FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

January 12, 2022

Federal Reserve Bank of New York

<u>Committee Attendees:</u>

William A. Ackman, Pershing Square Capital
Ray Dalio, Bridgewater Associates, LP
Gregory Davis, Vanguard
Hari Hariharan, NWI Management, L.P.
William H. Heyman, The Travelers Companies, Inc.
Bob Jain, Millennium Management
Kim Lew, The Columbia Investment Management Company
Holly H. MacDonald, Bessemer Trust
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management, LLP

<u>Federal Reserve Attendees:</u>

John C. Williams
Jim Cronin
Naureen Hassan
Michael Held
Samuel Kanson-Benanav
Anna Kovner
Matthew Lieber
Rebecca McCaughrin
Meg McConnell
Michael Nelson
Matthew Raskin
Julie Remache
Michael Schetzel
Ben Snodgrass
Benedict Wensley
Patricia Zobel

Committee attendees reviewed anti-trust guidelines.

Discussion of the Economic and Inflation Outlook

Members were optimistic about the global outlook and expected above trend GDP growth in the near-term in the U.S. Several committee members expressed continued concerns about upside inflationary pressures. Members noted that while some economist forecasts show inflation trending towards 2 percent over the course of the next few years, there was broad agreement that these numbers masked material risks of more sustained pressures. Drivers of higher inflationary pressures included the dual impulses of fiscal and monetary stimulus, improvements in consumer balance sheets and increases in household wealth, supply chain disruptions and higher energy costs amid a transition towards alternative and sustainable energies.

Regarding the pandemic, committee members noted that while the medical consequences of the Omicron variant would be tragic for many, the economic impact may be less serious than prior waves. One exception may be countries, such as China, where stricter COVID restrictions remain in place, which could exacerbate supply chain disruptions.

Discussion of the Outlook for U.S. Monetary Policy

Members noted that the Fed could increase rates by around 100 basis points in 2022, but many viewed this as still representing an accommodative monetary policy stance. These members took the view that a federal funds target range around that level would imply negative real rates, support aggregate demand, and may not be enough to curtail inflation in a meaningful way. A few contemplated whether it would be useful for the Fed to increase the target range in 50 basis point increments. On balance sheet policy, most viewed the Fed's balance sheet as a secondary tool and expected a wind-down of the portfolio to begin sometime this year. Members were unsure by how much the portfolio would be reduced and discussed how the Fed might mechanically implement a controlled reduction for example by using caps on asset redemptions. Many held the view that a faster pace of balance sheet reduction relative to the prior period of normalization was warranted. Some expressed the view that the Fed should transparently communicate balance sheet policy while maintaining flexibility as economic conditions evolve.

Discussion on Cryptocurrencies and Central Bank Digital Currencies

Committee members broadly noted that cryptocurrencies did not represent effective mediums of exchange and viewed them more as speculative assets than as currency. However, many saw opportunities in their underlying technology and were enthusiastic about the potential for innovation in the application of these emerging technologies in a wide array of industries. Committee members also acknowledged it is important to differentiate between the various technologies and associated risks that are often singularly referenced to as "cryptocurrencies". Many viewed current risks to financial stability of emerging markets as minimal to date, though noted exposed retail investors face risk. A few also expected greater regulation of stablecoins given they exhibited properties similar to money market mutual funds. Members also discussed Central Bank Digital Currencies (CBDCs) and noted that various countries' models differ in how CBDCs alter the relationship between the traditional banking system and central banks. Members also considered the social implications of digital currencies, with some viewing them as exacerbating wealth inequalities, while others saw their potential for increasing accessibility, particularly for developing economies.