



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No System Open Market Account holdings data was available from the point-in-time-safe source on or before the cutoff for this meeting, and consequently the Committee's review this cycle could not incorporate the customary detail on the total size, security composition, or change from the prior release of the SOMA portfolio. The Desk's account of these holdings will resume when a compliant data source is available. It should be noted that this section covers SOMA holdings only; it does not address the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists, and no figures on such operations should be inferred from its absence here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that incoming data described an economy expanding at roughly its trend pace, with no clear signs of either overheating or contraction. The Chicago Fed National Activity Index stood at 0.13, consistent with growth near trend. Core PCE inflation on a twelve-month basis was 2.15%, modestly above the 2.0% objective. The unemployment rate was 5.6%, slightly above the staff's estimated natural rate of 5.36%, pointing to a small margin of labor-market slack rather than tightness. Initial claims for unemployment insurance were 376,000, a level the staff characterized as somewhat elevated and worth monitoring as a leading indicator of labor demand. M2 stood at \$3,740 billion.

The most recent Beige Book, released September 13, provided a summary of commentary by Federal Reserve District but offered no strong directional signal on the pace of activity or on price pressures in the material available to the staff. Taken together with the near-trend activity reading and the mild labor-market slack, the staff review portrayed conditions that were neither weakening sharply nor accelerating, with inflation sitting only marginally above target.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff described financial conditions as broadly calm and free of systemic strain. The financial stress index registered 0.0876, a very low reading, and equity-market volatility as measured by the VIX was subdued at 12.67. Credit conditions showed no evident distress: the Baa corporate spread was moderate at 1.76 percentage points, with no sign of widening. The Treasury yield curve remained positively sloped, with the 10-year to 2-year spread at 0.39 percentage point — flat but not inverted — offering no recession warning from the curve. The most notable signal came from the short end, where the 3-month Treasury bill traded 55 basis points below the current federal funds rate of 5.75%, a configuration the staff read as consistent with market expectations of some easing in the period ahead.

STAFF ECONOMIC OUTLOOK



The staff's forward-looking assessment drew on the estimated neutral rate and on the momentum in the key aggregates. With the real neutral rate estimated at roughly 2.5%, the current nominal funds rate of 5.75% against inflation near 2% implied a policy stance that was meaningfully restrictive by conventional measures. This restrictiveness was reflected in the reference-rule cluster: the Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to easing of about 75 basis points, reading the small inflation overshoot together with modest labor slack as room to move lower.

Against those level-based rules, the First-Difference rule, which responds to the change in conditions rather than to the size of gaps, recommended no change. This divergence was informative. Inflation momentum was slightly negative at -0.03 and unemployment momentum was -0.05 , both small and near flat, indicating that neither prices nor labor conditions were deteriorating at a pace that would demand an abrupt correction. The loss-minimizing output of the framework, treating the reference rules as reliable and weighing the flat momentum, was 0 basis points. The projection this implied was one of stability: conditions likely to drift only gently, with the short-end market signal foreshadowing eventual easing but the current momentum offering no impulse for immediate action.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants weighed a genuine range of views, and the discussion turned less on the reading of any single number than on how much weight to place on inflation risk, on labor-market softening, and on what markets appeared to be pricing. A majority favored holding the funds rate unchanged. The member most focused on inflation emphasized that core PCE at 2.15% remained above the 2.0% objective, and argued that this fact alone precluded support for a cut. In this member's view, market pricing reflected expectations rather than a mandate, and easing preemptively into above-target inflation simply because the curve anticipated it would be precisely the premature move to guard against. This participant saw the modest gap between unemployment and its natural rate as slack, not a labor emergency, and pointed to positive credit and curve signals as evidence that no recession was in prospect.

Two members made the case for a modest 25-basis-point cut. The participant most attentive to employment stressed that unemployment at 5.6% sat above the 5.36% natural rate, that initial claims at 376,000 were elevated, and that the Chicago Fed index at 0.13 showed only trend growth with little momentum. From an employment-focused perspective, waiting for visible deterioration before acting was the mistake to avoid; preemptive easing was warranted precisely because the economy was not in crisis, making early action lower-cost than a late reaction. This member had considered a larger 50-basis-point move but judged it unjustified given that growth was near trend and inflation remained slightly above target, settling on a measured cut as appropriate insurance. The member most oriented



toward market signals anchored on the 3-month bill trading 55 basis points below the funds rate, reading it as the clearest available indication that easing was anticipated, and judged a single 25-basis-point cut to align policy with that expectation without getting ahead of the curve.

Members favoring a hold engaged these arguments directly. The participant focused on financial stability observed that the easing case rested on labor softness and on market-implied pricing, neither of which reflected credit or systemic distress; with the stress index at 0.0876, the VIX at 12.67, and the Baa spread at 1.76, there was no stability rationale for a cut, and easing into such calm conditions risked loosening financial conditions unnecessarily and sowing future imbalances. The data-dependent centrist accepted that elevated claims and above-natural unemployment were real signals of mild softening but not alarming ones, noting that the market-signal member himself conceded the 55-basis-point spread might reflect a gradual expected path rather than a demand for an immediate full move — a concession the centrist read as weakening the case for cutting now rather than waiting. In rebuttal, the dove and the market realist held their ground, the former insisting employment risk was building and the latter judging the short-end spread too large to dismiss as noise, while agreeing it argued for 25 basis points rather than 50.

When the discussion turned to the framework's optimal recommendation, participants examined the sharp divergence between the Taylor-family rules at -75 basis points and the First-Difference rule at 0 basis points. Several found the change-based logic more persuasive than the level-based cluster. The inflation-focused member argued the Taylor cluster overweighted a mild output gap and that flat momentum — inflation at -0.03, unemployment at -0.05 — counseled against any abrupt move. The member most concerned with employment acknowledged that the level rules captured real restrictiveness at 5.75% against a low neutral rate, restrictiveness that worried this participant, but conceded that with no active deterioration this meeting, cutting 75 basis points would overreact to soft-but-stable data; better to hold, watch claims and unemployment momentum, and ease decisively if labor weakened. The stability and market-oriented members added that an abrupt 75-basis-point cut into calm markets could itself signal hidden alarm the data did not support.

Across the two strands of deliberation a common thread emerged: participants generally judged the current stance roughly appropriate — neither restrictive enough to threaten jobs nor loose enough to reignite inflation — and read the short-end inversion as foreshadowing easing that was not yet due. A couple of participants framed the gap between the mechanical -75 rules and the framework's 0-basis-point output as evidence that the underlying deviations were too small to trust mechanical easing. The employment-focused member registered a concern that was noted but, in that member's own words, not yet triggered, preferring to preserve optionality against confirming labor signals.



COMMITTEE POLICY ACTIONS

In the predictive vote on the appropriate policy action, three members supported holding the federal funds rate unchanged at 5.75% and two members supported a 25-basis-point cut, yielding a majority for no change. On the framework's deterministic recommendation of 0 basis points, the outcome was unanimous: all five members — the inflation hawk, the labor-market dove, the financial-stability voice, the data-dependent centrist, and the market-signal realist — endorsed the recommendation as-is, with none declining and none registering a partial agreement. The two members who had favored a modest cut in the predictive vote nonetheless concluded, on reviewing the flat momentum and the divergence between the level-based and change-based reference rules, that holding this meeting was the correct call while preserving the option to ease should conditions confirm further softening.