



PREDICTED FED DECISION **HOLD**

1.75%

OPENFED OPTIMAL RATE **-25 bps**

1.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 1.75% (3-2), while its own framework judges the optimal move to be a 25 bps cut, a divergence endorsed by four of five members.

STATEMENT

Information reviewed at this meeting described an economy expanding only modestly and unevenly. Core PCE inflation stood at 1.24%, well below the Committee's 2.0% objective, with the Beige Book noting stable finished-goods prices and subdued wage increases. Unemployment at 5.9% remained above the 5.06% natural rate, initial jobless claims at 388,000 stayed elevated, and the Chicago Fed National Activity Index at -0.06 pointed to below-trend activity, with several Districts reporting a tapering off of growth. Against this soft backdrop sat unusually acute financial stress: the VIX at 42.03, a Baa spread of 3.3 over Treasuries, and a 3-month T-bill trading 13 bps below the current funds rate, signaling a market-implied easing bias. The 2s10s curve at 2.31, however, remained firmly positively sloped, giving no recession signal from the curve itself.

In assessing the likely near-term policy path, participants generally judged that no member saw a case for tightening given inflation running so far below target. The tension ran the other way. Those favoring a hold acknowledged the dovish case as coherent but rested on the observation that the real economy continues to expand, the current 1.75% stance is already accommodative, and no acute credit seizure is evident; the financial stress index at 0.1728 was characterized as moderate despite the elevated VIX, and the front-end spread of only 13 bps was read as pricing an easing bias over time rather than a cut at this specific meeting. Those inclined toward action countered that waiting for a decisive deterioration in the labor market means acting too late, and that with inflation this soft a modest precautionary cut carries little cost. On balance, and weighing the still-positive curve and modest expansion against the volatility, the Committee's judgment of the most likely outcome is that the real Federal Reserve holds the target range at 1.75%, retaining an easing bias.



The Committee's own deterministic framework reached a different conclusion, recommending a 25 bps cut as the loss-minimizing policy. The reference rules spanned a wide range: the Taylor rule pointed to 75 bps of tightening, driven by an estimated r^* of 3.443, while the first-difference rule called for a 50 bps cut, responding to inflation momentum of 0.2 and unemployment momentum of 0.15. The balanced-approach and ELB-adjusted rules both returned 0 bps. Participants engaging with the framework largely set aside the Taylor rule's prescription, judging that its high neutral-rate estimate understates the slack and financial stress evident in the data and cannot be reconciled with hiking into a 42 VIX. The optimal recommendation of -25 bps splits the neutral rules against the first-difference easing signal, and members found that a defensible, measured step: a cheap insurance cut against demonstrable labor-market slack and fragile credit conditions, with the subdued-wage, stable-price environment removing any meaningful inflation cost.

The Committee thus records two distinct conclusions from the same deliberation. Its predictive judgment is a hold at 1.75%; its independent assessment of optimal policy is a 25 bps cut to a target range centered on 1.50%. The one-increment gap between these reflects the difference between the caution of awaiting confirmation and a framework that reads current policy as marginally too tight relative to the slack, the below-target inflation, and the easing already embedded in front-end market pricing.

COMMITTEE VOTE

The predictive vote was 3-2 in favor of a hold at 1.75%. On the framework's -25 bps recommendation, the Committee's optimal-side deliberation landed 4-1 in favor of endorsement.

NOTES

The lone decline on the optimal side came from the member weighting inflation risk most heavily, who agreed no case exists for tightening but argued that inflation below target is not the same as inflation collapsing, and that preserving policy room and awaiting confirmed deterioration outweighed the marginal insurance case for cutting now.