Financial Sector Advisory Council

Meeting Minutes

Federal Reserve Bank of Dallas

2:00 pm, November 19, 2024

Financial Sector Advisory Council Meeting

Council Attendees

Hayley Boesky, BofA Securities
Frank Brosens, Taconic Capital Advisors
Gabriel Casillas, Barclays Capital
David Finkelstein, Annaly Capital Management
Dawn Fitzpatrick, Soros Fund Management
Britt Harris, On Eagles Wings
Jarvis Hollingsworth, Irradiant Partners
Aasem Khalil, Goldman Sachs
Travis Machen, The Bank of Nova Scotia
Karen Karniol-Tambour, Bridgewater Associates
Purnima Puri, HPS Investment Partners
Allison Thacker, Rice Management Company
Matthew Zames, Zames Group

Federal Reserve Bank of Dallas Staff in Attendance:

Lorie Logan, Sam Schulhofer-Wohl, Seth Searls, Mike Schetzel, Karel Mertens, Rebecca Zarutskie, David Teeples, Jody Stanley, Mark Wynne, Christine Docherty, Alessio Saretto, Jim Dolmas, Enrique Martinez-Garcia, Chris Otrok, Saikrishna Nori, Anthony Murphy, Ron Mau, Tyler Atkinson, Ali Ozdagli, Amy Chapel, Ally Hoffman, Ben Munyan, Rebin Kawani, Garrett Golding, Hugo De Vere

Discussion of Key Economic and Financial Trends and Policy Outlook in 2025:

Council members noted that economic activity was outperforming their expectations as of the previous FSAC meeting in early September. Survey data indicated that spending was robust across income brackets, supported by household savings that continue to exceed pre-pandemic levels, and holiday spending was anticipated to be stronger than last year. Members also noted that the level of interest rates hasn't been a major constraint on business investment.

In a discussion on monetary policy, members generally agreed that the repricing higher in the market-implied policy path over the last few months was justified by stronger economic fundamentals and a view that prospective fiscal and trade policy would likely support higher growth and inflation, all else equal. A few expected that the Federal Open Market Committee would deliver fewer cuts than implied by the market path. Some members also expected policymakers to upwardly

revise their forecasts of inflation, GDP growth, and interest rates – including their projections of the longer-run fed funds rate – in the December Summary of Economic Projections.

Against this backdrop, members also discussed key financial market trends, including elevated equity valuations, especially among the largest technology firms. It was noted that valuations near current levels have historically generated low forward returns, though a few members argued that a change in the economic environment would be required to catalyze a meaningful break in recent equity price trends. Members also discussed trends among asset allocators, such as pension funds, and highlighted that the growth in their allocations to private equity and private credit might change how they have historically responded to drawdowns in public equity prices. Specifically, it was noted that these funds have tended to rebalance into public equities during prior equity sell-offs, but larger holdings of illiquid private assets may limit their ability to do so in the future. Members also discussed weakness in initial public offerings (IPOs) and in merger and acquisition (M&A) activity, with some citing elevated costs and frictions as a constraint that is likely to ease somewhat in the coming year.

Discussion of Money Market Conditions and Year-End Expectations:

Members discussed funding conditions at September quarter-end and argued that the sharp rise in repo rates over that window was driven by intermediation frictions, not a shortage of liquidity. Members highlighted higher funding demand, including a rise in leveraged purchases of Treasuries and higher financing needs in equity markets, as well limited balance sheet capacity among bank-affiliated broker-dealers to intermediate these needs. It was also noted that liquidity required to meet internal liquidity stress tests, as well as large intraday liquidity needs for payments and securities settlements, was keeping some banks from lending reserves into repo markets, even with rates well above the interest rate on reserve balances. Looking ahead, members noted that costs to secure funding over the turn of the year were quite elevated, but that early efforts by some participants to insure against volatility could help to attenuate increases in repo rates over year-end.

Members also mentioned possible measures that could ease intermediation frictions and lower banks' reserve demand, including low-cost options for banks to access intraday liquidity, centrally clearing transactions for the Federal Reserve's Standing Repo Facility, and exempting reserves, overnight Treasury and mortgage-backed security repos, and Treasury bills from the Supplementary Leverage Ratio.

Discussion of Other Risks in the Financial System:

Members cited a broad range of economic, policy, technology, and geopolitical risks. Several members highlighted the federal debt trajectory, and the possibility that increases in the supply of Treasury securities could pressure longer-term bond yields higher. Members also discussed risks to

housing finance related to the potential exit of Fannie Mae and Freddie Mac from government conservatorship, including the possibility that mortgage rates could rise if an exit were poorly received by investors and rating agencies. Possible outcomes from trade policy were also cited as a risk, with members identifying the renegotiation of the United State-Mexico-Canada Agreement (USMCA) in 2026 as a notable source of uncertainty.

A few members discussed equity markets, including that the current policy and risk appetite backdrop bears some resemblance to that of the late-1990s, which risks paving the way for equity valuations to rise to levels inconsistent with fundamentals. Risks related to artificial intelligence were also discussed, with several members anticipating that its growing adoption could result in large-scale workforce reductions. Members also discussed economic weakness in Europe, the growing threat of climate-related events, and possible spillovers from geopolitical conflicts.