Financial Sector Advisory Council

Meeting Minutes

Federal Reserve Bank of Dallas

2:00 pm, May 21, 2025

Financial Sector Advisory Council Meeting

Council Attendees

Juan Andrade, USAA
Hayley Boesky, BofA Securities
Frank Brosens, Taconic Capital
Gabriel Casillas, Barclays Capital
David Finkelstein, Annaly Capital Management
Paul Hamill, ICE Clear Credit
Britt Harris, On Eagles Wings
Aasem Khalil, Goldman Sachs
Travis Machen, The Bank of Nova Scotia
Henry McVey, KKR
Karen Karniol-Tambour, Bridgewater Associates
Marc Seidner, PIMCO
Allison Thacker, Rice University
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, Deborah Kilroe, Christine Docherty, Amy Chapel, Alessio Saretto, Mark Wynne, Enrique Martinez-Garcia, Saikrishna Nori, Tyler Atkinson, Ron Mau, Anthony Murphy, Ali Ozdagli, Haoyang Liu, Ben Munyan, Rosie Levy, Mariam Yousef, Anton Cheremukhin, Hugo De Vere

Discussion of Impact of Trade Policy on U.S. Economic and Market Outlook

Council members first discussed the impact of trade policy changes on the growth and inflation outlook. The announcement of reciprocal tariffs led dealer forecasts of 2025 real GDP growth and core PCE inflation to shift lower and higher, respectively, by around 1 percentage point each, although those shifts partially retraced following subsequent tariff postponements. In addition to the anticipated growth drag from actual tariffs, members expected that uncertainty about tariff rates could meaningfully influence spending. On inflation, a few members thought tariff impacts would not likely be persistent, with one participant highlighting that a decline of real incomes from higher goods prices could catalyze faster services disinflation. Overall, however, council members emphasized significant uncertainty on the scale and persistence of inflation effects, including how the costs of higher tariffs would be distributed across foreign firms, U.S. firms, and consumers.

Members also discussed the implications of trade policy changes for capital flows and the valuation of the U.S. dollar. Council members noted that foreign investors' portfolios had been overweight U.S. assets, including equities, where the share of U.S. to global equity market capitalization recently reached its highest level in several decades. Some members also suggested the dollar had been overvalued. Several members observed that foreign allocators were not likely to abruptly or broadly sell U.S. assets, but that they could increasingly hedge their U.S. dollar exposures and gradually diversify new investments. One member underscored that the unique useability and openness of the U.S. capital market infrastructure would limit reallocation to foreign markets. Members also largely dismissed risks to the dollar's reserve currency status. They argued that the dollar lacks a viable alternative, and that the dollar could still weaken meaningfully without losing its global dominance.

Discussion of Lessons Learned from April Episode of Market Volatility

Members next discussed what they took away from the early April episode of market volatility. They judged that higher Treasury yields were likely driven more by anticipation of weaker Treasury demand than by actual sales. Positioning dynamics had appeared to amplify yield increases. One member noted that Treasury yields are currently well above yields on comparable maturity interest rate swaps, especially at longer tenors, reflecting the U.S. government's large Treasury issuance needs, as well as limited dealer balance sheet capacity. Members observed that this episode led those spreads to widen even further, partly due to the unwind of a speculative trade but also reflecting a potentially more challenging supply and demand backdrop for Treasury securities. One member noted that the combination of rising Treasury yields and declining risk-asset prices posed a risk to banks' demand for Treasury securities; bank treasurers that hedge credit risk with Treasuries may cease doing so if the recent correlation between Treasury and risk-asset prices persists and limits the effectiveness of the hedge.

Members observed that Treasury market liquidity conditions deteriorated during the early April episode but were broadly in line with what would be expected given the increase in volatility. They also observed that funding markets showed limited signs of stress, while acknowledging that market conditions would have likely evolved differently had the announced pause in tariffs not arrived when it did.

Discussion of Other Risks in the Financial System

Members cited a range of domestic and global risks. Several highlighted risks related to the high level of U.S. fiscal deficits, while a few noted the possibility that foreign investors and firms could repatriate capital to a greater extent than the baseline expectation. Several noted that if longer-dated yields persisted through next year near current levels, leveraged middle-market firms and others that need to refinance could face cash-flow challenges.

Members also cited risks associated with technology, including unintended impacts from growth in stablecoins and heightened cyber risks given growing bank reliance on critical third-party service providers, some of which have been acquired by private equity firms with limited investment in information security. Members also flagged housing-market risks, citing price declines in sunbelt states and concerns over the availability and profitability of property and casualty insurance, and geopolitical risks, including heavy U.S. reliance on Taiwan-manufactured semiconductors.