33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

October 9, 2019

Federal Reserve Bank of New York

Committee Attendees:

James Chanos, Kynikos Associates
Mary Callahan Erdoes, J.P. Morgan Asset Management
Dawn Fitzpatrick, Soros Fund Management
Britt Harris, The University of Texas/Texas A&M Investment Management Company
Bob Jain, Millennium Management
Paul T. Jones , Tudor Investment Corp.
Scott Minerd, Guggenheim Partners
Rebecca Patterson, Bessemer Trust
John W. Rogers, Jr., Ariel Investments
David M. Rubenstein, The Carlyle Group

Federal Reserve Attendees:

John C Williams, Chair
Samuel Earl
Sandra Lee
Lorie Logan
Meg McConnell
Michael Nelson
William O'Boyle
Jordan Pollinger
Julie Remache
Michael Schetzel
Kevin Stiroh
Michael Strine
Ray Testa
Benedict Wensley

U.S. Economic Outlook

Committee attendees discussed their outlooks for the U.S. economy as well as risks around them. They generally noted that the U.S. economy has continued to exhibit solid growth with particular strength noted in consumer driven sectors. Their base-case outlook for growth was also positive, with some noting few signs of recession risks in the near term. Some noted that realized and expected Fed policy easing had also supported the growth outlook.

Committee attendees also noted several risks, including the U.S.-China trade conflict, Brexit negotiations, slowing global growth, as well as political uncertainty. Some of these attendees also noted that a deterioration in consumer confidence could pose a drag on growth. Some committee attendees also viewed there to be limited fiscal or monetary policy space in other major global economies and saw this as a key risk to the global outlook.

Drivers of Money Market Volatility

Committee attendees next discussed drivers of U.S. money market volatility that occurred in September. They noted that a likely proximate catalyst for the sharp rise in funding costs was due to payments to the U.S. Treasury relating to corporate tax payments and the settlement of Treasury securities, in the context of lower reserve balances.

Certain committee attendees indicated that regulations and risk management practices could have also contributed to the volatility. They also noted that the Fed repo operations had alleviated funding strains, though they remained focused on year end pressures. Some of these attendees thought that over time some investors may set aside cash to deploy in the event of a reoccurrence of funding pressures, which may also mitigate some of these pressures in the future.

Equity Market Drivers

Committee attendees discussed recent trends in the performance of U.S. equities, including by sector, which they viewed as being largely driven by sentiment around ongoing U.S-China trade negotiations and expectations for monetary policy at major global central banks. They also noted an increasing variety of ‘factor based’ investment products, and that the rising popularity of some of these strategies could make them susceptible to investor crowding. They also noted that private equity investments had also risen in popularity over recent years, and some cautioned over risks relating to these types of investments in the event of a market downturn.