FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

January 18, 2023

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
Leda Braga, Systematica Investments
Ray Dalio, Bridgewater Associates, L.P.
Greg Davis, Vanguard
Hari Hariharan, NWI Management, L.P.
William H. Heyman, The Travelers Companies, Inc.
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
Anastasia Titarchuk, New York State Common Retirement Fund

Federal Reserve Attendees:

John C. Williams
Dianne Dobbeck
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

Committee attendees reviewed anti-trust guidelines.

Discussion of the U.S. and Global Economic Outlook

Committee members noted continued uncertainty around the outlook for the U.S. economy, though some thought the likelihood and severity of a recession had fallen slightly since the October meeting. Some members anticipated a recession later this year due to the sharp tightening in monetary policy, and pointed to a slowdown in hard economic activity data and survey measures of sentiment. Other members anticipated economic growth to slow this year and for any recession to be relatively mild. They noted some upside risks to the outlook from a strong labor market and wage growth, which they expected should support household consumption. Members also noted some differentiation across segments of the economy, with rate-sensitive sectors, such as housing and technology, seeing more of a slowdown, while demand for some services, such as travel and leisure, remained relatively strong. Some members questioned whether equity markets appeared somewhat complacent to the risks of a more widespread economic slowdown.

In addition, members noted that the near-term growth outlook for foreign economies had seemed to improve over the last month or so, pointing to the easing of zero-Covid policies and measures to support the property sector in China. That said, some recognized longer-term challenges to the Chinese growth outlook, related to demographics, de-globalization, and risks related to the real estate sector.

Discussion of the Outlook for U.S. Inflation and Monetary Policy

Committee members broadly agreed that headline and core inflation would continue to decelerate this year, though would likely remain above the 2 percent mandate. Some members who thought a recession appeared more likely consequently expected inflation to fall more rapidly than those members with more benign growth outlooks. Some members highlighted certain structural changes in the U.S. economy which could exert persistent upward pressure on inflation, such as the relocation of supply chains, amid a broader trend toward de-globalization, and notable tightness of the labor market.

Overall, members expected the pace of policy rate increases to slow in the U.S., given signs of decelerating inflation. Most participants did not seem to expect rates to return to the low levels implied by market pricing. Some members instead highlighted upside risks to rates if elevated levels of inflation remained more persistent than expected. Some viewed the inversion in the Treasury yield curve as a misleading signal about future economic growth, and believed long-term rates should be at higher levels than they were at the time.

Some members noted that the appreciation of the U.S. dollar relative to other major currencies last year had reversed into this year, given the possibility that foreign central banks could continue to tighten monetary policy while the pace of policy tightening in the U.S. was expected to slow.

Discussion on Digital Assets

Committee members discussed the importance of distinguishing between the technologies behind digital assets, which were viewed as useful, from the risks around the various cryptocurrencies and related infrastructure. Recent developments were seen as having limited spillovers to broader financial markets. Some members continued to note that ongoing challenges in valuing digital assets as well as questions around regulatory oversight and the robustness of their custody arrangements made it difficult to view digital assets as an investable asset class. Members also noted that the future of payments could involve digital currencies that have not yet been developed.