

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Minutes of the Investor Advisory Committee on Financial Markets

April 14, 2016

Federal Reserve Bank of New York

Committee attendees:

Stephen Blyth, Harvard Management Co.
Tim Buckley, Vanguard
James Chanos, Kynikos Associates
Wellington Denahan, Annaly Capital Mgmt, Inc.
Mary Callahan Erdoes, J.P. Morgan Asset Mgmt
Dawn Fitzpatrick, O'Connor
Britt Harris, Teacher Retirement System of Texas
Joshua Harris, Apollo Management

Alan Howard, Brevan Howard
Bob Jain, Credit Suisse
Paul T. Jones, Tudor Investment Corp.
Eric Mindich, Eton Park Capital Mgmt
Scott Miner, Guggenheim Partners
Rick Rieder, BlackRock, Inc.
David Tepper, Appaloosa Management LP

FRBNY attendees:

William Dudley, Chair
Tobias Adrian
Sarah Bell
Peter Johansson
Thomas Kennedy
Sandra Lee
Lorie Logan
Meg McConnell
Alberto Musalem

Michael Nelson
Simon Potter
Michael Schetzel
Kevin Stiroh
Michael Strine
Luis Uranga
Benedict Wensley
Beth Anne Wilson

Domestic Developments

Committee attendees discussed U.S. monetary policy and the U.S. economy. Overall, they expected the path of rate hikes to be gradual. Committee attendees cited recent Fed official communications and mixed U.S. economic data in the first quarter of 2016 as informing this view. Some Committee attendees suggested the uncertainty surrounding the outcome of the U.K. referendum on E.U. membership, scheduled for one week after the June FOMC meeting, may preclude the FOMC from raising the fed funds rate at the June meeting.

In their discussion of the U.S. economy, Committee attendees viewed the labor market as continuing to improve; however, many noted that activity data has been lackluster, wages had not picked up materially, and that forward measures of inflation compensation continue to remain low.

Global Developments

In the discussion about drivers of financial market volatility in the first quarter of the year, Committee attendees cited three primary factors as underpinning the rebound in global risk sensitive asset prices since mid-February: (1) a reduction in concerns about China as capital flight has appeared to slow, (2) an increase in commodity prices, and (3) communications from global central banks that had generally eased financial conditions, including from the FOMC where official communications had contributed to a

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weakening in the U.S. dollar. Acknowledging the Chinese economy's large contribution to global growth, Committee attendees suggested developments in China will continue to influence global financial markets and they cited concerns about credit growth and overall high levels of leverage in the system.

Committee attendees discussed the impact of negative interest rates and generally viewed them as being somewhat effective in Europe and less so in Japan. Specifically, they noted modest improvements in lending in Europe and declines in corporate borrowing rates. Meanwhile, in Japan they noted that the easing of financial conditions from declines in JGB yields have been offset by a broad appreciation of the yen. Some Committee attendees viewed yen appreciation as a product of waning confidence in the Bank of Japan's ability to stoke inflation.

Financial Landscape

Committee attendees discussed the financial market implications of the reportedly mixed returns by hedge funds in recent years. Some felt that hedge fund assets under management would decline. Meanwhile, others felt that overall hedge fund allocations would remain relatively steady as investors would reallocate within the hedge fund universe towards funds with higher returns. The potential for higher concentrations of similar strategies was cited as a potential risk, while the underperformance of hedge funds in recent years was viewed as restraining their ability to serve as a market liquidity provider.