

Minutes of the Financial Markets Advisory Council

May 12, 2025

Federal Reserve Bank of Cleveland

Council Attendees:

Jonathan Bauer, The Progressive Corporation
Laura Chepucavage, Bank of America
Sara Devereux, Vanguard
Jason Granet, BNY
Michael Harris, New York Stock Exchange
Gautam Khanna, DRW
Carey Lathrop, Atlas SP
David Mericle, Goldman Sachs
Christopher Milligan, Millenium Management
Nela Richardson, ADP Inc.
Brian Sack, Balyasny Asset Management
Bari Spielfogel, CITI

Federal Reserve Bank of Cleveland Attendees:

Beth Hammack
Paola Boel
Nicholas Fritsch
Joseph Haubrich
Edward Knotek
Theresa Polachek
Edward Prescott
Grant Rosenberger

Discussion of the Economic Outlook

Council members were highly attentive to the potential implications of tariffs and increased policy uncertainty on the economic outlook. Some members anticipated a reduction in tariff rates compared to those initially announced in April. Members discussed whether tariff policies would be perceived as sufficiently enduring to prompt companies to move production to the United States. In the discussion, some participants also suggested that tariffs could lead to a loss of comparative advantage for US firms in the long term.

Council members noted that the labor market remained strong and expected its strength to continue supporting consumer spending. However, members cited policy uncertainty as a factor weighing on business investment, in turn potentially decreasing firms' productivity.

Inflation Expectations

Council members discussed a range of survey-based and market-based measures of inflation expectations. They generally viewed market-based measures as more informative, particularly for long-term expectations. However, members noted that these measures can be less informative during periods of heightened market volatility. While there was broad agreement that tariffs would exert upward pressure on inflation, members expressed differing views on whether such effects would be temporary or persistent. The discussion also addressed the potential impact on inflation from fiscal policy changes, shifts in immigration policy, and possible deregulation.

Market Functioning

The discussion on market functioning primarily centered on the heightened volatility episode in early April 2025. Council members noted that, despite the turbulence, markets largely remained functional in April, and have since recovered. Participants also discussed the decline in liquidity in Treasury markets during the recent episode, which was viewed as less severe than the one in March 2020. There was discussion about hedge funds' role in the episode, with members noting that the unwinding of leveraged positions was most apparent in swap trades. Participants viewed the presence of the Fed's Standing Repo Facility (SRF) as a stabilizing factor for money markets.

Capital Markets

Participants noted that equity markets, while volatile, remained functional in April. Some companies postponed plans to raise new capital, but both public and private capital markets continued to operate effectively. Members also discussed the recent acceleration of cross-border activity moving away from the dollar and US Treasuries. However, they emphasized that this shift reflects an earlier ongoing trend, and observed that no clear alternative to US Treasuries has emerged.