



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, so the Committee was unable to review the total size, composition, or period-over-period change in SOMA holdings as it ordinarily would. This section accordingly covers SOMA holdings only, and no figures can be reported for this release. It bears emphasizing that even where such holdings data is available, it would not encompass the results of repurchase or reverse-repurchase operations, for which no point-in-time-safe data source currently exists; those operations therefore fall outside the scope of this review entirely.

STAFF REVIEW OF THE ECONOMIC SITUATION

Core PCE inflation stood at 1.96 percent on a twelve-month basis, essentially at the 2.0 percent target. The unemployment rate was 5.2 percent, just under the estimated natural rate of 5.27 percent, indicating a labor market close to balance. Initial jobless claims came in at 334,000, a moderate level showing no clear upward drift. The Chicago Fed National Activity Index registered 0.49, consistent with growth somewhat above trend. The current federal funds rate was 5.25 percent, and M2 stood at \$3,765 billion.

The most recent Beige Book, prepared before October 22, characterized the economy as being in moderate expansion across most districts, though on balance the pace of growth had reportedly slowed somewhat. Slower growth was noted in the Southwest and along the eastern seaboard apart from New England, while the Midwest continued to show moderate to strong growth; Boston and San Francisco, which had lagged earlier in the decade, reported improved performance. Consumer spending was best described as moderate, with considerable variation by region and merchandise category and apparel a common bright spot, but with no area where sales were booming. The report found few indications of significant price increases for raw materials, goods, or services, but observed that reports of upward pressure on wages were more widespread.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were benign across the measures reviewed. The financial stress index stood at 0.0672, a very low reading indicative of calm, well-functioning markets, and the VIX at 16.97 was subdued, showing no volatility spike. The Baa corporate spread of 1.56 was tight, pointing to easy corporate borrowing conditions and no evident credit strain. The 10-year/2-year Treasury spread was positive at 0.54, with no inversion and thus no term-structure recession signal. The 3-month Treasury bill yielded 22 basis points below the current funds rate, a modest gap suggesting market participants anticipated no near-term tightening and perhaps a slight easing bias, though not one of any great



magnitude.

STAFF ECONOMIC OUTLOOK

The forward-looking inputs available to the staff pointed toward a stance close to neutral. The estimated neutral rate (r^*) used in the framework was 2.892 percent, and with the funds rate at 5.25 percent the mechanical level-based reference rules — the Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule — each implied a policy easing of 50 basis points, reflecting core inflation sitting just under target alongside modest labor-market slack. The First-Difference rule pointed the other way, at plus 25 basis points, reflecting momentum considerations rather than the level of the inflation and unemployment gaps.

Reconciling these divergent signals, the framework's loss-minimizing recommendation was to hold at 0 basis points. Inflation momentum was low at 0.025 and unemployment momentum was negative at -0.25, indicating joblessness edging down rather than up — neither reading suggesting acute pressure in either direction. The reference rules were assessed as reliable. Taken together, the projection implied that conditions were most likely to evolve gradually from a near-equilibrium starting point: the level rules would ease policy on the strength of the small inflation gap, but the absence of price pass-through, the still-firm labor market, and the mild market-implied easing bias argued that the level rules overstated the case for immediate cuts, leaving a hold as the path most consistent with the projected trajectory.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants generally judged that both legs of the mandate were essentially at goal and that the appropriate response was to hold the funds rate steady. With core PCE at 1.96 percent, just below the 2.0 percent target, and unemployment at 5.2 percent, only marginally under the 5.27 percent estimated natural rate, several participants observed that there was no meaningful gap in either direction to which policy needed to respond. The Beige Book's characterization of moderate expansion that had slowed somewhat reinforced this reading — evidence of an economy neither overheating nor faltering, and thus, in the words of one participant, a wait-and-watch signal rather than a call to act.

The one consideration that drew the most attention as a potential tilt was the Beige Book's note that reports of upward pressure on wages were more widespread. The participant most focused on inflation risk treated this as a leading indicator worth taking seriously, pairing it with an unemployment rate sitting right at the natural rate to describe a tight labor market that could eventually feed prices. That participant was candid, however, that the same report found few significant price increases in raw materials, goods, or services — pass-through was not yet occurring — and that core inflation at 1.96



percent was not overshooting. The conclusion was that wage pressure was a warning to monitor, not yet a trigger to hike, and that a preemptive tightening into calm conditions with inflation at target would be difficult to justify.

The participant most attentive to employment reached the same destination from the other side. The usual trigger for easing — rising unemployment or a slowing of job growth — was simply not present: claims at 334,000 showed no emerging layoff wave, the activity index at 0.49 signaled above-trend growth, and unemployment momentum of -0.25 indicated joblessness still trending down. Cutting into a firm labor market with widespread wage pressure, this participant cautioned, risked igniting inflation that would later force a sharper, more employment-damaging tightening; holding therefore preserved the option to ease decisively if the labor picture turned. The participant emphasizing financial stability likewise saw no destabilization to lean against, citing the very low stress index, the subdued VIX, tight Baa spreads, and a positive yield curve, and warned that easing hard into already-loose credit could invite spread compression and future instability. The participant most attentive to market signals noted that the 22 basis point gap between the T-bill and the funds rate implied only a mild easing bias, nowhere near the 50 basis points the level rules would deliver, and read that pricing as corroborating a near-neutral stance.

When discussion turned to the framework's reference rules, participants engaged directly with the divergence between the three level rules recommending 50 basis points of easing and the First-Difference rule pointing to a 25 basis point tightening. There was broad recognition that the level rules were driven mechanically by the small inflation gap and by an r^* estimate near 2.9 percent, but a number of participants found the First-Difference logic the more persuasive counterweight — it respected the firm labor momentum and widening wage pressure that a level-gap calculation missed. Several framed the loss-minimizing hold as precisely the reconciliation of these offsetting forces: neither the easing the level rules urged, which risked stoking wage-driven inflation and disturbing calm credit markets, nor a hike that current core inflation did not warrant. The data-dependent participant summarized the literal reading as no change, with the market-pricing framing sharpening rather than altering that emphasis, and observed that the level rules' tilt toward easing suggested policy might be modestly restrictive but not enough to compel action now.

Across both the predictive discussion and the subsequent framework deliberation, no participant was moved off the hold position, and each described the convergence of the others' independent reasoning as reinforcing rather than challenging their own read. The recurring theme was that the current 5.25 percent stance appeared roughly appropriate — not clearly too tight or too loose — and that the prudent course was to keep restraint in place while awaiting clearer evidence on whether widespread



wage gains would ultimately feed into prices.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five members supported no change to the federal funds rate, a unanimous tally of 0 basis points (5 votes for 0 bps). On the deterministic optimal policy engine's recommendation of 0 basis points, the Committee was likewise 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 no members declining and none expressing partial agreement. The predictive and optimal-side outcomes were therefore in full agreement, holding the target rate at 5.25 percent.