



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. As a result, the Committee was unable to review the total size, composition, or change from the prior release of the SOMA portfolio in preparing these minutes. It should be emphasized that this section, when data are available, covers 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. The absence of both series is noted here for completeness rather than as a statement about the conduct of operations over the intermeeting period.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized the economy as still expanding but at a moderating pace. Core PCE inflation stood at 1.24 percent on a year-over-year basis, well below the 2.0 percent objective. The unemployment rate was 4.6 percent, below the estimated natural rate of 5.16 percent, and initial jobless claims at 316,000 showed no sign of a spike. The Chicago Fed National Activity Index registered 0.05, consistent with growth close to trend. The current federal funds rate was 5.0 percent, and M2 stood at \$4,295.5 billion.

The most recent Beige Book, prepared before October 26, reported that the pace of expansion had moderated in September and October amid signs of slowing in some sectors. Retail sales came in mostly at or below merchants' expectations, though reports of unanticipated inventory accumulation were only scattered. Real estate and construction activity remained generally robust, especially in residential markets, but more stringent credit standards were slowing commercial real estate activity in most Districts. Manufacturing continued at relatively high levels but was the sector most often cited as softening, and demand for manufacturing workers was softening in some areas even as labor markets remained very tight overall. Lenders in many Districts were tightening standards, mostly on business loans. Upward pressure on wages remained subdued, retail prices were little changed, and producers' prices for intermediate inputs were generally flat to down. Virtually all Districts reported that businesses and consumers remained cautious about the outlook.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions showed elevated volatility alongside signs of tightening in credit. The VIX stood at 28.17, and the financial stress index registered 0.2904 — moderate but not benign. The Baa corporate spread was 2.54, indicating meaningful borrowing-cost pressure for firms, consistent with the Beige Book's reports of lenders tightening standards on business and commercial real estate loans. The



Treasury yield curve was not inverted, with the 10-year/2-year spread at 0.31. Notably, the 3-month Treasury bill traded 0.57 below the current funds rate, a spread the staff read as markets already discounting near-term easing.

STAFF ECONOMIC OUTLOOK

The forward-looking quantities available to the staff pointed toward a modestly restrictive current stance relative to where conditions appear headed. The estimated neutral rate (r^*) used in the analysis was 3.305 percent; with the funds rate at 5.0 percent, this implied that real policy sat above neutral and left room to ease without becoming accommodative. Inflation momentum was slightly negative at -0.09 , consistent with the ongoing disinflation evident in the below-target core PCE reading, while unemployment momentum was mildly positive at $+0.05$, hinting at some prospective softening in labor markets not yet visible in the level data.

The reference rules diverged sharply, which is itself informative about the outlook. The Taylor, Balanced Approach, and ELB-adjusted rules each prescribed a 75 basis point increase, reflecting the tight labor market and a static reading of the gaps under a stable neutral rate. The First-Difference rule, which responds to changes in conditions rather than levels, prescribed a 50 basis point cut. The loss-minimizing recommendation of the policy engine landed at -25 basis points, between these poles, and the reference rules were flagged as reliable. Read together, these figures suggest a trajectory in which the strong static readings — low unemployment, near-trend activity — are being discounted by negative momentum and tightening financial conditions, so that a small easing rather than either a firming or an aggressive cut is the projected balance.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants approached the decision from distinct analytical vantage points but arrived at a common reading of the situation. All emphasized at the outset that core PCE at 1.24 percent, well below the 2.0 percent objective, removed any inflation constraint on easing. The member most attentive to inflation risk noted that his usual reflex to hold or resist cutting had no threat to defend against here: wage pressure was subdued, producer prices flat to down, and retail prices little changed, all pointing in a disinflationary direction. He observed that the level rules recommending 75 basis points leaned on tight labor rather than realized inflation, and characterized that hawkish logic as resting on a phantom price risk the data did not support. Given a real rate near 5 percent against an r^* of roughly 3.3 percent, he judged there was room for a modest, insurance-style cut without abandoning vigilance.

The member weighting employment risk most heavily framed his case around the direction of the labor market rather than its still-firm level. Unemployment at 4.6 percent remained below the 5.16 percent



natural rate and claims at 316,000 were contained, but he pointed to the Beige Book's report of softening manufacturing labor demand as an early-warning sign and to unemployment momentum of +0.05. He argued that tightening credit standards on business loans could translate into slower hiring, and that with inflation undershooting there was little cost to front-running any softening. He was explicit, however, that broad labor deterioration had not yet materialized: near-trend activity and contained claims meant the case was for insurance, not emergency action, and he declined to endorse the larger cut implied by the First-Difference rule.

The participant focused on financial stability treated the credit channel as the decisive consideration at the margin. He cited the VIX at 28.17, the stress index at 0.2904, the Baa spread of 2.54, and the Beige Book's account of lenders tightening standards nationwide as evidence of a self-reinforcing drag operating somewhat independently of the macro fundamentals. He judged that holding at 5.0 percent while the 3-month bill traded 0.57 below the funds rate would tighten real conditions further. At the same time, he cautioned that a 50 basis point move could signal alarm and itself destabilize markets, and he weighed the market realist's suggestion that markets might want more than 25 basis points against that overreaction risk. A measured 25 basis point cut, in his view, would relieve credit stress without confirming fears of crisis.

The centrist member organized the discussion explicitly as a contest between level rules and change rules. The Taylor, Balanced Approach, and ELB-adjusted rules read the gaps and pointed to firming; the First-Difference rule read momentum and pointed to easing. He found the change-based logic more persuasive here, reasoning that the level rules relied on an r^* and on static gaps that tightening credit and moderating activity called into question. But because CFNAI at 0.05 and claims at 316,000 showed activity near trend rather than collapsing, he resisted the aggressive -50 outcome, concluding that a 25 basis point cut leaned against deterioration while respecting the still-firm current readings. The market signal realist anchored on the 3-month bill spread of -0.57, which he read as markets pricing the funds rate well below 5.0 percent and as evidence the current stance was too tight; he distrusted the level rules for ignoring that forward signal, while noting that the negative spread concerned the path ahead rather than any single meeting, so that a single 25 basis point cut credibly began that path without over-committing.

Across the rebuttal rounds, no participant advanced a case for holding or for firming, and none was moved toward the 50 basis point cut. The disagreement that surfaced was one of emphasis and, at most, of prospective magnitude rather than of direction. Participants generally judged that the loss-minimizing recommendation of -25 basis points struck the appropriate balance: enough to lean against softening momentum and elevated financial stress, restrained enough given a tight labor



market, near-trend growth, and the risk that a larger move would read as panic. The convergence of the market-implied signal, the momentum-sensitive reference rule, and the loss function on the same modest step reinforced the sense that a small insurance easing was the disciplined response.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members supported a 25 basis point reduction in the federal funds rate, yielding a unanimous tally of five votes for -25 basis points. On the framework's loss-minimizing recommendation of -25 basis points, the Committee was likewise in full agreement: 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 none declining and none registering only partial agreement. The predictive vote and the optimal-side outcome thus coincided at a modest, insurance-style easing.