

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Minutes of the Investor Advisory Committee on Financial Markets

October 5, 2012

Federal Reserve Bank of New York

### Committee attendees:

Nicole Arnaboldi, Credit Suisse Group  
Mary Callahan-Erdoes, JP Morgan Asset Mgmt  
Joshua Harris, Apollo Management LP  
Alan Howard, Brevan Howard Asset Management  
Deryck Maughan, KKR

Michael Novogratz, Fortress Investment Group  
Rick Rieder, BlackRock, Inc  
Lawrence Schloss, NYC Public Pension Funds  
Morgan Stark, Ramius Capital Group  
David Tepper, Appaloosa Management LP

### FRBNY attendees:

William Dudley, Chair  
James Bergin  
Jennifer Fortner  
Steven Friedman  
Krishna Guha  
Karin Kimbrough

Sandy Krieger  
Lorie Logan  
Jamie McAndrews  
Michael Nelson  
Simon Potter  
Kevin Stiroh

## Monetary Policy

The first agenda item focused on recent monetary policy developments. Members characterized September's FOMC announcements as exceeding market expectations and contributing to a rise in U.S. risk-sensitive assets. Despite the positive impact on asset prices, members discussed some remaining uncertainty over the trajectory of the U.S. economy. They noted that uncertainty around the U.S. fiscal outlook continues to dampen business confidence. They also cited factors, including impediments to labor mobility emanating from housing market strains and the rising cost to businesses of healthcare and pensions, as continuing to weigh on employment growth.

Note was made of high investor demand for credit products as a result of Federal Reserve purchases of longer-dated securities. Members noted that valuations and lending standards in corporate credit and structured products bear monitoring.

Recent measures by European policymakers were characterized as supporting stability in euro-area financial markets. However, concerns regarding the European economic growth outlook and implementation risks related to recent policy measures remain in place. Separately, members also remain attentive to signs of moderating growth in China and dynamics around the upcoming leadership transition.

## Other Domestic Policy Considerations

Members discussed the fiscal tightening that is scheduled to take place starting next year under current law, noting expectations that some compromise will be reached to prevent the full tightening from going into effect. Enactment of fiscal reform measures is expected to weigh on growth next year, however a

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compromise that improves the longer-term outlook for the U.S. fiscal situation is expected to increase confidence and support financial asset prices and investment activity. Although noting that financial market prices do not reflect a pricing in of potential fiscal tightening at present, members characterized concerns over the scheduled tightening as weighing on current business hiring and capital investment. In addition to the U.S. fiscal outlook, members cited other factors including impending regulatory reform and rising labor costs as additional contributors to caution amongst corporations undertaking new investment decisions.

## **Financial Landscape**

The final agenda item addressed views on the most impactful new financial products or investment approaches. Members discussed the increasing use of ETFs, noting their attractiveness in terms of simplicity, ease of use, and liquidity but also noting the potential for increased use of ETFs to contribute to volatility in respective underlying markets. Factors to monitor in assessing potential risks from global ETF products include transparency, use of leverage, and liquidity of underlying reference products. Separately, members noted recent increased investor demand for volatility products, particularly investors seeking exposure to volatility as a way to replicate credit product returns. A related note was also made of recent increased demand by investors for structured note products as a method of enhancing returns. Some investors may not be fully aware of risks associated with these products.