

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

January 12, 2017

Federal Reserve Bank of New York

Committee attendees:

Tim Buckley, Vanguard	Alan Howard, Brevan Howard
James Chanos, Kynikos Associates	Bob Jain, Millennium Management
Wellington Denahan, Annaly Capital Management, Inc.	Paul T. Jones, Tudor Investment Corp.
Mary Callahan Erdoes, J.P. Morgan Asset Management	Eric Mindich, Eton Park Capital Management
Dawn Fitzpatrick, UBS Asset Management	Scott Miner, Guggenheim Partners
Britt Harris, Teacher Retirement System of Texas	Rick Rieder, BlackRock, Inc.
Joshua Harris, Apollo Management	David Tepper, Appaloosa Management L.P.

FRBNY attendees:

William Dudley, Chair	Meg McConnell
Sarah Bell	Michael Nelson
David DeCarlo	Simon Potter
Michael Held	Matthew Raskin
Beverly Hirtle	Michael Schetzel
Thomas Kennedy	Kevin Stiroh
Sandra Lee	Michael Strine
Matthew Lieber	Benedict Wensley
Lorie Logan	Nathaniel Wuerffel

Domestic Developments

Committee attendees discussed their interpretations of the December FOMC meeting. They saw the FOMC's decision to raise the target range for the federal funds rate as consistent with their expectations ahead of the meeting. But, they generally saw the increase in the median forecast for the federal funds rate at end-2017 in the Summary of Economic Projections as supporting an overall less-accommodative-than-expected interpretation of the FOMC events. With respect to the economic outlook in the U.S., Committee attendees highlighted signs of an increase in price inflation as well as an increase in wage inflation and a tightening in labor market conditions.

Committee attendees discussed their outlooks for U.S. economic policy after the U.S. election, including the potential for fiscal stimulus, structural reforms, such as changes to the corporate tax code and deregulation, and shifts in U.S. trade policy. Several attendees saw the potential for fiscal stimulus and structural reforms as supporting their expectations for higher U.S. growth; they also viewed the immediate impact of the election on financial markets—higher U.S. Treasury yields, an appreciation of the U.S. dollar, and a rise in U.S. stock prices—as consistent with these expectations. However, several attendees emphasized that much uncertainty remains around the content, timing, and efficacy of any changes to economic policy.

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Global Developments

Committee attendees discussed how public support for globalization, and government policies that integrate markets and economies, may evolve in the coming years. Several attendees suggested that nationalist political movements may lead to shifts in trade policy that favor domestic producers, and that countries may increasingly resort to bilateral trade agreements rather than multilateral ones. Some attendees also suggested that current political trends in Europe may increase the risk of countries exiting the euro area, particularly after the U.K.'s exit from the European Union.

Committee attendees also discussed how monetary policy divergence across major central banks affects financial markets and global capital flows. They generally pointed out that U.S. monetary policy is likely to continue diverging from monetary policy in the European Union, Japan, and China, leading to further capital flows to the U.S. and dollar appreciation. Several attendees suggested that, among emerging market economies, China faces particular challenges in this environment because of its highly leveraged economy. Several attendees also suggested that, although Chinese authorities have imposed measures to reduce outflows, China remains vulnerable.

Financial Landscape

The meeting concluded with a discussion of Committee attendees' outlooks for global financial markets in 2017. Committee attendees generally expected the FOMC to continue tightening monetary policy in the year ahead. They also generally expected the recent trend of increasing U.S. Treasury yields and appreciating U.S. dollar to continue; a few highlighted upside risks to their outlooks from a larger-than-expected impulse to U.S. economic growth as a result of fiscal expansion and structural reforms. Most attendees also suggested that the S&P 500 index would likely end the year higher than its current level. Committee attendees were split on their outlooks for crude oil prices.