FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

October 13, 2016

Federal Reserve Bank of New York

Committee attendees:

James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Management
Dawn Fitzpatrick, UBS Asset Management
Britt Harris, Teacher Retirement System of Texas
Joshua Harris, Apollo Management
Alan Howard, Brevan Howard
Bob Jain, Millennium Management
Paul T. Jones, Tudor Investment Corp.
Eric Mindich, Eton Park Capital Management
Scott Minerd, Guggenheim Partners
Rebecca Patterson, Bessemer Trust
Rick Rieder, BlackRock, Inc.
David Tepper, Appaloosa Management L.P.

FRBNY attendees:

William Dudley, Chair
Sarah Bell
David DeCarlo
Joshua Frost
Thomas Kennedy
Sandra Lee
Matthew Lieber
Lorie Logan
Meg McConnell
Michael Nelson
Simon Potter
Matthew Raskin
Michael Schetzel
Michael Strine
Joe Tracy
Benedict Wensley

Domestic Developments

Committee attendees discussed their interpretations of the September FOMC meeting communications, which they generally viewed as consistent with their expectations ahead of the meeting. Some committee attendees found the three dissents to the FOMC's policy action to be notable, though this outcome did not materially change their expectations for monetary policy going forward. Committee attendees also noted that positive signs in recent inflation, wage, economic activity, and consumer confidence data were consistent with a gradual pace of monetary policy tightening.

Committee attendees discussed their assessments of current valuations in U.S. equity and credit markets. They noted that relatively high price-to-earnings ratios on a historical basis should be viewed in the context of very low interest rates supporting those valuations. They also, however, expressed some concern around corporations' increasing gross leverage ratios and decreasing interest coverage ratios, as corporations have used debt issuance for stock buybacks and dividend payments over recent years.

Global Developments

Committee attendees discussed the efficacy of monetary policy accommodation in Japan, Europe, the U.K., and the U.S. given persistently low growth and inflation outcomes in those economies. They noted that some consequences of this accommodation include high equity and corporate credit valuations and rising leverage around the world. Committee attendees also discussed the impact of the U.K. referendum to leave the European Union on financial markets, the U.K. economy, and economic policy in the U.K. Several noted that uncertainty remains around the extent to which banks and other financial market participants will move their operations to other locations, such as Europe or the U.S., as a result of the vote. Some committee attendees also pointed out that the U.K.'s large budget deficit leaves little room for fiscal expansion to address any adverse economic effects of the vote. Finally, committee attendees discussed the risk of similar political outcomes emerging from several important elections and referenda in Europe in the coming months.

Political and Regulatory Landscape

Committee attendees suggested that the impact of the upcoming U.S. election on financial assets would be somewhat dependent upon whether it resulted in one-party control of the presidency and Congress or split control. They generally cited expectations for more fiscal stimulus, particularly infrastructure spending, regardless of the outcome of the presidential election. However, several indicated that the form and extent of fiscal stimulus, and whether it would be paid for with tax increases or deficit spending, did depend upon the election results. Some committee attendees also pointed out that the election could have important implications for U.S. trade policy as well, which added some uncertainty to their assessments. Finally, committee attendees noted that the extent of fiscal stimulus could have important implications for the stance of monetary policy.

Committee attendees also discussed recent developments in banking and money market mutual fund (MMMF) regulation. Some noted that the implementation of the SEC's MMMF reforms, taking effect on October 14, were going smoothly, though investors had moved more of their cash investments from prime funds to government funds than many market participants had expected. The transition had resulted in some upward pressure on U.S. dollar LIBOR fixings, but without any apparent dislocations in funding markets. In addition, committee attendees discussed the ongoing implementation of Basel III global banking standards; they suggested some major banks in the U.S. and abroad are likely still adapting their balance sheets and business practices to these standards.