



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. As a result, the Committee is unable to report a total SOMA size, its composition across securities, or any change from the prior release for this period. Members should note that this limitation pertains to SOMA holdings specifically; it does not describe the results of repurchase or reverse-repurchase operations, for which no point-in-time-safe data source currently exists. The absence of these figures is a data-availability constraint rather than a judgment about open market activity, and the discussion below accordingly draws on the macroeconomic and financial-conditions data that were available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The most recent readings depict an economy growing at a pace modestly above trend with inflation close to target. Core PCE inflation on a year-over-year basis stood at 1.9%, just under the 2.0% objective. The unemployment rate was 5.1%, somewhat below the estimated natural rate of 5.29%, indicating a labor market on the tight side. Initial jobless claims registered 338,000, a moderate level that showed no clear sign of deterioration. The Chicago Fed National Activity Index at 0.3 was consistent with growth running slightly above trend. M2 stood at \$3,757.2 billion. The current federal funds rate was 5.25%.

The September Beige Book, released September 11, presented commentary organized across the twelve Federal Reserve Districts. Beyond the summary structure and District table of contents available in the material at hand, no additional District-level narrative detail was provided for incorporation here. Taken together with the quantitative indicators, the available material was broadly consistent with continued expansion alongside contained price pressures.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were calm and accommodative across the measures reviewed. The financial stress index at 0.0789 was very low, pointing to no systemic tightening or funding strain. The VIX at 15.74 indicated subdued equity volatility. The Baa corporate spread of 1.51 was modest, suggesting benign borrowing costs and no evident credit-market distress. The Treasury yield curve was positively sloped, with a 10-year/2-year spread of 0.59, giving no recession signal from the term structure. The 3-month Treasury bill traded 8 basis points below the current funds rate, a small negative spread implying that markets anticipated no near-term policy tightening and, if anything, a faint tilt toward eventual easing.

STAFF ECONOMIC OUTLOOK



The forward-looking quantities available suggest a stable, drift-free environment near both objectives. Inflation momentum was slightly negative at -0.065 , indicating no upward acceleration in prices, while unemployment momentum was 0.0 , pointing to no opening slack or emerging deterioration in the labor market. With the estimated neutral rate (r^*) at 2.871 and inflation near 1.9% , the current 5.25% funds rate implies a moderate, not punishing, real stance. On this reading, conditions appear likely to continue along a roughly steady path absent a new shock.

The reference rules were split in a way that is itself informative about the outlook. The Taylor rule pointed to -50 basis points and the Balanced Approach rule to -75 , both leaning toward easing on the basis of inflation slightly below target and unemployment near the natural rate; the ELB-adjusted rule likewise indicated -75 . The First-Difference rule, which responds to change rather than level, indicated 0 basis points, consistent with the flat momentum readings. The deterministic policy engine's loss-minimizing output was 0 basis points, with reference rules assessed as reliable. The divergence between the level-based rules and the difference-based rule reflects the tension between a mechanical read of the gaps and the essentially stable dynamics in the incoming data; the projection weights the flat momentum and benign financial backdrop toward continuity rather than an adjustment.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached the decision from distinct mandate perspectives but converged on holding the funds rate at 5.25% . The member most attentive to inflation risk emphasized that, although core PCE at 1.9% was near target and not currently running hot, the unemployment rate at 5.1% sat below the 5.29% natural rate, and a labor market this tight could generate wage pressure over time. This participant characterized labor tightness as the primary forward risk to monitor, but acknowledged that inflation was not yet accelerating above target and that a preemptive hike was therefore not compelled at this meeting. A cut, in this view, would be plainly inappropriate given the combination of labor tightness and above-trend growth reflected in the Chicago Fed index at 0.3 .

The participant weighting employment risk most heavily observed that, while the instinct of the framework would be to lean toward easing in support of jobs, the case for a cut depends on evidence of rising unemployment or slowing job growth, and that evidence was simply absent. Unemployment below the natural rate, moderate jobless claims at $338,000$, and above-trend growth all pointed to a firm rather than weakening labor market. This member noted that cutting into an already-firm labor market would risk overheating without any employment justification, and preferred to wait for genuine signs of softening before easing. The participant focused on financial stability found the case for holding decisive from that lens as well, citing the very low stress index of 0.0789 , the subdued VIX at



15.74, the modest Baa spread of 1.51, and the positively sloped curve. In this member's assessment, a rate change in either direction carries its own destabilization risk when conditions are this calm and orderly, and there was no credit or volatility stress to justify defensive action.

The data-dependent centrist read the numbers literally and found balanced conditions across the board: near-target inflation, near-natural unemployment, above-trend growth, and calm markets, with nothing demanding a cut and inflation not overshooting enough to demand a hike. The market-signal participant stressed that the 3-month bill trading 8 basis points below the funds rate showed no market demand for tightening and only a faint easing tilt, while the positive curve indicated no imminent recession. This member reasoned that if wage pressure were an imminent threat, the bill would sit above the funds rate rather than below it, and concluded that market pricing efficiently aggregated the available information toward steady policy. In the predictive rounds, no participant was moved by another's argument to revise, and all five independently arrived at a hold.

In the optimal-framework rounds, participants engaged directly with the split reference rules and the engine's 0 basis point recommendation. Several explicitly distrusted the Taylor and Balanced Approach cuts as overweighting modest slack and, in one member's phrasing, being inflation-blind or ignoring financial conditions entirely. Participants across mandates gravitated toward the First-Difference rule, which recommended 0 basis points, on the grounds that inflation momentum of -0.065 and unemployment momentum of 0.0 described a drift-free environment with no adverse change to react to. With r^* estimated at 2.871 and inflation near 1.9% , members judged the current stance roughly neutral, neither restrictive enough to threaten jobs nor loose enough to fuel excess. A recurring theme was optionality: holding preserved room to tighten if inflation firmed and room to ease if jobless claims rose or unemployment momentum turned, while a cut now would, as one member put it, front-run a signal that had not arrived.

In rebuttal, no participant shifted position, though the financial-stability member's caution about cutting into calm, tight-spread markets sharpened the market-signal participant's emphasis on the risk of premature stimulus. The inflation-focused member reiterated that holding guarded against the wage-pressure risk implicit in a sub-natural unemployment rate, and the employment-focused member reaffirmed that the trigger for a supportive cut was not present. Participants generally judged that the divergence between the level-based rules and the difference-based rule confirmed policy was already roughly appropriate, and that flat momentum and reliable stability indicators warranted patience over adjustment.

COMMITTEE POLICY ACTIONS



In the predictive vote, all five members supported holding the federal funds rate unchanged at 5.25%, a unanimous 5-to-0 outcome with no member favoring a cut or a hike. On the deterministic framework's 0 basis point recommendation, the Committee's recorded stance was likewise full agreement: all five members endorsed the recommendation as-is, with none declining and none registering partial agreement on direction but not magnitude or timing. The inflation hawk, labor-market dove, financial-stability voice, data-dependent centrist, and market-signal realist each endorsed the hold, so the predictive and optimal-side outcomes were fully aligned.