



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that no System Open Market Account holdings data were available from a point-in-time-safe source on or before the applicable cutoff for this meeting. As a result, this section cannot report a total portfolio size, a breakdown of holdings by security type, or any change relative to a prior release. Members were advised that the absence of these figures reflects data availability rather than any change in the composition or management of the account itself. It should also be noted that this review pertains to SOMA holdings only; results of repurchase and reverse repurchase operations are not covered here, as no point-in-time-safe data source for those operation results currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that overall activity appeared to be running at or slightly below trend. The Chicago Fed National Activity Index stood at -0.07, consistent with growth a shade under its trend pace. Labor market conditions were essentially balanced: the unemployment rate was 5.4%, virtually identical to the estimated natural rate of 5.39%, and initial jobless claims at 343,000 showed no sign of a pickup in layoffs. On the price side, core PCE inflation was 2.2% on a year-over-year basis, modestly above the 2.0% objective but not accelerating. M2 stood at \$3,621.7 billion. The current federal funds rate was 6.0%, reflecting the cumulative effect of prior tightening, including the substantial discount rate action taken at the previous meeting.

The March Beige Book, released March 15, summarized commentary across the twelve Districts. The materials available to the staff consisted of the summary and District table of contents; the staff characterized the tone as consistent with the tentative moderation noted at the prior meeting, with activity cooling toward trend rather than contracting. No District-level detail beyond the summary structure was available for this review, and the staff drew no conclusions beyond what the aggregate data and the summary framing supported.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff described financial conditions as calm and orderly. The financial stress index registered 0.108, a very low reading, and the VIX at 11.53 pointed to subdued volatility and, in the staff's characterization, a degree of market complacency. The Baa corporate spread of 1.52 indicated contained credit conditions with no evident borrowing-cost strain. The Treasury yield curve remained positively sloped, with the 10-year/2-year spread at +0.45, showing a flat but not inverted structure and no imminent recession signal from the term structure. The 3-month T-bill yielded 26 basis points below the current funds rate, a spread the staff noted was consistent with market expectations that the funds rate was at or near its peak, with possibly some easing anticipated further out.



STAFF ECONOMIC OUTLOOK

The staff outlook pointed to conditions consistent with policy near, though somewhat above, a neutral setting. The estimated neutral real rate (r^*) used in the analysis was approximately 2.009, implying a nominal neutral rate well below the current 6.0% funds rate once prevailing inflation is added. Inflation momentum was mildly positive at 0.08, suggesting prices were still edging up rather than receding, while unemployment momentum was -0.2, indicating the labor market was continuing to tighten modestly rather than loosen. Taken together, these momentum readings suggested no near-term emergence of slack and no clear disinflationary turn as of this meeting.

The reference rules diverged sharply. The Taylor, Balanced Approach, and ELB-adjusted rules each prescribed -75 basis points, driven primarily by inflation sitting close to target and unemployment at its natural rate, which places the current funds rate well above the level those rules imply as neutral. The First-Difference rule, keying off momentum rather than levels, prescribed +25 basis points. With the reference rules judged reliable, the loss-minimizing recommendation netted these opposing signals to 0 basis points. The projection implied by these quantities is one in which policy remains modestly restrictive, allowing the lagged effects of prior tightening to continue transmitting, with the eventual direction of adjustment contingent on whether inflation momentum recedes or unemployment momentum reverses.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive positions, all five participants converged on holding the funds rate at 6.0%, though they reached that conclusion from distinct vantage points. The member most focused on inflation risk emphasized that core PCE at 2.2% remained above the 2.0% objective and that unemployment at 5.4% was essentially at the natural rate, leaving no slack. At the same time, this participant judged the overshoot modest and not accelerating, and read the CFNAI at -0.07 and claims at 343,000 as signs that the prior aggressive tightening was already working through the economy. Pushing rates higher, in this view, risked overtightening into an economy cooling toward trend; equally, easing was ruled out while inflation exceeded target.

The participant most attentive to employment made a parallel argument from the other side of the mandate. With unemployment at the natural rate, claims moderate, and no rising unemployment to preempt, there was no basis for an immediate cut; but the moderation signals and a balanced labor market also foreclosed further tightening. This member framed holding as preserving optionality, noting that a decisive move to ease would be warranted if claims began to rise or job growth slowed meaningfully. The participant weighting financial stability observed that the stress index at 0.108, the VIX at 11.53, and the Baa spread at 1.52 all pointed to calm, non-distressed markets, so that neither



easing nor tightening had a stability rationale; adding a hike into a calm but mature cycle risked unsettling orderly conditions unnecessarily. The market-focused participant read the negative 3-month T-bill spread and the flat but positive yield curve as evidence that markets had priced the tightening cycle as largely complete, while the data-dependent centrist judged that the 'substantial pace' framing carried over from the prior meeting no longer fit activity running at trend, weakening the case for additional restraint. The rebuttal round produced no change in any position; participants generally found their views reinforced rather than challenged by one another.

When the discussion turned to the framework's loss-minimizing recommendation, participants engaged directly with the divergence among the reference rules. Several noted that the Taylor, Balanced Approach, and ELB-adjusted rules all prescribed -75 basis points because both the inflation and unemployment gaps sit near zero, placing 6.0% well above the neutral prescription those rules imply. The inflation-focused member argued that these levels rules underweight the persistence of above-target inflation, and found the First-Difference rule's +25 basis point signal, grounded in positive inflation momentum (0.08) and negative unemployment momentum (-0.2), most consonant with a momentum-based reading. This participant characterized the gap between the -75 rules and the 0 basis point outcome as evidence that current policy is appropriately restrictive rather than excessively so.

The employment-focused participant acknowledged that the levels rules were tempting from a preemptive-easing standpoint, but concluded that cutting one meeting after the substantial prior discount rate move, with inflation still above target and momentum mildly positive, would whipsaw policy before the data confirmed any labor softening. The stability voice similarly treated the opposing rule signals as canceling out and holding as the stable midpoint, emphasizing that the financial conditions it weights most heavily showed no distress calling for accommodation. The centrist offered the most explicit reconciliation, describing the 0 basis point result as the literal netting of aggressive-easing levels rules against a slight-tightening difference rule, and judging the First-Difference logic most persuasive for respecting the recent tightening without overcorrecting. The market realist added that markets, through the negative T-bill spread, appeared to want the peak held rather than an abrupt cut, so that acting on the -75 rules would front-run without market confirmation.

Across the final rebuttal round, no participant was moved from the hold position. Those emphasizing inflation stressed that momentum near flat was not a case for cuts and that cutting while inflation ran hot risked credibility; those emphasizing employment and stability stressed that no deterioration or distress had yet materialized. Participants generally agreed that holding at 6.0% allowed the lagged



effects of prior tightening to continue propagating while the committee watched jobless claims and the below-trend activity index for confirmation of the moderation those readings tentatively suggested.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five participants supported holding the federal funds rate unchanged at 6.0%, a unanimous 0 basis point outcome (5 to 0). On the framework's loss-minimizing recommendation of 0 basis points, the committee likewise reached full agreement: all five members endorsed the recommendation as-is, with none declining and none registering only partial support. The inflation hawk, labor market dove, financial stability voice, data-dependent centrist, and market signal realist each endorsed the 0 basis point recommendation, so that the predictive stance and the optimal-side outcome coincided completely.