



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, and the Committee accordingly had no current figures on the total size, composition, or period-over-period change in SOMA holdings to review. This section is limited by design to SOMA holdings; it does not cover the results of repurchase or reverse-repurchase operations, for which no point-in-time-safe data source is currently available. In the absence of holdings data, the discussion of open market operations was necessarily brief, and participants proceeded on the understanding that no reliable statement about balance-sheet levels or changes could be supported by the material at hand.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity continued to expand at a moderate pace. The Chicago Fed National Activity Index stood at 0.06, consistent with growth near its trend rate. Core PCE inflation on a year-over-year basis was 1.86%, a touch below the 2.0% objective. The unemployment rate was 5.4%, only modestly above the estimated natural rate of 5.27%, and initial jobless claims of 355,000 pointed to a labor market that was neither spiking toward weakness nor showing acute strain. M2 stood at \$3,773.8 billion.

The Beige Book, prepared before November 23, described moderate economic growth in nearly all Districts. Labor markets remained tight in most Districts, though wage pressures were generally reported as not increasing except for some technical occupations and skilled workers. Retail prices were stable in most Districts, with some firming, mainly in prices for materials and intermediate goods, noted by Richmond, Atlanta, Kansas City, and Dallas. Retail sales had increased in most Districts over the prior four to six weeks, with the notable exceptions of Cleveland, where sales were down from a year earlier, and Richmond, where sales had moderated. Where inventory information was obtained, stocks were reported to be in line with merchants' current or expected sales, and retailers' expectations for the holiday season were characterized as modestly optimistic, with several Districts forecasting year-over-year gains in a range of roughly 2 to 6 percent.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm. The financial stress index was low at 0.0732, and the VIX, at 17.88, indicated moderate and contained equity-market volatility. The Baa corporate spread of 1.61 was moderate and showed no sign of credit-market distress or widening funding pressures. The 10-year/2-year Treasury spread was positively sloped at 0.52, with no inversion and thus no yield-curve signal of impending recession. The 3-month Treasury bill yield sat 42 basis points below the current



5.25% funds rate; this modestly negative spread was read as consistent with market expectations of no near-term tightening and a faint lean toward eventual easing, rather than any pricing of urgent action.

STAFF ECONOMIC OUTLOOK

Taken together, the forward-looking quantities available to the staff pointed to a set of conditions close to equilibrium, with no strong directional pull. The estimated neutral rate (r^*) used in the analysis was 2.908. Inflation momentum was slightly positive at 0.115, indicating prices firming gently rather than fading, while unemployment momentum was slightly negative at -0.1, indicating the unemployment rate edging down rather than rising. Neither momentum reading suggested a shock or a deterioration that would force conditions off their current path in the near term.

The reference rules diverged in a way that is itself informative about the current stance. The level-based rules called for easing: the Taylor rule implied -50 basis points, the Balanced Approach rule -75 basis points, and the ELB-adjusted rule -75 basis points, each reacting to core PCE running modestly below target and to the small gap between unemployment and the natural rate. The First-Difference rule, which responds to changes rather than to estimated level gaps, implied 0 basis points. The framework's loss-minimizing output settled on 0 basis points, with the reference rules flagged as reliable. The gap between the level rules and the 0-basis-point outcome suggests that the current 5.25% stance is at most mildly restrictive relative to the estimated neutral rate, and that the projected path of conditions—steady momentum, near-target inflation, near-balance in the labor market—does not obviously call for a move in either direction over the projection horizon.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial round of discussion, all five participants independently arrived at a preference to hold the funds rate at 5.25%, though they reached that conclusion from distinct starting points. The participant most focused on inflation risk took comfort from core PCE at 1.86%, just below target, but stressed that tight labor markets and the firming of materials and intermediate-goods prices reported by Richmond, Atlanta, Kansas City, and Dallas kept the balance of risks tilted toward inflation. In this view, cutting on a small inflation undershoot risked reigniting price pressures, while there was no urgent case for a hike so long as core inflation remained contained. The participant attentive to employment conditions noted that unemployment at 5.4% sat only marginally above the natural rate and was not clearly rising, that claims of 355,000 were moderate, and that the Beige Book's reports of tight labor markets were the opposite of the weakness that would ordinarily trigger an easing instinct.

The participant emphasizing financial stability found the credit and volatility data unambiguously calm—stress index at 0.0732, VIX at 17.88, Baa spread at 1.61, and a positively sloped curve—and argued



that with no strain to defend against, a move in either direction risked disturbing well-functioning markets for no clear benefit. The participant oriented toward market signals highlighted that the 3-month bill sat 42 basis points below the funds rate, a mild easing lean, but judged that a negative spread of that magnitude was consistent with 'no move now, possibly slight easing later' rather than an imminent cut; the absence of curve flattening or inversion argued against any recession-driven urgency. The participant favoring a literal reading of the data summarized the consensus plainly: with no single indicator arguing for either tightening or easing, current policy appeared appropriately calibrated. In the rebuttal round, no participant was moved off this position; several observed that the arguments of others reinforced rather than challenged their own reasoning.

When the discussion turned to the framework's loss-minimizing recommendation of 0 basis points, participants engaged directly with the divergence among the reference rules. The level-based rules—Taylor at -50, Balanced Approach at -75, and the ELB-adjusted rule at -75—all counseled cuts, keying off the 14-basis-point inflation undershoot and the small unemployment gap. Participants generally judged these rules to overstate the case. The inflation-focused participant argued that cutting into positive inflation momentum of 0.115, with prices firming per the Beige Book, would risk overshooting the 2.0% objective merely to close a trivial employment gap, and found the First-Difference rule's reading of 0 the more persuasive anchor precisely because it responded to change rather than to a noisy r^* estimate of 2.908 and a natural-rate gap of only about 0.13 percentage point.

The employment-focused participant reached the same conclusion through the labor lens: with unemployment momentum negative at -0.1 and claims moderate, the modest slack that drove the level rules did not amount to the deterioration that would justify easing, and the First-Difference logic fit a labor market that was stable to firm. This participant was explicit that a rising unemployment trend or slowing job growth would shift the vote toward the Taylor-rule cut, but that neither condition was present. The financial-stability participant added that cutting into calm markets could invite excessive risk-taking or asset froth down the road, so that holding also preserved the ability to ease quickly should stress later emerge. The market-signal and data-dependent participants converged on the same First-Difference reasoning—momentum near zero, a stable curve, and quiet credit markets jointly argued for patience, with the mild T-bill discount read as room for markets to pre-position rather than a mandate to act.

By the final round of rebuttal, no participant had been persuaded to revise. Those most alert to inflation and to stability read the firming materials prices and the calm credit conditions as reasons to resist easing; those most alert to employment and to market pricing read the absence of deterioration and



the shallow easing lean as reasons not to force a move. Participants generally characterized the current 5.25% stance as roughly neutral to only mildly restrictive relative to the estimated neutral rate, and viewed the distance between the aggressive level-rule cuts and the 0-basis-point outcome as evidence that judgment was appropriately tempering a mechanical inflation-gap response.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy decision, all five participants supported holding the target funds rate unchanged at 5.25%, a unanimous 5-to-0 outcome with no votes for a change in either direction. On the separate question of the framework's loss-minimizing recommendation of 0 basis points, the Committee was again in full agreement: all five members endorsed the recommendation as-is, with none declining and none registering only partial agreement on direction or magnitude. The inflation-focused, employment-focused, financial-stability, data-dependent, and market-signal participants each recorded an endorsement, so that the predictive decision and the optimal-side outcome coincided at a unanimous hold.