



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No System Open Market Account holdings data was available on or before the point-in-time-safe cutoff for this meeting, and consequently the Committee's customary review of the size, composition, and period-over-period change in SOMA holdings could not be conducted from a verifiable source. This limitation pertains to SOMA holdings only. Separately, the desk noted that no point-in-time-safe data source currently exists for the results of temporary repurchase or reverse repurchase operations, and no representations concerning those operations are made here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that measured inflation remained a touch below the Committee's objective. Core PCE prices rose 1.85 percent over the prior twelve months, leaving inflation modestly under the 2.0 percent target. The labor market showed a degree of remaining slack: the unemployment rate stood at 5.6 percent, above the estimated natural rate of 5.3 percent. Weekly indicators, however, gave no sign of deterioration — initial claims for unemployment insurance were running at roughly 341,000, a moderate level that was not spiking. Broad activity was firm; the Chicago Fed National Activity Index registered 0.35, consistent with growth somewhat above trend. M2 stood at \$3,721.7 billion.

No Beige Book material was available for this meeting, so the staff review of regional and anecdotal conditions could not be supplemented with district reports. Taken together, the available national indicators described an economy growing at an above-trend pace with inflation slightly under target and modest, non-worsening labor-market slack.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as calm and accommodative. The financial stress index stood at 0.0882, a low reading indicating no systemic strain, and the VIX at 15.43 pointed to subdued equity-market volatility. Credit markets were functioning smoothly, with the Baa corporate spread at 1.49, moderate and well-contained by historical standards. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 0.61, offering no recession signal from term structure. At the front end, the 3-month T-bill traded about 15 basis points below the current 5.25 percent funds rate, a slightly negative spread suggesting that markets anticipated steady-to-slightly-easier short rates rather than any near-term firming.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities available. With the estimated neutral rate (r^*) at 2.812 percent and core inflation running near 1.85 percent, the implied real funds rate — on the order



of 3.4 percent — stood above neutral, indicating that the current stance was mildly restrictive. Both mandate-relevant momenta were pointing gently in a favorable direction: inflation momentum was slightly negative at -0.075 , consistent with easing rather than building price pressures, while unemployment momentum was -0.1 , suggesting the existing slack was narrowing rather than widening.

The reference rules, judged reliable under current conditions, spanned a wide range. The Taylor, Balanced Approach, and ELB-adjusted rules each pointed to -75 basis points, reflecting inflation below target together with an unemployment gap above the natural rate. The First-Difference rule, which weights recent changes and respects the prevailing stance, indicated no change. Blending these level and difference signals, the loss-minimizing framework recommended a modest -25 basis point adjustment — a single measured step toward neutral rather than the aggressive easing the level rules implied. The projection this composite describes is one of gradual convergence: policy drifting toward neutral as slack and inflation gaps close slowly, absent any shock, with calm financial conditions implying little instability cost to a small move.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion, participants converged unanimously on holding the funds rate at 5.25 percent, though they reached that conclusion from distinct vantage points. The member most attentive to inflation risk observed that core PCE at 1.85 percent was below target, which made an immediate hike difficult to justify, but stressed that unemployment near the natural rate combined with above-trend growth signaled a tightening labor market and building upside risk down the road. That member's stance was to hold firm and remain vigilant, keeping a hike on the radar while ruling out any cut. The participant focused on employment emphasized that the 5.6 percent unemployment rate sat above the 5.3 percent natural rate, arguing for support in principle, but noted that claims at 341,000 showed no acute weakening — there was, in this member's words, no labor-market collapse to lean against, and cutting now would be premature.

The member weighing financial stability found the backdrop uniformly benign: a low stress index, subdued volatility, contained credit spreads, and a positively sloped curve left no strain to ease against and no widening to lean into, so disturbing calm, well-functioning markets carried no justification. The data-dependent member read the indicators at face value and saw no compelling asymmetry — inflation near but slightly below target, mild slack, steady growth, calm markets — and judged the most literal reading to be a hold. The member anchored on market pricing pointed to the slightly negative T-bill spread and the positive curve as evidence that markets were discounting steady rates with, at most, a faint dovish tilt insufficient to warrant an actual cut. In rebuttal, no participant was moved off



the hold; each found that the others' reasoning reinforced rather than challenged their own, and the vote remained unanimous at no change.

The tenor of the discussion shifted when participants turned to the optimal-policy framework, which recommended a -25 basis point cut. Here the forward-looking quantities carried more weight. Several participants noted that inflation momentum at -0.075 and unemployment momentum at -0.1 both drifted favorably, and that the real funds rate near 3.4 percent stood above the 2.812 percent estimate of neutral — evidence that the current stance was mildly restrictive. The employment-focused member found the Balanced Approach rule most persuasive, since it weighted the employment gap heavily, and argued that with unemployment above natural and inflation below target, both terms called for easing; that member viewed a 25 basis point step as preemptive insurance for jobs while inflation left room to move, though worried it might under-support employment if labor softened further.

The member attentive to inflation and the one anchored on markets both leaned on the First-Difference rule's zero reading as closest to their instinct, but each acknowledged that the divergence between a hold and -25 basis points was only a single quarter-step and therefore defensible. The inflation-focused participant distrusted the -75 basis point signal from the level rules as an overreaction to a small target undershoot amid solid growth, and remained more cautious than the framework, preferring a hold while conceding a modest step lower was tolerable given easing inflation. The financial-stability member framed the choice in terms of avoiding excess: a 75 basis point cut into placid, low-stress markets risked inflating asset prices unnecessarily, whereas a measured 25 basis point step closed the gap to neutral gently, and that member endorsed the -25 as a loss-minimizing middle path. The market-pricing member read the -15 basis point front-end spread as quietly endorsing precisely a 25 basis point calibration rather than a lurch.

Across both strands of the deliberation, participants generally agreed that conditions did not demand a large move in either direction. The disagreement that remained was one of degree and emphasis rather than direction: whether the mildly restrictive stance warranted a single step toward neutral now, or whether the favorable momenta and calm conditions permitted patience. The data-dependent member captured the prevailing sense in judging that both mandate gaps were small and drifting favorably, that the aggressive level rules overreacted to a tiny undershoot amid above-trend growth, and that a single quarter-step matched the data — a view most participants came to share.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy at this meeting, all five members voted for no change, leaving the federal funds rate at 5.25 percent, a unanimous 5-0 outcome. On the



optimal-policy framework's recommendation of a -25 basis point cut, four members endorsed the recommendation as-is — the members focused on employment, financial stability, the face-value reading of the data, and market pricing. The member most attentive to inflation risk registered a partial position, agreeing with the direction of a modest easing but preferring to hold and thus not endorsing the magnitude or timing. There were no members declining the recommendation outright.