



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No point-in-time-safe data on System Open Market Account holdings was available on or before the cutoff for this meeting, and accordingly the staff was unable to report a total size, a breakdown of composition, or any change from a prior release. Members were advised that this gap pertains to SOMA holdings specifically; it should not be read as a report on the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists. In the absence of these figures, the discussion of open market operations was necessarily limited, and the staff noted that this section reflects a data-availability constraint rather than any change in the conduct of operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized economic activity as running at or near trend. The Chicago Fed National Activity Index stood at 0.12, a modestly positive reading consistent with growth around potential rather than either acceleration or slowdown. Initial jobless claims were reported at 325,000, a moderate level that showed no sign of labor-market deterioration. The unemployment rate was 5.4%, essentially at the estimated natural rate of 5.39%, indicating a labor market that was balanced and operating with little visible slack.

On the price side, core PCE inflation was 2.35% on a twelve-month basis, above the 2.0% objective but described as stable rather than accelerating. Taken together, the incoming indicators pointed to a firm economy near full employment with inflation modestly overshooting target. No Beige Book text was available for this meeting, so the staff review drew on the quantitative indicators without accompanying qualitative anecdote from the districts.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as calm and orderly. The financial stress index registered 0.1593, a low reading indicating no systemic tension, and the VIX at 11.94 was exceptionally subdued, suggesting complacent and untroubled markets. The Baa corporate spread was tight at 1.3 percentage points, pointing to healthy borrowing conditions with no evident credit strain. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 0.29 — positive but not steep, and showing no inversion or recession signal. The 3-month Treasury bill traded 0.31 percentage point above the current 5.5% funds rate, a spread the staff noted as consistent with market expectations of some further tightening ahead.

STAFF ECONOMIC OUTLOOK



The staff outlook, grounded in the forward-looking quantities available, pointed to conditions remaining close to their current configuration over the near term. The estimated neutral rate (r^*) of 1.882% implied that the current 5.5% funds rate left the real policy stance mildly restrictive rather than sharply so. Inflation momentum was essentially flat at -0.005 , suggesting prices were stable and neither clearly cooling nor building further, while unemployment momentum of -0.25 indicated a labor market still firming rather than loosening.

The reference rules spanned a wide range and did not speak with one voice. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each recommended -75 bps, driven by level-based gap assessments, whereas the First-Difference rule, which responds to changes rather than levels, recommended $+25$ bps. The reference rules were assessed as reliable in the current environment. Reconciling these conflicting signals against the loss function — with inflation momentum near zero and unemployment momentum negative — the framework's loss-minimizing recommendation was 0 bps, a hold that declined both the aggressive level-based easing signals and a further tightening step.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants opened with a range of predictive views but converged over the course of discussion. Several began from the observation that core PCE at 2.35% remained above the 2.0% target while unemployment at 5.4% sat essentially at the 5.39% natural rate, leaving no slack to restrain price pressures. Two participants — reasoning from a financial-stability lens and from a data-dependent reading of the consensus — initially favored a 50 bps move, citing the calm backdrop of a low stress index, a VIX near 12, and a tight Baa spread as ample room to move within the tightening cycle. A participant focused on inflation risk began inclined toward holding but leaning toward a precautionary hike, and a participant weighting market signals argued from the outset for a 25 bps step.

The decisive argument in the predictive rounds came from the forward-pricing observation that the 3-month Treasury bill sat 31 bps above the current rate, which several participants read as markets anticipating roughly one 25 bps step rather than a larger jump. The participant emphasizing financial stability revised down from 50 to 25, reasoning that delivering more than markets expected could itself be a destabilizing surprise to otherwise complacent credit conditions. The data-dependent participant likewise moved to 25, judging that the 'consistent with the tightening cycle' framing behind the 50 bps proposals read more aggressiveness into the numbers than the data demanded. The inflation-focused participant was persuaded upward from a hold toward a 25 bps hike as both anticipated and absorbable, but declined the case for 50 bps as excessive given a modest inflation gap that was stable rather than accelerating.



One participant, reasoning from an employment-protective standpoint, dissented from the tightening consensus and favored holding. This participant noted that unemployment was not rising, jobless claims at 325,000 showed no deterioration, and the activity index pointed to at- or above-trend growth — so the usual case for cutting did not apply, but neither did a case for actively tightening against a balanced labor market while inflation was only modestly above target. Calm markets and forward pricing, in this view, described capacity to absorb a hike rather than a need for one, and further tightening risked eventually pushing unemployment above the natural rate.

Turning to the framework's optimal recommendation of 0 bps, participants engaged directly with the sharp divergence among the reference rules. There was broad agreement that the -75 bps signals from the Taylor, Balanced Approach, and ELB-adjusted rules should be discounted: several participants judged these level-based rules to lean too heavily on estimated gaps while inflation remained modestly above target, and inflation momentum at -0.005 gave no basis for declaring victory or fearing disinflation. The First-Difference rule's +25 bps was repeatedly cited as the output closest to participants' own instincts, since it responds to momentum and to the mild overshoot rather than to absolute level gaps. With r^* estimated near 1.882% and unemployment momentum at -0.25, most participants read the current 5.5% stance as close to neutral and only mildly restrictive.

In the concluding discussion, the employment-focused participant, the financial-stability participant, and the data-dependent participant each found the framework's flat 0 bps call the most defensible reconciliation — a hold that honored labor strength and orderly financial conditions while refusing the mechanical deep cuts. The inflation-focused participant and the market-signal participant agreed firmly with the direction away from easing but favored a single 25 bps step over standing pat: for the former, above-target inflation with no slack warranted leaning against persistence; for the latter, the T-bill spread signaling expected tightening was the weightiest consideration. All five participants rejected the -75 bps easing signals, and the remaining disagreement amounted to a single 25 bps increment.

COMMITTEE POLICY ACTIONS

In the predictive vote, the Committee's five members recorded a decision of 25 bps, with four members supporting a 25 bps increase and one member supporting no change. On the framework's optimal recommendation of 0 bps, three members endorsed the recommendation as-is — the member focused on labor-market conditions, the member focused on financial stability, and the data-dependent member — while two members, the inflation-focused member and the market-signal member, gave partial support, agreeing with the direction away from easing but preferring a modest 25 bps hike to a flat hold. No member declined the recommendation outright.