

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

October 20, 2021

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
Leda Braga, Systematica Investments
Ray Dalio, Bridgewater Associates, LP
Gregory Davis, Vanguard
Dawn Fitzpatrick, Soros Fund Management
William H. Heyman, The Travelers Companies,
Inc.

Bob Jain, Millennium Management
Paul T. Jones, Tudor Investment Corp
Kim Lew, The Columbia Investment
Management Company
Holly H. MacDonald, Bessemer Trust
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management,
LLP

Federal Reserve Attendees:

John C. Williams
Anne Baum
Jim Cronin
Jennifer Crystal
Samuel Earl
Michael Held
Samuel Kanson-Benanav
Matthew Lieber
Lorie Logan

Meg McConnell
Michael Nelson
Matthew Raskin
Julie Remache
Seth Searls
Ben Snodgrass
Kevin Stiroh
Benedict Wensley
Patricia Zobel

Discussion of the Economic and Monetary Policy Outlook

Several committee members expressed concern about upside inflationary pressures. They noted a variety of drivers as potentially contributing to higher inflation, including fiscal policy, structural changes in the labor market, de-globalization, and green energy trends.

Committee members also noted that the FOMC had made substantial progress towards its goals, with some measures of inflation higher – and of unemployment lower – than during prior tightening cycles. However, some thought that progress in the labor market is more difficult to assess considering the lower labor force participation rate and structural changes in the labor market. In light of the perceived upside risks to inflation, many thought it appropriate that the Committee consider reducing the amount of monetary policy accommodation being provided, although certain members cautioned that the outlook was more unclear given that enhanced unemployment benefits were now being withdrawn. Members also considered the outlook for inflation abroad, including in the U.K. which was viewed as more susceptible to inflation shocks given its smaller open economy and reduced labor supply post-Brexit.

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Discussion on Chinese Economic Developments

Members discussed the recent Chinese “Common Prosperity” initiative and associated actions by Chinese authorities to encourage some income redistribution away from the top-end. Some members expected specific tax policy changes, such as higher taxes on capital and luxury goods, as well as authorities having greater control of data and technology. Committee members also discussed weaknesses in the Chinese property sector, including recent developments regarding the property developer Evergrande. Some noted that weakness in the Chinese property sector could pass through to tradable industries tied to real-estate, such as steel. Most members expected property sector defaults to rise and, in turn, this to weaken credit availability to the sector, with some estimating this could weaken annual Chinese growth by as much as 2 to 3 percent. However, risks were largely thought to be contained to the domestic Chinese economy, at least at this stage.

Discussion on Environmental, Social, and Governance Standards (ESG)

Committee members reviewed the evolution of the existing regulatory landscape and they focused on EU initiatives, such as the Sustainable Finance Disclosure Regulation (SFDR) and efforts to create a taxonomy of ESG criteria. However, despite these advancements, members noted significant shortfalls in sovereign budgets dedicated to reach the goals in the Paris accord. Some near-term challenges that were associated with the move towards a sustainable global economy cited by members included inflationary pressures and geopolitical tensions. Some members noted the need for common risk management strategies such as climate stress testing for banks. Members also noted the growth in the trading of ESG assets and the importance of developing an ESG criteria for long-term portfolio management purposes, including by insurance companies and endowment funds. However, there was broad consensus that it was difficult to evaluate ESG criteria and many members wanted mechanisms – perhaps led by the public sector – to help more accurately and consistently price and trade ESG assets. Members also discussed the importance of ESG criteria in promoting not just environmental sustainability but also social goods, such as racial equity.