FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

July 13, 2022

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
Leda Braga, Systematica Investments
Ray Dalio, Bridgewater Associates, L.P.
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
Belita Ong, Dalton Investments
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management, LLP
Jeffrey Talpins, Element Capital

Federal Reserve Attendees:

John C. Williams
James Bergin
Beverly Hirtle
Samuel Kanson-Benanav
Anna Kovner
Matthew Lieber
Lorie Logan
Rebecca McCaughrin
Meg McConnell
Timothy C. Nash, Jr.
Michelle Neal
Michael Nelson
Manisha Ratakonda
Julie Remache
Michael Schetzel
Patricia Zobel

Discussion of the Economic and Inflation Outlook

Overall, committee members emphasized that the outlook for the global economy was highly uncertain as reflected in the high volatility observed across interest rate markets. Several key risks were cited as contributing to this uncertainty including the potential for persistent inflationary pressures and/or the possibility of a near-term recession, the uncertain impact on global demand from China's zero covid policy and in light of headwinds from weakness in the property sector, as well as the evolving repercussion from the Russian invasion of Ukraine, especially on commodity prices.

Members also noted longer term themes including deglobalization and a polarized domestic political environment as presenting risks and/or weighing on the domestic economic outlook. Together, these various factors were seen as contributing to an environment of higher inflation and weaker growth prospects. There was some disagreement among members with respect to the near-term outlook for inflation with a few expecting a moderation in energy prices and supply constraints. Others saw inflation as more persistent, particularly in house prices and rental costs. Members remarked on the material tightening in financial conditions seen across markets over the last few months, but noted asset prices, such as in credit markets, were far from those observed ahead of previous severe recessions. A few noted the possibility of a slight technical recession or tepid growth in the coming quarters. Many expected equity markets to fall further, with some noting current price-to-earnings ratios are still above levels seen during previous downturns.

Discussion of the Outlook for U.S. Monetary Policy

Members were broadly in agreement that tighter financial conditions were necessary in order to restrain consumption. Several commented that they expected the Fed to continue hiking aggressively until inflation showed material signs of slowing down. However, members expressed some disagreement over the path of policy. Some noted their expectations for the terminal fed funds target rate to peak around 3.5 percent before being cut below 3 percent by year-end 2023. Others expressed the view that rates needed to remain elevated for a longer period to effectively reduce inflation. Many remarked that their expectations for the path of policy differed from the market implied path. With respect to the balance sheet, the reduction was expected to stay on pace for at least 2 years. There was some uncertainty expressed regarding the terminal size of the balance sheet, though estimates ranged from $5 to $6 trillion.

Discussion on Other Countries and Asset Classes

Members were focused on the recent strengthening of the dollar and noted it would weigh on some domestic corporate earnings and present challenges to emerging bond markets. Members also took note of the diverging stance of policy across jurisdictions. Some highlighted how a few emerging markets had begun to slow their hiking. Members also noted Europe faces a particularly difficult and complex task ahead as they embark on policy tightening against the backdrop of headwinds from the war in Ukraine and a likely roll out of a tool to prevent fragmentation between core and peripheral European bond markets. In Japan, monetary policy was expected to remain accommodative and largely unchanged, as forward inflation projections suggest a decline from recent inflationary pressures. Members next turned to a brief discussion of cryptocurrencies. Overall, members believed the sector presented little systematic risk to the real economy or financial markets. In explaining this view, they noted crypto is not commonly used as collateral in financial transactions, is a relatively small comparatively speaking to other asset classes, such as the housing market. Additionally, members noted while holdings of cryptocurrencies are common across the financial system, most institutional investors hold only small or negligible amounts. Lastly, members highlighted how recent crashes across crypto and decentralize finance markets have not had material spillovers to the real economy suggesting limited interconnectedness.