

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Minutes of the Investor Advisory Committee on Financial Markets

February 7, 2019

Federal Reserve Bank of New York

### Committee attendees:

William A. Ackman, Pershing Square Capital Management, L.P.  
James Chanos, Kynikos Associates  
Ray Dalio, Bridgewater Associates, LP  
Dawn Fitzpatrick, Soros Fund Management  
Britt Harris, The University of Texas/Texas A&M Investment Management Company

William H. Heyman, The Travelers Companies, Inc.  
Bob Jain, Millennium Management  
Paul T. Jones, Tudor Investment Corp.  
Scott Miner, Guggenheim Partners  
Rick Rieder, BlackRock, Inc.  
John W. Rogers Jr., Ariel Investment

### FRBNY attendees:

John C. Williams, Chair  
Ryan Bush  
Samuel Earl  
Michael Held  
Beverly Hirtle  
Lina Lavitsky  
Sandra Lee  
Lorie Logan  
Meg McConnell

Michael Nelson  
William O'Boyle  
Jordan Pollinger  
Simon Potter  
Matthew Raskin  
Julie Remache  
Michael Schetzel  
Kevin Stiroh  
Benedict Wensley

Committee attendees reviewed anti-trust guidelines and the updated Committee charter.

### **Recent Market Developments**

Committee attendees discussed recent financial market developments, with discussion centering on recent market volatility in the fourth quarter of last year. In particular, they noted that market sentiment had been driven by perceptions of growing downside risks to the economic outlook, including from concerns over global growth and political tensions between the U.S. and China. Recent FOMC communications with respect to balance sheet policy also had been a focus.

Several Committee attendees thought that, if the recovery in markets over the past few weeks were to be sustained, it could lead to a resumption of FOMC rate hikes in the second half of the year and thus place a limit on any upside to risk asset prices.

Other downside economic risks were also discussed. On the domestic front, Committee attendees highlighted concerns over corporate profit margins peaking, as well as uncertainty surrounding fiscal and tax policy in the run up to and after the 2020 U.S. elections. On the global front, several highlighted risks related to ongoing Italian fiscal and Brexit negotiations, and concerns over China's domestic debt situation.

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## **Trade, U.S. Fiscal Policies, and the Government Shutdown**

Committee attendees discussed their views on recent trade negotiations between the U.S. and China. Some suggested that a trade deal was, in their view, the most likely outcome, while others indicated that a broader dispute between the two sides could remain.

Committee attendees suggested that, in the longer-term, the U.S. fiscal deficit remains a key risk, and some viewed its resolution as unlikely in the near- to medium-term. Discussion then turned to the recent partial government shutdown. While some Committee attendees noted the shutdown likely only resulted in a slight headwind to recent economic growth, it could have a longer-term impact on business sentiment.

## **December Financial Market Volatility**

Committee attendees discussed technical factors driving elevated financial market volatility in December. Of the factors discussed, they highlighted a notable decline in market liquidity, which most saw as largely a seasonal factor although some viewed it as in part driven by longer running changes in regulatory requirements. Some also singled out liquidity as being reduced in corporate credit markets and in leveraged loans particularly at that time, and noted difficulty in exiting positions in these markets.

Several noted that the increase in the proportion of assets that are passively managed, such as those in index funds and ETFs, and associated decline in actively managed funds, has likely contributed to some of the intraday market volatility. As such, some viewed shorter-term market moves as a relatively poor economic signal. Several also cautioned that, if the macro economic backdrop had been worse at that time, market conditions might have deteriorated more markedly.