

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Minutes of the Investor Advisory Committee on Financial Markets

October 12, 2022

Federal Reserve Bank of New York

### Committee Attendees:

William A. Ackman, Pershing Square Capital  
Ray Dalio, Bridgewater Associates, L.P.  
Greg Davis, Vanguard  
Hari Hariharan, NWI Management, L.P.  
William H. Heyman, The Travelers Companies,  
Inc.  
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  
Beverly Hirtle  
Samuel Kanson-Benanav  
Anna Kovner  
Matthew Lieber  
Rebecca McCaughrin  
Meg McConnell  
Timothy C. Nash, Jr.

Michelle Neal  
Michael Nelson  
Julie Remache  
Seth Searls  
Maneesha Shrivastava  
Ben Wensley  
Patricia Zobel

## Discussion of the U.S. Economic and Monetary Policy Outlook

Overall, committee members noted elevated uncertainty around the outlook for the global economy and path of policy, and some anticipated a mild U.S. recession in the near term. Members expected current inflation to moderate, albeit gradually, and suggested it may take some time to come back to mandate-consistent levels, partly given structural changes to the economy.

Some members remarked on the rapid pace of tightening in financial conditions as well as elevated volatility, and thought that the pace of rate increases should be slowed later this year to allow the lagged effects of interest rate increases to be better assessed. They pointed to sharply higher borrowing costs, including for residential mortgages and commercial real estate transactions, and said it may cause some corporates to pause investment, though for now, production backlogs continued to sustain economic growth.

Some members saw equity valuations as still remaining above fair value, and saw additional downside risk to equity prices. A few members noted an increased appeal of low-risk alternative investments, such

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as deposits and fixed income, given that they offered higher nominal interest rates than previously and this was particularly attractive in the current environment of elevated uncertainty and volatility. That said, certain members noted that financial markets had generally absorbed the rapid tightening in financial conditions well thus far and current corporate profitability and labor markets remained strong.

## **Discussion of Developments in the U.K.**

Recent volatility in U.K. gilt yields was attributed to the U.K. government's policy announcements, which, if implemented, were expected to notably widen the fiscal deficit and drive up the cost of funding. These developments reportedly amplified concerns around the considerable growth of sovereign debt outstanding and questions around the marginal buyer of bonds as central banks stepped back from their purchases.

Members were broadly in agreement that the volatility was exacerbated by structural features of U.K. markets, specifically relating to liability-driven investors. A few noted concerns that liability-driven investors, in particular pension funds, may be moving too slowly in reducing their risk exposures. Some saw the potential for an additional sell-off in gilts if Bank of England (BoE) temporary purchase operations ended as planned without changes to the government's plans. A few members observed that the operations prompted some market discussions about the line between monetary policy and financial stability operations; that said, the BoE's operations were generally thought a sensible response to the gilt market volatility.

Members had seen modest spillover to other financial markets, including in the U.S., and thought this was in part driven by asset sales by U.K. pension funds to raise liquidity for margin calls. In addition, some thought the events may have exerted some upwards pressure on term premia as market participants viewed the developments as an example for potential future risk events. Some wondered whether pension funds in other jurisdictions had similar exposures to derivative markets, but these were thought to be smaller than was the case for U.K. funds.

## **Discussion of the Outlook for the U.S. Dollar**

Members viewed the broad appreciation of the U.S. dollar relative to other major currencies as reflecting a better economic growth outlook for the U.S., positive interest rate differentials, and safe-haven flows into the U.S. Members noted the risks of a stronger dollar, particularly for emerging market countries with dollar-denominated liabilities, but thought these risks to be smaller than during the Asian financial crisis in the late 1990s. Members also thought the dollar would be supported in the medium term by structural changes with respect to deglobalization and onshoring following the pandemic, as well as other developments.

## **Discussion of the Outlook for China**

Members were focused on various risks and uncertainties associated with China. These included risks around Chinese real estate markets, any eventual transition from a zero-Covid policy, the national project towards common prosperity, and foreign and internal political tensions against the backdrop of the

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Chinese Party Congress. Overall, members remarked that Chinese policymakers think longer-term and thus some of the more consequential decisions after the Congress might not occur for some time.