

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

October 24, 2018

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
Britt Harris, The University of Texas/Texas A&M Investment Management Company

William H. Heyman, The Travelers Companies, Inc.
Paul T. Jones, Tudor Investment Corp.
Scott Miner, Guggenheim Partners
Rebecca Patterson, Bessemer Trust
Rick Rieder, BlackRock, Inc.

FRBNY attendees:

John C. Williams, Chair
Elizabeth Caviness
Samuel Earl
Michael Held
Beverly Hirtle
Marco Huwiler
Sandra Lee
Lorie Logan

Meg McConnell
Michael Nelson
Jordan Pollinger
Simon Potter
Matthew Raskin
Julie Remache
Michael Schetzel
Benedict Wensley

Domestic Developments

Committee attendees discussed their outlooks for the U.S. economy and Federal Reserve monetary policy. They generally noted strength in the U.S. economy, with some viewing growth as running above potential and possibly requiring the Federal Reserve to tighten monetary policy into restrictive territory. Several also suggested inflationary pressures from tariffs could be an additional source of risk.

Asset Valuations

Discussion turned to risks stemming from corporate debt. Several Committee attendees highlighted the buildup of debt at firms with highly leveraged balance sheets, particularly through the use of leveraged loans, and some thought that lending standards had loosened. Several also judged that the substantial buildup of debt one rating notch above high yield posed risks in the event of widespread downgrades within this cohort.

Committee attendees also discussed asset valuations, and several viewed equity, credit, and real-estate valuations as being at the high end of historical ranges, while others thought that in an environment of low risk-free rates, valuations look less elevated. Some of those attendees also pointed out that index-level valuation measures for equities are skewed higher by a handful of firms with very large market capitalization. Committee attendees also highlighted other potential sources of risk to financial markets. Several noted risks of an escalation of tensions between the U.S. and China, while others noted concern over the expected growth in U.S. fiscal deficits.

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Impact of Technology

Committee attendees expressed a range of views regarding the impact of recent technological advances on investing, research and decision making processes, and other business aspects. Some of those attendees indicated that digital platforms have lowered barriers for market entry and made disruption a key risk for investing in traditional industries. Others commented that the ability to process large volumes of data improved many aspects of investing. Some also expressed reservations that machine learning and other artificial intelligence techniques may pose risks if the underlying data or modelling used is not fully understood.