



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 so this section cannot report a total size, a breakdown of composition, or any change from a prior release. Members were advised that the absence of a usable source pertains specifically to SOMA holdings; separately, no point-in-time-safe data source currently exists for repurchase and reverse repurchase operation results, and this review accordingly covers neither. The Committee proceeded on the understanding that the open market operations record for this interval could not be independently characterized from the material at hand.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data as pointing to an economy expanding at roughly its trend pace. The Chicago Fed National Activity Index stood at 0.03, essentially at the level associated with growth in line with historical trend rather than acceleration or slowdown. Core PCE inflation on a year-over-year basis was 2.04%, marginally above the 2.0% mark that has served as the reference point in these discussions. The unemployment rate was 5.5%, a touch above the estimated natural rate of 5.34%, while initial claims for unemployment insurance came in at 380,000 — a level the staff characterized as somewhat elevated but not clearly deteriorating. M2 stood at \$3,758 billion. The federal funds rate at the time of the meeting was 5.75%.

The most recent Beige Book, released at the start of the month, summarized commentary on current economic conditions across the twelve Federal Reserve Districts for October. The available material consisted of the summary framing and District table of contents rather than detailed sectoral narrative, and the staff drew no specific regional conclusions beyond noting that the compilation covered activity in all twelve Districts. Taken together with the national indicators, the picture was one of steady growth near trend with a labor market close to balance and inflation resting just above the reference figure.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described as calm. The financial stress index registered 0.0822, a low reading indicating little strain in the system, and the VIX at 12.16 pointed to minimal expected volatility. Credit markets appeared well-behaved, with the Baa corporate spread at 1.75, a moderate level consistent with normal borrowing costs rather than distress. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 0.45 — flat but not inverted, and thus not flashing a recession signal. One notable feature was the front end: the 3-month T-bill sat 39 basis points below the current funds rate, a negative spread the staff read as markets anticipating some easing ahead rather than as a sign of immediate stress.



STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities available. With the estimated neutral rate (r^*) at 2.583, an inflation rate near 2% implies a nominal neutral setting in the neighborhood of 4.6%, against which the prevailing 5.75% funds rate represents a modestly restrictive stance. Momentum readings were slight in both directions: inflation momentum was positive but small at 0.03, suggesting price pressures were not yet clearly receding, while unemployment momentum was mildly negative at -0.05, implying joblessness was edging down rather than climbing. On these figures, the most probable near-term path is one of continued growth near trend with inflation settling close to the reference figure and the labor market remaining near balance, absent a fresh shock.

The reference rules diverged sharply in a way the staff flagged as informative. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to -75 basis points, driven principally by the gap between the current rate and the model-implied neutral level. The First-Difference rule, which responds to changes in conditions rather than to a level gap, indicated 0 basis points. The framework's loss-minimizing output was 0 basis points, with the reference rules judged reliable. The staff noted that the distance between the level-based rules and the loss-minimizing outcome should be read as an indication that policy sits only modestly above a mechanical neutral — restrictive enough to warrant attention, but not so tight as to force an immediate correction given the stability of the underlying momentum.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion, participants converged on holding the funds rate at 5.75%, though not for identical reasons and not without dissent on the appropriate direction of risk. Four of the five judged that the balance of the data supported no change this meeting. One member, giving primary weight to employment risk, favored a modest rate cut, arguing that unemployment at 5.5% sat above the 5.34% natural rate, that claims at 380,000 were elevated as a leading signal of softening, and that with core PCE essentially at target there was no inflation reason to keep policy restrictive against a labor market showing early strain.

That case drew a direct response from the member most focused on inflation, who declined to treat 2.04% as simply at target. In that participant's framing, the direction and asymmetry of the risk mattered: inflation was above the 2.0% reference, not below it, and easing into above-target inflation to insure against a slack gap of only about 16 basis points would be premature, particularly with growth still at trend as indicated by the Chicago Fed index at 0.03. Other participants approached the question from their own vantage points but reached the same hold conclusion. The member attentive to financial stability emphasized that with the stress index at 0.0822, the VIX at 12.16, and the Baa spread



contained at 1.75, there was no credit or systemic strain that easing would address, and that moving preemptively into calm markets risked disrupting orderly conditions rather than protecting them. The member weighting market signals read the -0.39 T-bill spread as pricing a cut soon rather than demanding one immediately, and the centrist read the balanced, near-target data as a straightforward argument for patience. Several participants acknowledged the labor argument as coherent while judging that the data read as steady-if-soft rather than deteriorating.

The subsequent discussion of the framework's optimal recommendation sharpened rather than reshuffled these positions. Participants engaged directly with the divergence between the -75 basis point level rules and the 0 basis point outcome. There was broad agreement that the Taylor, Balanced Approach, and ELB rules were leaning heavily on the r^* gap and a slack estimate that the current data did not confirm as urgent, and that the First-Difference rule — which responds to changes — better captured a situation in which both inflation momentum (0.03) and unemployment momentum (-0.05) were minimal. The inflation-focused member found the First-Difference logic most persuasive precisely because it avoided mechanical gap-chasing while inflation momentum stayed marginally positive.

Notably, the member who had favored a cut in the predictive round reconsidered in light of the momentum data. With unemployment momentum negative — trending down rather than up — that participant judged the rising-joblessness trigger not yet met, and concluded that holding preserved the flexibility to cut quickly if claims spiked or the unemployment trend turned. Others reinforced this from their own angles: the stability voice reiterated that a 75 basis point cut into placid markets could encourage excess risk-taking, and the market-signal member noted that a negative front-end spread lets markets signal when a cut becomes warranted without the Committee front-running the path. Participants generally characterized the current 5.75% stance as modestly restrictive against a neutral near 4.6%, a degree of restraint they viewed as appropriate insurance while conditions remained stable and near both mandate objectives.

By the close of the discussion the convergence was substantial. Participants broadly agreed that the calm financial backdrop, near-trend growth, at-or-just-above-target inflation, and a labor market close to balance together argued for patience, and that holding preserved optionality to respond in either direction as clearer momentum emerged.

COMMITTEE POLICY ACTIONS

In the predictive vote, the Committee held the federal funds rate at 5.75%, with four members supporting no change and one member favoring a modest rate cut, for a tally of {0 bps: 4, cut: 1}. On the



deterministic framework's recommendation of 0 basis points, the Committee was unanimous: all five members endorsed the recommendation as-is, with none declining and none registering partial agreement. The predictive majority and the optimal-side outcome were thus aligned on holding, even as the members retained distinct readings of where the principal risks lay.