



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No point-in-time-safe data on System Open Market Account holdings were available on or before the cutoff for this meeting. Accordingly, the Committee could not review the total size of the portfolio, its composition across security types, or any change from the prior release. It should be noted that this section addresses SOMA holdings only; it does not cover the results of temporary open market operations, including repurchase and reverse repurchase transactions, for which no point-in-time-safe data source currently exists. The staff will resume the customary review of holdings and operations when reliable data become available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that the economy was expanding at roughly a trend pace. The Chicago Fed National Activity Index stood at 0.02, essentially at its neutral reading, consistent with growth that had cooled from the more rapid rates seen during the earlier phase of the tightening cycle. Core PCE inflation on a twelve-month basis was 2.23 percent, modestly above the 2.0 percent objective. The unemployment rate was 5.8 percent, above the estimated natural rate of 5.38 percent, indicating a small measure of slack in labor markets. Initial claims for unemployment insurance were 366,000, a level the staff characterized as elevated but not indicative of sharp deterioration; the reading was consistent with some softening at the margin rather than an abrupt weakening in hiring. M2 stood at \$3,643.4 billion.

The Beige Book, released May 10, summarized commentary on current conditions across the twelve Federal Reserve Districts. The available material comprised the summary and District table of contents; no District-level narrative detail was available to the staff for this review beyond that structure. Taken together with the quantitative indicators, the picture was one of an economy near balance—growth at trend, inflation slightly above target, and a labor market showing modest slack without evidence of rapid change in either direction.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and accommodative. The financial stress index was 0.09, a very low reading suggesting no systemic strain, and the VIX stood at 12.2, reflecting subdued equity-market volatility. The Baa corporate spread was 1.56, a moderate level indicating that credit was flowing without evident borrowing stress. The Treasury yield curve remained positively sloped, with the 10-year/2-year spread at 0.46; while flat by historical standards, it showed no inversion of the sort that would flag near-term recession risk. The 3-month Treasury bill traded 31 basis points below the current 6.0 percent funds rate, a configuration the staff read as consistent with market expectations of steady-to-easier policy over the near term rather than further tightening.



STAFF ECONOMIC OUTLOOK

The staff outlook pointed to conditions that were likely to remain near their current settings absent a fresh shock. With the estimated neutral real rate (r^*) at 2.172 percent and core inflation near 2.2 percent, a nominal neutral rate somewhat above 4 percent implied that the current 6.0 percent funds rate was somewhat restrictive, though not dramatically so. Inflation momentum was measured at 0.01 and unemployment momentum at -0.1—both close to flat—suggesting that neither price pressures nor labor slack were building or unwinding rapidly, and that the economy was on a settled rather than a turning path.

The reference rules diverged in an instructive way. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each recommended -75 basis points, reflecting the combination of inflation near target and unemployment above its natural rate—that is, level-based output-gap logic. The First-Difference rule, which keys on momentum rather than level gaps, recommended 0 basis points. The deterministic policy engine, treating the reference rules as reliable, produced a loss-minimizing recommendation of 0 basis points, effectively weighing the near-flat momentum readings against the level-based cut signals. On this basis the projection was for policy to hold at a modestly restrictive stance, with the negative short-end bill spread suggesting that markets themselves anticipated gradual easing later rather than an immediate move.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their opening assessments, all five participants independently arrived at no change in the funds rate, though they reached that conclusion from distinct starting points. The member most focused on inflation emphasized that core PCE at 2.23 percent remained above the 2.0 percent objective, which for that participant ruled out easing at this meeting; at the same time, growth only at trend and jobless claims hinting at some labor softening left no case for a further hike. The participant most attentive to employment noted that unemployment at 5.8 percent sat above the 5.38 percent natural rate and that claims at 366,000 pointed toward possible softening ahead, and initially judged a measured 25 basis point cut to be prudent—while acknowledging that the Committee might reasonably wait one meeting for confirmation, so that a hold was the likely consensus.

The participant attentive to financial stability anchored on the calm of markets—a stress index of 0.09, a VIX of 12.2, and a Baa spread of 1.56—and observed that there was no credit-market strain compelling either direction of move; a surprise hike into such conditions could tighten financial conditions abruptly, while cutting into calm markets with inflation still above target risked inviting complacency-driven risk-taking. The participant weighing market signals most heavily read the 31 basis point gap between the 3-month bill and the funds rate as the market pricing a hold now with easing later, and preferred to



let that pricing do gentle work rather than front-run it. The centrist read the data as an economy near balance and judged holding to be the most literal, consensus-supported outcome.

In the second round the participant favoring employment protection was persuaded to hold rather than dissent for a cut: labor deterioration was suggestive but not yet confirmed, inflation remained modestly above target, and no other member supported easing at this meeting. That participant flagged, however, a firm readiness to press for easing at a subsequent meeting should claims keep rising or unemployment climb further. The other members found their positions reinforced rather than changed, and the predictive round closed with all five at no change.

Turning to the framework's recommendation, participants engaged directly with the divergence among the reference rules. Several observed that the Taylor, Balanced Approach, and ELB-adjusted rules each called for a 75 basis point cut on the strength of the unemployment gap against an r^* of 2.172, but judged that this level-based logic understated the risk of easing while inflation was still above target and rested on debatable gap and neutral-rate estimates. The First-Difference rule, recommending no change, drew the most support: with inflation momentum at 0.01 and unemployment momentum at -0.1, both essentially flat, participants generally judged that acting on stale level gaps was not warranted. The employment-focused participant accepted this reasoning only because labor softening was mild rather than urgent, explicitly rejecting any characterization of the labor market as firming and reserving the option to cut if unemployment momentum worsened. The inflation-focused participant found the momentum case fully consistent with holding at a restrictive stance until core inflation convincingly returned toward 2.0 percent.

In the final round of exchange, no participant was moved off holding. The stability-focused member reiterated that a sudden 75 basis point cut risked unsettling stable credit markets and fueling later disorderly repricing, and that gradualism was the appropriate posture. The market-focused member reiterated that the positive but flat 10-year/2-year spread of 0.46 signaled no recession alarm, and that markets were pricing patience rather than a jolt. Participants converged on the view that the current 6.0 percent stance was appropriately near-neutral—restrictive enough to guard against inflation still slightly above target, without imposing undue restraint on a labor market showing only modest slack—and that movement in either direction lacked justification given the settled, low-stress picture.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy for this meeting, all five participants supported no change in the target federal funds rate, leaving it at 6.0 percent; the vote was unanimous, 5 to 0, for a hold. On the deterministic framework's loss-minimizing recommendation of 0 basis points, the



Committee was likewise in full agreement: all five members—the inflation-focused participant, the employment-focused participant, the financial-stability-focused participant, the data-dependent centrist, and the market-signal-focused participant—endorsed the recommendation as-is, with none declining and none registering partial agreement. The two votes were therefore fully aligned in favor of maintaining the current stance.