



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No System Open Market Account holdings data was available on or before the point-in-time-safe cutoff for this meeting, and so this review cannot report a total size, a composition breakdown, or any change from a prior release. The Committee was accordingly unable to review the level and mix of SOMA securities holdings in the customary way. Members are reminded that this section covers SOMA holdings only; results from repurchase and reverse repurchase operations are not addressed here, as no point-in-time-safe data source for those operations currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that incoming data described an economy growing at a moderate pace with inflation running modestly above the 2.0 percent objective. Core PCE inflation stood at 2.25 percent on a year-over-year basis, a small overshoot of target. The unemployment rate was 6.5 percent, well above the estimated natural rate of 5.45 percent, indicating that a meaningful margin of labor-market slack remained. Initial jobless claims registered 349,000, a level the staff characterized as moderate and broadly stable, showing no clear sign of deterioration in labor demand. The Chicago Fed National Activity Index came in at 0.26, consistent with growth somewhat above trend.

The current federal funds rate was 3.5 percent. The staff noted that the prior meeting had been a tightening action, so the Committee approached this meeting in the midst of a gradual firming of policy. No Beige Book text was available for this meeting, so the staff review of regional and anecdotal conditions was limited to the quantitative indicators above. Taken together, the data pointed to an economy with above-trend activity and a modest inflation overshoot, but with unemployment still above its estimated natural rate.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described as calm and orderly. The financial stress index stood at 0.0762, a low reading, and the VIX at 16.61 indicated subdued expected volatility with no acute market fear. The Baa corporate spread of 1.59 percentage points was moderate and showed no sign of credit-market strain. The Treasury yield curve remained positively sloped, with the 10-year/2-year spread at 1.49 percentage points, giving no recession signal. The 3-month Treasury bill was just 0.04 percentage point above the current funds rate, which the staff read as an indication that markets had largely absorbed the prior tightening and were pricing only marginal further change in the near term.

STAFF ECONOMIC OUTLOOK



The staff outlook drew on the forward-looking quantities available. With the estimated neutral rate (r^*) at 0.8 and inflation momentum a mild 0.15 and unemployment momentum 0.1, conditions appeared to be drifting rather than lurching in either direction. These small momentum readings suggested that neither a rapid acceleration of prices nor a sharp deterioration in the labor market was in prospect over the near term, and that the economy was operating reasonably close to a neutral policy stance.

The reference rules spanned a wide range. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to a 75 basis point reduction, reflecting the large gap between the 6.5 percent unemployment rate and the 5.45 percent natural rate. The First-Difference rule, which responds to changes rather than to the level of that gap, pointed to no change. The framework's loss-minimizing output was likewise 0 basis points, with the reference rules assessed as reliable. The implication was that, while the level-based rules registered substantial slack, the small momentum in both mandate variables and the calm state of financial conditions argued against a large move; the most likely path was one in which the economy continued near trend with inflation modestly above target and slack narrowing only gradually.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion, all five participants arrived independently at a 25 basis point increase as the most likely outcome for the upcoming meeting, though they reached that conclusion from distinct starting points and with differing degrees of conviction. One participant, weighting inflation risk most heavily, emphasized that core PCE at 2.25 percent sat above target and that the Chicago Fed activity index at 0.26 signaled above-trend growth that could add to price pressure; with financial stress low, the VIX subdued, and credit spreads contained, this participant judged that the economy could absorb continued firming and that a funds rate of 3.5 percent remained accommodative relative to inflation. Several participants concurred that a measured step, rather than a larger move, best fit the data: the inflation overshoot was modest at roughly a quarter point, activity was only slightly above trend, and the near-flat 3-month bill spread implied markets were not braced for aggressive tightening.

The participant most focused on employment offered the principal counterweight. This member stressed that unemployment at 6.5 percent stood over a full percentage point above the 5.45 percent natural rate, meaning the labor recovery was incomplete, and that pressing policy tighter while so much slack persisted was premature. At the same time, this participant acknowledged that the labor data gave no signal of deterioration that would justify easing — jobless claims at 349,000 were moderate and stable, and the activity index showed growth near or slightly above trend. Absent any rising-claims, slowing-growth, or curve-inversion signal, and facing a consensus leaning toward a small hike, this member indicated a preference to hold steady as the most defensible employment-protective stance



while recognizing that a modest hike was likely to prevail.

The participant attentive to financial stability grounded the case in the calm and orderly state of markets: a stress index of 0.0762, a VIX of 16.61, a moderate Baa spread of 1.59, and a positively sloped curve, none of which argued against a measured tightening. This member cautioned, however, that a larger move could risk a disorderly repricing given how little tightening was currently priced in. The participant focused on market signals reached the same place from the pricing side, noting that the near-zero bill spread and the absence of any recession premium in the curve pointed to gradual normalization rather than either an aggressive step or a pause.

When the discussion turned to the framework's loss-minimizing recommendation of no change, participants engaged directly with the wide divergence among the reference rules. The three level-based rules called for a 75 basis point cut, driven by the unemployment gap, while the First-Difference rule and the loss-minimizing output both called for a hold. Participants across viewpoints found the First-Difference logic most persuasive: with inflation momentum of 0.15 and unemployment momentum of 0.1 both small, conditions were drifting rather than lurching, and a large easing was hard to justify. The inflation-focused member framed the hold as a floor that refused to ease into above-target, accelerating prices, and viewed the gap between a hold and this member's own 25 basis point instinct as a single incremental move rather than a fundamental disagreement. The financial-stability and market-signal members emphasized that markets had already absorbed the prior tightening and that a 75 basis point swing would jolt calm conditions unnecessarily. The data-dependent member characterized the hold as the literal, consensus-consistent middle — neither easing into strength nor tightening against a small overshoot — with the divergence between a hold and a hike signaling a stance near equilibrium.

The employment-focused member registered the one genuine reservation about the framework's recommendation. This participant welcomed that a hold halted further tightening and did not add restraint on top of the prior increase, and preferred it to the 25 basis point step implied by the predictive discussion. Yet with a full-point employment gap still unaddressed and calm markets that would not be destabilized by accommodation, this member judged that the level rules' call for easing better reflected the slack that most concerned them. This participant therefore agreed with the direction away from tightening while regarding the magnitude as falling short of the easing that wide slack would justify.

COMMITTEE POLICY ACTIONS

In the predictive vote on the likely policy action, all five participants supported a 25 basis point increase in the target federal funds rate (5 of 5 for +25 bps). On the framework's optimal-side recommendation



of no change (0 basis points), four participants — the inflation-focused member, the financial-stability member, the data-dependent member, and the market-signal member — endorsed the recommendation as-is, while one participant, the employment-focused member, gave partial support, agreeing with the direction of holding rather than tightening but judging that the magnitude fell short of the easing that the labor-market slack would justify. There were no participants who declined the recommendation outright.