

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

June 25, 2015

Federal Reserve Bank of New York

Committee attendees:

Nicole Arnaboldi, Credit Suisse Group
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Dawn Fitzpatrick, O'Connor
Joshua Harris, Apollo Management
Alan Howard, Brevan Howard

Scott MinerD, Guggenheim Partners
Michael Novogratz, Fortress Investment Group LLC
Rick Rieder, BlackRock, Inc.
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
Tobias Adrian
Jim Bergin
Mark Cabana
Michael Held
Tom Kennedy

Lorie Logan
Alberto Musalem
Matthew Raskin
Sean Savage
Michael Schetzel
Kevin Stiroh

Domestic Developments

Committee attendees discussed the outlook for the U.S. economy and their expectations for monetary policy. Overall, they noted that real economic activity has gradually improved after a lackluster first quarter. Committee attendees characterized indicators of realized inflation as improving, but subdued relative to FOMC objectives. Meanwhile, the labor market was viewed as at or near full employment.

Committee attendees suggested that the FOMC is likely to increase the federal funds target range during 2015, with September cited as the most likely timing of liftoff. Some felt that financial markets are well positioned for liftoff, while others expected volatility following the first increase in the target range. Most Committee attendees suggested that the path of the policy rate would be more impactful on financial conditions than the timing of liftoff. They expected the path of monetary policy to be data dependent, but noted that they expect the FOMC to be cautious during normalization.

Global Developments

The sharp rise in core euro area yields during the second quarter was mostly attributed to positioning dynamics, with some feeling low yield levels were too extended. Committee attendees suggested relative value considerations prompted the coordinated move in global developed market rates. Better-than-expected economic data in the euro area and, to a lesser extent, shifting expectations for the ultimate size of the ECB asset purchase program were cited as contributing factors.

Committee attendees suggested that the euro area economy is improving, but that inflation indicators remain below mandate consistent levels and are likely to remain there for a considerable time. They felt

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that the ECB was doing its part, but fiscal and labor market policies across the region were likely to inhibit the euro area from reaching its inflation mandate in the near term. Most felt that that further euro depreciation was necessary to stimulate the economy.

Committee attendees generally concluded that the Japanese economy has also improved, highlighting the strength of the labor market and the improvement in inflation indicators. A few cited concerns about the Bank of Japan's exit strategy, given the size of their balance sheet.

China was the focus of the emerging markets discussion. Committee attendees characterized the Chinese economy as slowing, with most believing GDP was running below the target level. Most concluded that recent PBOC easing measures were executed to combat the slowing economy, but noted that financial conditions were not easing much in response. Committee attendees acknowledged officials' efforts to internationalize Chinese markets, but suggested some of those efforts may run counter to easing initiatives. Beyond China, Committee attendees did not consider emerging markets, on the whole, well prepared for liftoff by the Federal Reserve given that few countries have made structural changes necessary to absorb higher rates.

Financial Landscape

Committee members suggested corporate credit issuance has been robust ahead of expected monetary policy normalization and issuance has been met by strong demand from global investors. Corporate balance sheets were characterized as strong. While recent revenue growth has been subdued, cost reduction strategies have pushed profit margins above historical averages. Corporate credit spreads were seen as narrow relative to fundamentals and the prevalence of covenant lite characteristics was cited as increasing a bit. Some Committee attendees highlighted corporate credit markets as potentially vulnerable during normalization, citing low dealer inventories and a reduced willingness from the dealer community to make markets in this asset class. Others suggested demand from global investors will likely serve to support the sector during normalization.

Passive investment products were generally not seen as a systemic risk at present, though Committee attendees cited some potential future risks. Specifically, they highlighted the mismatch that exists between investment products that offer daily liquidity, backed by less liquid underlying assets.