FEDERAL RESERVE BANK of NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

October 8, 2014

Federal Reserve Bank of New York

Committee attendees:

Nicole Arnaboldi, Credit Suisse Group
Louis Bacon, Moore Capital Management, LP
James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Britt Harris, Teacher Retirement System of Texas
Joshua Harris, Apollo Management
Alan Howard, Brevan Howard
Derek Kaufman, Citadel LLC
Scott Minerd, Guggenheim Partners
Michael Novogratz, Fortress Investment Group LLC
Rick Rieder, BlackRock, Inc
Morgan Stark, Ramius LLC
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
James Bergin
Mark Cabana
Christine Cumming
James Egelhof
Tom Kennedy
Lorie Logan
Alberto Musalem
Michael Nelson
Matthew Raskin

Domestic Monetary Policy

Committee attendees discussed the outlook for U.S. growth and inflation and recent monetary policy events. Overall, they noted that real activity data continue to suggest a gradual improvement in the economic outlook; while acknowledging that indicators of realized and expected inflation continue to be subdued or declining. Global disinflationary pressures, broad commodity price declines, and recent U.S. dollar appreciation were all cited as suppressing inflation. Some committee attendees felt that the FOMC may be underestimating the impact of U.S. dollar appreciation on broad financial conditions. Committee attendees noted that wage growth remains tepid and they are looking for an increase in wage growth as a signal of a more sustainable economic recovery.

Committee attendees continue to see the risks of raising the target federal funds rate too soon as outweighing the risks of a later liftoff date. Most pointed to the market-implied path of the target rate derived from interest rate futures and forwards, which is below the median of FOMC participants' year-end projections of the target rate according to the Summary of Economic Projections, as consistent with this view. Committee attendees debated the likely impact of Federal Reserve communications leading up to and after liftoff in the target rate. Some felt that official communications could limit the market reaction to an increase in the target federal funds rate, while others suggested communications would likely not be able to suppress market volatility around liftoff.

Committee attendees generally characterized the FOMC's policy normalization principles and plans, announced following the September FOMC meeting, as in line with expectations. The changes to the ON RRP parameters were seen as reinforcing that the facility will not be a primary tool to manage policy normalization. A few committee attendees questioned the FOMC's ability to effectively control short-term interest rates during normalization with the ON RRP facility capped at $300 billion.

Overseas Developments

Committee attendees discussed the economic and monetary policy outlooks for the euro area. They suggested economic conditions have deteriorated notably in recent months. Indicators of realized and expected inflation in the euro area have declined markedly and remain significantly below levels consistent with the ECB's mandate. Committee attendees suggested the ECB's announced ABS and covered bond purchase programs, in conjunction with the targeted LTRO operations, could be executed in sufficient size to bring the ECB balance sheet to 2012 levels. However, many committee attendees were skeptical that the ECB will be able to purchase in sufficient size to underpin inflation expectations. As such, a few expected further accommodative measures from the ECB, likely in the form of sovereign debt purchases. However, expectations for the timing of such an announcement were wide-ranging.

Financial Landscape

The meeting concluded with a discussion of risk parity. The strategy has historically outperformed more traditional investment strategies that overweight equities relative to less risky assets. However, most committee attendees expect the strategy to underperform when correlations and volatility across markets increase substantially or materially deviate from historical norms. Given historical performance and the relatively small amount of assets under management that utilize the strategy, most committee attendees did not consider risk parity to be a major risk to financial stability at this time.