

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Minutes of the Investor Advisory Committee on Financial Markets

May 23, 2012

Federal Reserve Bank of New York

### Committee attendees:

Nicole Arnaboldi, Credit Suisse Group  
Louis Bacon, Moore Capital Management  
Mary Callahan Erdoes, JP Morgan Asset Mgmt  
James Chanos, Kynikos Associates  
Garth Friesen, III Associates  
Joshua Harris, Apollo Management LP  
Alan Howard, Brevan Howard Asset Management

Deryck Maughan, Kohlberg Kravis Roberts & Co  
Michael Novogratz, Fortress Investment Group  
Rick Rieder, BlackRock, Inc  
Lawrence Schloss, NYC Public Pension Funds  
Morgan Stark, Ramius Capital Group  
David Tepper, Appaloosa Management LP

### FRBNY attendees:

William Dudley, Chair  
James Bergin  
Terrence Checki  
Christine Cumming  
Jennifer Fortner  
Steven Friedman  
Krishna Guha

Lorie Logan  
Meg McConnell  
Jamie McAndrews  
Michael Nelson  
Kevin Stiroh

## **Europe**

The meeting commenced with a discussion of the latest developments in Europe. Committee members emphasized risks around the second round of Greek elections and the possibility of an adverse financial market reaction depending on election results and possible re-negotiation of aid terms. Potential additional policy responses from the ECB and other European authorities were discussed as members emphasized the importance of maintaining the stability of the European banking system. Additionally, the contribution of structural reform measures to longer-term euro-zone economic health was noted.

## **Commodities**

The Committee discussed the growth in institutional investor allocations to commodities. Among various drivers of increased allocations mentioned were: the development of new financial products allowing for better access, the use of commodity allocations for portfolio diversification and as a tool for inflation protection, and the conviction that global growth would lead to increased prices for commodities. Larger investor allocations to commodities were characterized as leading to increased price correlation both within commodity sectors and between commodities and other asset classes. However, evidence does not suggest that increased investor allocations have been associated with higher volatility in commodity markets.

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## **Emerging Markets**

Members discussed the outlook for emerging market economies, viewing emerging markets broadly as supported by positive demographic trends and healthy fiscal balances. Members did note that certain countries face unique vulnerabilities. There was mention of potential risks including a large oil price rise or further deterioration in Europe as shocks that could negatively impact emerging market economic growth. The Committee discussed China's economic outlook, noting the property sector slowdown and banking system vulnerabilities as risk factors.

## **Domestic Policy**

The meeting concluded with a brief discussion of current domestic policy considerations, focusing on the fiscal tightening that is scheduled to take place starting next year under current law. Members expressed limited expectations for a near-term resolution and anticipate at least some of the projected fiscal tightening will be enacted, with expectations this will negatively impact U.S. growth next year. Members noted the possibility of market volatility and increased risk aversion should a resolution be delayed until next year.