

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Minutes of the Investor Advisory Committee on Financial Markets

October 8, 2013

Federal Reserve Bank of New York

### Committee attendees:

Louis Bacon, Moore Capital Mgmt	Scott Miner, Guggenheim Partners
James Chanos, Kynikos Associates	Michael Novogratz, Fortress Investment Group
Mohamed El-Erian, PIMCO	Rick Rieder, BlackRock, Inc
Garth Friesen, III Associates	Jes Staley, BlueMountain Capital
Joshua Harris, Apollo Management LP	Morgan Stark, Ramius Capital Group
Alan Howard, Brevan Howard Asset Management	David Tepper, Appaloosa Management LP
Derek Kaufman, Citadel LLC	

### FRBNY attendees:

William Dudley, Chair	Lorie Logan
James Bergin	Jamie McAndrews
Mark Cabana	Meg McConnell
Terrence Checki	Michael Nelson
Christine Cumming	Simon Potter
Jennifer Fortner	Michael Schetzel
Jack Gutt	Kevin Stiroh
Sandy Krieger	

## Monetary Policy

The Committee meeting began with a discussion of U.S. monetary policy. Committee members characterized the September FOMC events as more accommodative than expected. Various aspects of the September FOMC meeting contributed to this interpretation, including the decision to maintain the current monthly pace of asset purchases, the information contained in the Summary of Economic Projections, and communication during Chairman Bernanke's press conference. Members echoed comments from previous Committee meetings characterizing some aspects of recent FOMC communications as unclear. Members also addressed monetary policy developments in light of some recent weaker-than-expected U.S. economic data, noting that the pause in data releases accompanying the U.S. government shutdown might make it more difficult for both investors and the FOMC to evaluate the near-term U.S. growth outlook.

## Financial Market Developments

The Committee next discussed recent market developments associated with the U.S. government shutdown and debt limit deadline. The government shutdown was described as modestly weighing on confidence and may be causing some pause in new investment and consumption activity. However, current impacts on broad asset allocations and company behavior were characterized as limited so far. Members noted market expectations for Congress to negotiate an increase to the U.S. debt limit, though

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mentioned that the 2011 experience lead many to believe a political resolution will be last minute in nature.

The Committee next discussed the outlook for emerging markets. Committee members described lower growth outlooks in emerging economies since the beginning of the year as contributing to reduced allocations to emerging market assets. This, along with the sentiment earlier in the year suggesting less accommodative-than-expected U.S. monetary policy and the concomitant rise in developed economy sovereign yields, were cited as exacerbating investor allocations out of these assets. Members described ongoing attentiveness to political developments and corruption-related risks in certain emerging economies. The Committee also discussed ongoing attention on the economic growth outlook in China, with expectations that Chinese growth will continue to moderate in coming years.

The Committee also briefly noted progress towards unifying euro-area banking supervision, mentioning that results from the upcoming Asset Quality Review exercise will contribute to views on European bank credit investments.

## **Financial Landscape**

The meeting concluded with a discussion of the potential impact of regulatory changes on the buy side. Committee members discussed risks around a potential contraction in repo activity, particularly in the Treasury and agency MBS space, associated with proposed leverage ratio requirements. Members noted the risk that the provision of repo might further migrate to the shadow banking system under the proposed regime. Centrally cleared repo was discussed as a possible mitigant to these risks. There was also discussion of the increased systemic importance of clearinghouses associated with various post-crisis regulatory changes that require central clearing. Members emphasized the importance of clear definitions and guidance from regulators in allowing the buy side to properly implement new regulatory procedures.