



PREDICTED FED DECISION **HOLD**

5.25%

OPENFED OPTIMAL RATE **-25 bps**

5.00%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 5.25%, yet its own framework judges the optimal move to be a modest 25 bps cut, quantifying a mildly restrictive stance.

STATEMENT

Information reviewed for this meeting described an economy sitting close to its targets in nearly every dimension. Core PCE inflation at 1.73% was running below the 2.0% objective, with no sign of an active overshoot. Unemployment at 5.4% stood just above the estimated natural rate of 5.29%, a gap small enough that participants generally characterized the labor market as near balance rather than distressed. The Chicago Fed National Activity Index at 0.22 pointed to growth modestly above trend, and initial jobless claims at 331,000 were judged moderate. Financial conditions were calm across the board: the stress index at 0.0804 and the VIX at 16.41 were subdued, the Baa spread of 1.52 was tight, and the 10-year to 2-year spread remained positively sloped at 0.6, showing no recession signal. Against this backdrop, participants converged, from five distinct analytic vantage points, on the same predictive judgment — that the real Federal Reserve will hold the funds rate at 5.25%. Inflation below target removed any case for a hike; steady growth and a solid labor market removed any case forced by weakness.

Where the argument turned less settled was on the question the Committee poses to its own framework: not what the Fed will do, but what the optimal policy would be. Here the deterministic engine recommended a 25 bps cut. The reference rules split sharply on magnitude. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all called for -75 bps, driven by inflation below target and a small measure of labor slack, while the first-difference rule pointed to only -25 bps. With an estimated r^* of 2.84 and core inflation near 1.7%, the current 5.25% setting implies a neutral nominal rate well below where policy sits — a stance participants described as mildly restrictive. Inflation momentum was negative at -0.055 and unemployment momentum slightly positive at 0.05, both



leaning gently toward easing. Participants who worked through the framework found the -25 bps figure persuasive precisely because the aggressive rules appeared to overstate the case: with slack so thin and activity above trend, a 75 bps cut into a calm market risked reigniting price pressures or fueling excess risk-taking, whereas the first-difference logic adjusts incrementally without over-relying on uncertain level estimates.

The two conclusions therefore diverge by exactly one increment. The Committee's predictive vote is to hold; its own loss-minimizing determination is a 25 bps cut to a target of 5.00%. Several participants read that one-step gap as itself informative — it says current policy is only modestly off from where the rules judge it should be, restrictive but not badly misaligned. Some noted that the 3-month T-bill trading 0.22 below the funds rate suggests markets already anticipate a small easing, so a measured cut would validate rather than shock expectations, while calm credit and low volatility mean no financial-stability consideration blocks such a move. The framework's judgment was assessed as reliable given these conditions. Taken together, the deliberation supports holding as the expected real-world outcome and a single, reversible 25 bps cut as the optimal one, with the modest distance between them reflecting caution against front-running an economy that shows no urgency in either direction.

COMMITTEE VOTE

The predictive vote to hold at 5.25% was unanimous, 5-0. On the framework's -25 bps recommendation, the Committee's optimal-side deliberation landed 4-1, with four members endorsing the cut as-is and one endorsing its direction but not the full magnitude at this time.

NOTES

The one qualified vote came from the inflation-focused member, who accepted the easing direction as defensible given below-target inflation and negative inflation momentum but resisted committing to the full 25 bps step, preferring to hold until the sub-target reading proves durable rather than transient, given above-trend growth and minimal labor slack.