robust U.S. economy. A few Committee members noted that strength in recent data despite higher rates may be indicative of a higher neutral real rate for now. On the balance sheet, some members expected runoff of Treasuries and agency MBS to finish at year-end or early next year. A few members noted that to avoid market frictions, balance sheet runoff could end when reserve balances reached around 11 percent of GDP. A couple of members expected balance sheet holdings of MBS to continue running off after Treasury runoff ended, with the proceeds reinvested into Treasuries.

Discussion of the International Economic and Monetary Policy Outlook

Committee members noted a mixed outlook for advanced and emerging foreign economies. Members noted weaker growth outlooks for Europe and the U.K. alongside continued inflationary pressures related to energy costs and wages. Members viewed these dynamics as posing challenges for monetary policy, and contrasted this with their outlook for the U.S., where more resilient economic activity was seemingly supporting a more benign trade-off between growth and inflation. Regarding the outlook for Japan, members largely agreed with market expectations that the Bank of Japan would exit negative interest rate policy, potentially by mid-year, pending further wage and inflation data.

Members noted uncertainty regarding the Chinese economy and continued to view the property sector as challenging. Members viewed recent policy measures to support the economy as smaller and more targeted but noted that larger stimulus measures may be necessary. Members also observed risks to China's growth outlook emanating from any medium-term changes in U.S. trade policy. Members noted that some economies were benefitting from initiatives to diversify supply chains, including Japan, Mexico, and India, but acknowledged the risk that these dynamics could slow if confidence around the Chinese economy recovered.

Discussion of Risks to the U.S. and Global Outlook

Committee members noted risks to their outlook for the U.S. and global economy this year, primarily focusing on upside risks to inflation and downside risks to growth. Members noted increased U.S. Treasury financing needs, and noted that fiscal expansion would add to inflationary pressures. Members observed that there are elections in many jurisdictions this year, which could impact international relations and trade. Members also highlighted ongoing geopolitical risks. Some members viewed the stance of monetary policy as restrictive, and given their expectations for continued disinflation, noted a risk that monetary policy could stay too tight for too long. However, some other members downplayed this risk.

Committee members also noted risks related to the commercial real estate market, where any deterioration would negatively impact small- and medium-sized banks. Members noted that this could restrict these banks' ability to lend to small- and medium-sized businesses, which tend to have fewer available sources of capital and liquidity. Some members also noted that less publicly available data associated with the rise in private lending made it more complicated to identify where potential vulnerabilities might be.