

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Minutes of the Investor Advisory Committee on Financial Markets

July 12, 2018

Federal Reserve Bank of New York

### Committee attendees:

William A. Ackman, Pershing Square Capital Management, L.P.	Bob Jain, Millennium Management
Ray Dalio, Bridgewater Associates LP	Scott Miner, Guggenheim Partners
Mary Callahan Erdoes, J.P. Morgan Asset Management	Rebecca Patterson, Bessemer Trust
Vicki Fuller, New York State Comptroller	Rick Rieder, BlackRock, Inc.
William H. Heyman, The Travelers Companies, Inc.	John W. Rogers Jr., Ariel Investments

### FRBNY attendees:

John C. Williams, Chair	Michael Nelson
Jack Gutt	William O'Boyle
Michael Held	Simon Potter
Beverly Hirtle	Matthew Raskin
Sandra Lee	Julie Remache
Matt Lieber	Michael Schetzel
Lorie Logan	Kevin Stirh
Meg McConnell	Michael Strine

Committee members introduced themselves to FRBNY President Williams and provided a short overview of their respective firms and roles.

### **Domestic Developments**

Committee attendees discussed the ongoing flattening of the U.S. Treasury yield curve. Among the factors cited as contributing to the flattening were heightened demand from pension funds for long-term securities and increased supply of Treasury debt at shorter maturities. Discussion turned to the outlook for advanced-economy monetary policy and the potential impacts on U.S. financial markets. Some saw the risk of reduced liquidity as central banks withdraw accommodation as contributing to periodic bouts of market volatility. Attendees discussed other market risks, with some highlighting vulnerabilities in the corporate bond market. Specifically, some pointed to an increase in corporate debt outstanding at the lower end of the credit spectrum, and the fact that the balance sheets of the companies that have issued this debt are relatively highly levered. Attendees briefly discussed the ongoing normalization of the Federal Reserve's balance sheet, and had differing views as to whether changes in the stock or flow of purchases and redemptions affect the prices of Treasury securities and agency MBS.

### **Global Developments**

Committee attendees discussed the outlook for emerging markets (EMs) as well as developments in U.S.-China trade relations. Many attendees viewed the outlook for EM financial assets as tilted to the downside. Some highlighted the relative attractiveness of U.S. financial assets amid strong domestic

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growth and rising interest rates. Others noted that escalating trade tensions between the U.S and China were negatively impacting EMs. Countries viewed as part of the supply-chain for Chinese manufacturing were seen as particularly at risk, and the increased likelihood of a slowdown in Chinese growth was seen as having a negative impact on global-growth-sensitive EMs more broadly.

With regard to the China-U.S. trade developments, some noted a growing possibility that tensions could escalate, while others viewed a serious escalation as unlikely as they did not view Chinese authorities as wanting to risk a bout of serious capital flight. While the risk of a sudden and severe escalation of trade tensions was viewed as increasing, such a scenario did not appear to be the base case for most attendees.