


PREDICTED FED DECISION **HOLD**
5.25%

OPENFED OPTIMAL RATE **HOLD**
5.25%

KEY TAKEAWAY

The Committee expects the Federal Reserve to hold at 5.25%, and its own policy framework independently lands on 0 bps as loss-minimizing, so prediction and optimal recommendation coincide with full agreement.

STATEMENT

What stands out about this meeting is the near-total absence of tension: all five members arrived independently at the same conclusion, and the deterministic framework, working from an entirely different set of inputs, landed in the same place. Core PCE inflation registered 1.96%, sitting just below the 2.0% objective, while the unemployment rate at 5.2% was essentially at the estimated natural rate of 5.27%. With both mandate legs effectively at goal, participants generally judged that the literal reading of the data pointed to no change. The Beige Book described moderate expansion, though the pace had slowed somewhat across several districts, and financial conditions were broadly benign, with a financial stress index of 0.0672, a subdued VIX at 16.97, a tight Baa spread of 1.56, and a positive 10y-2y term spread of 0.54 showing no recession signal. Several members also noted that the 3-month T-bill sat 22 basis points below the current funds rate, suggesting that markets expected no tightening and, if anything, carried a mild easing bias too small to act on.

The one genuine point of caution running through the discussion was the Beige Book's note of widespread upward wage pressure. Participants attentive to inflation risk treated this as a leading indicator worth watching, particularly with the labor market this tight. But the same Beige Book reported few indications of significant price increases for raw materials, goods, or services, and members repeatedly returned to the fact that wage pressure had not yet passed through to consumer prices. A preemptive hike into calm conditions with inflation at target would be difficult to justify, and members watchful of employment stressed that with jobless claims moderate at 334,000 and the Chicago Fed activity index at 0.49 pointing to above-trend growth, there was no labor deterioration to defend against, so a cut was equally unwarranted. On these grounds the Committee's predictive



judgment was for the Federal Reserve to hold the target rate at 5.25%.

The Committee's own policy framework, run independently, also recommended 0 bps as the loss-minimizing choice, though the path there was less unanimous than the headline suggests. Three of the reference rules pointed the other way: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each recommended -50 bps, driven largely by inflation sitting just under target against a measured r^* of 2.892. Only the first-difference rule pointed toward tightening, at +25 bps, reflecting the wage-pressure momentum in the Beige Book. Members found that lone rule the more persuasive counterweight, reasoning that the level-based rules mechanically chase the inflation gap while the modest -22 basis-point T-bill spread showed markets had priced nothing close to 50 basis points of cuts. The loss-function terms reinforced the case for patience rather than easing: inflation momentum was mildly positive at 0.025 and unemployment momentum was -0.25, indicating joblessness still trending gently down rather than up. With reference rules flagged as reliable, the framework reconciled the opposing signals to a hold, and members read the agreement between the easing rules and the neutral outcome as evidence that the current 5.25% stance is roughly appropriate, perhaps modestly restrictive but not enough to warrant action.

Members were candid that these two conclusions reinforced each other rather than being reached in isolation. Those focused on financial stability cautioned that easing 50 basis points into already-loose credit and tight spreads risked fueling excessive risk-taking and future instability, precisely the kind of move the calm backdrop gave no reason to make. Members watching the labor market framed the hold as preserving optionality to cut decisively should jobless claims rise or growth stall materially. And members weighting inflation viewed holding as the disciplined middle: it blocks the inflationary cuts the level rules urge while keeping restraint in place until there is clearer evidence that wage gains are feeding into prices. The Committee concluded that holding at 5.25% is both what it expects and what it judges optimal.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 for holding the target rate at 5.25% (0 bps). On the optimal side, all five members endorsed the framework's 0 bps recommendation as-is, a 5-0 endorsement.