FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

June 24, 2016

Federal Reserve Bank of New York

Committee attendees:

Tim Buckley, Vanguard
Wellington Denahan, Annaly Capital Management, Inc.
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
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
Tobias Adrian
Sarah Bell
David DeCarlo
Thomas Kennedy
Sandra Lee
Matthew Lieber
Meg McConnell
Alberto Musalem
Michael Nelson
Anna Nordstrom
Matthew Raskin
Michael Schetzel
Luis Uranga
Benedict Wensley

U.K. Referendum

Committee attendees discussed the decision by U.K. voters to leave the European Union and the reaction in global financial markets. Overall, they suggested that the market response had been relatively muted thus far, considering that the outcome was widely unexpected, and also reported that financial markets were relatively orderly following the referendum results. Several Committee attendees suggested that the ultimate impact of Brexit would not be fully understood for a considerable time, and that the decision to leave had increased political uncertainty in the U.K. and Europe.

Domestic Developments

Committee attendees discussed their interpretation of the June FOMC meeting communications, which they generally viewed as consistent with recent Federal Reserve official communications, as well as their own expectations.

Committee attendees also discussed the year-to-date declines in long-dated nominal Treasury yields and inflation compensation. Several highlighted that an important factor behind these declines was the global search for yield, as foreign investors facing even lower rates in overseas developed sovereign debt markets reallocated into relatively higher-yielding Treasuries. Several also pointed to potential risks to both global and domestic growth and inflation as contributing to the declines in long-dated yields.

Global Developments

Committee attendees had differing views on the efficacy of Japanese monetary policy, including negative interest rates. Several Committee attendees suggested that the Bank of Japan has additional policy tools that could generate growth and inflation, namely equity purchases; they also discussed the possibility of fiscal authorities providing stimulus. Meanwhile, others were skeptical of the efficacy of the remaining toolkit. Some Committee attendees highlighted that further use of negative interest rates may be politically challenging for Japanese officials to implement.

Committee attendees also discussed the European Central Bank's recent implementation of corporate sector bond purchases, and noted that euro-denominated corporate credit issuance had picked up since the program began, and that U.S. corporates had become increasingly active issuers of euro-denominated debt. In addition, they noted that the program had served to compress corporate credit spreads in Europe and, to a lesser degree, in the U.S.

Political and Regulatory Developments

Committee attendees suggested that the upcoming U.S. presidential election is not yet having a material impact on financial markets or corporate investment spending. They suggested that presidential elections typically have little long-lasting, material impact on financial markets, and that, historically, investors have waited until the few months prior to the election to price the associated risks.

Committee attendees also discussed the market implications of SEC money fund reforms that take effect in October, including their expectations for additional fund conversions. Several suggested that the impact of these reforms on money markets would depend, to some degree, on how institutional and retail cash investors respond to the reforms. Some pointed out that, in addition to conversions, money funds have generally shortened the weighted average maturity of their assets to be able to meet potential demand for investor redemptions in the coming months.