



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 figures before it on the total size, composition, or period-over-period change in SOMA holdings. This section is limited by design to SOMA holdings only; it does not encompass the results of repurchase or reverse-repurchase operations, for which no point-in-time-safe data source currently exists. In the absence of usable holdings data, the desk's open market operations could not be reviewed against a reliable baseline, and no quantitative characterization of the portfolio is offered here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized economic activity as moderate to strong across most of the country. Core PCE inflation stood at 1.43 percent on a twelve-month basis, well under the 2.0 percent objective. The unemployment rate was 4.9 percent, below the estimated natural rate of 5.21 percent, and initial jobless claims registered 313,000, a level consistent with a still-firm labor market. The Chicago Fed National Activity Index at 0.61 pointed to growth running above trend. The current federal funds rate was 5.5 percent, and M2 stood at \$3,959.1 billion.

The most recent Beige Book, prepared before information collected on October 20, described early autumn activity as moderate to strong in most areas. Retail sales in most Districts were weaker than anticipated in September, with some pickup in October and with unseasonably warm weather cited as a drag on apparel sales; automobile sales were mostly slower. Manufacturing accelerated or held at high levels in most Districts, and the outlook was generally positive. Residential real estate remained at elevated levels despite uneven recent performance, and most commercial real estate markets continued to perform strongly. Labor shortages had intensified in key sectors such as high-tech and energy extraction, yet reports of rising wage pressures were infrequent. Prices remained stable, with competitive factors and buyer resistance making it difficult for producers to pass through cost increases. Commercial lending was strong in many Districts while consumer lending was more mixed.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions presented a mixed picture. The VIX stood at an elevated 32.18, indicating meaningful market volatility and risk aversion, while the broader financial stress index at 0.1464 was only moderate. Credit conditions appeared contained: the Baa corporate spread was 1.55, showing no sign of systemic credit strain. The 10-year/2-year Treasury spread was slightly positive at 0.22, flat but not inverted and therefore not flashing a recession signal. Notably, the 3-month Treasury bill traded 37 basis points below the current funds rate, a negative spread suggesting that market participants



anticipated steady-to-easier policy rather than tightening ahead.

STAFF ECONOMIC OUTLOOK

The staff projection took as its reference point an estimated neutral real rate (r^*) of 3.055 percent, which, combined with core inflation near 1.43 percent, implies a neutral nominal rate in the vicinity of 4.5 percent. Against that benchmark, the prevailing 5.5 percent funds rate appears modestly restrictive. Inflation momentum was estimated at -0.175 , indicating that price pressures were softening rather than building, a reading consistent with the Beige Book's stable-price characterization. Unemployment momentum was slightly positive at $+0.05$, pointing to only marginal loosening in a labor market that remained tight relative to its natural rate.

The reference rules diverged in a manner that traces directly to the two-sided mandate tension. The Taylor rule prescribed -50 basis points and the First-Difference rule -25 basis points, both weighting the below-target inflation undershoot, while the Balanced Approach and ELB-adjusted rules each prescribed $+25$ basis points, reflecting unemployment below its natural rate. With the reference rules judged reliable, the deterministic framework settled on a recommended -25 basis points, a middle path that leans toward the disinflation signal without matching the Taylor rule's larger move. Taken together, these quantities suggest a likely gradual glide toward a less restrictive stance if inflation momentum remains soft and labor conditions do not tighten materially.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive positions, all five participants independently arrived at no change in the funds rate. The common thread was that core PCE at 1.43 percent left no inflation justification for a hike, while unemployment below the natural rate, above-trend growth on the Chicago Fed index, and moderate jobless claims removed any near-term case for easing. The participant most attentive to inflation risk noted that the tight labor market and intensifying labor shortages warranted vigilance but emphasized that the Beige Book reported wage pressures as infrequent and prices as stable, so current data did not justify a move. The participant focused on employment observed that the classic triggers for easing — rising unemployment or slowing job growth — were simply absent, with labor shortages describing a strong rather than fragile labor market.

Participants attentive to financial conditions and to market pricing gave particular weight to the elevated VIX of 32.18 and the 3-month bill trading 37 basis points below the funds rate. In their reading, the volatility argued against delivering a hike that markets were not pricing, since a surprise tightening into jittery conditions could amplify stress, while contained credit spreads and a positive yield curve meant there was no acute crisis demanding a cut either. The centrist participant summarized the



balance as a two-sided reading: no wage-price spiral yet, but no labor deterioration either. On the predictive question, no participant was persuaded to revise, and the second round reinforced rather than challenged the convergence on a hold.

The optimal-framework discussion, conducted after the predictive vote was final, opened a genuine divergence, since the framework recommended -25 basis points against the participants' expectation of a hold. Several participants worked through the reconciliation explicitly. Those focused on employment, financial stability, market signals, and the balanced data view found the First-Difference rule most persuasive: with the real funds rate meaningfully above an estimated neutral near 4.5 percent, negative inflation momentum, and only marginal loosening in the labor market, they judged the current stance modestly too tight and a measured 25 basis point cut a reasonable, reversible step. The market-focused participant noted that the negative bill spread mapped almost exactly to one anticipated 25 basis point cut, and dismissed the upward-pointing Balanced Approach and ELB-adjusted rules as contradicted by that pricing.

The participant most concerned with inflation offered the principal counterweight. While conceding that core inflation below target and negative momentum undercut the usual hawkish reflex and that a -25 basis point move carried little inflation risk, this participant remained uneasy about easing into unemployment already below the natural rate, viewing labor tightness as a latent source of future price pressure. Solid real activity — the Chicago Fed index at 0.61, accelerating manufacturing, elevated real estate — was held to be tolerant of mild restrictiveness, and the Taylor rule's -50 basis points was judged excessive on those grounds. This participant leaned against endorsing the full recommended move, favoring a smaller adjustment or continued patience.

Across both the predictive and optimal discussions, participants converged on a shared factual reading — contained and softening inflation, a tight but not deteriorating labor market, solid growth, and elevated market volatility without systemic credit strain — while differing on what that combination implied for action. The predictive consensus reflected institutional caution amid volatility and firm activity; the optimal-side majority reflected the arithmetic that policy sat above neutral while inflation ran below target.

COMMITTEE POLICY ACTIONS

On the predictive question of the action expected at this meeting, the Committee's recorded vote was unanimous for no change in the federal funds rate, 5 members to none, leaving the target at 5.5 percent. On the separate question of the deterministic framework's -25 basis point recommendation, the Committee's recorded stance was four members endorsing the recommendation as-is and one



member registering partial agreement — concurring with the easing direction but not with the magnitude or timing of a full move at this time. The member focused on inflation risk recorded the partial stance; the members focused on employment, financial stability, the balanced data reading, and market signals each endorsed the recommendation. There were no members declining the recommendation outright.