



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 updated figures on the total size, composition, or period-over-period change of the SOMA portfolio to review. The Manager was therefore unable to report the customary detail on holdings by security type. Members should note that this limitation pertains specifically to SOMA holdings; it is separate from the results of repurchase and reverse-repurchase operations, for which no point-in-time-safe data source currently exists and which are likewise not summarized here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity remained subdued through the intermeeting period. Core PCE inflation stood at 1.17 percent on a year-over-year basis, well below the 2 percent objective. The unemployment rate was 5.8 percent, above the estimated natural rate of 5.05 percent, and initial jobless claims were elevated at 424,000. The Chicago Fed National Activity Index registered -0.18, consistent with growth running below trend. The Employment Cost Index reading was 91.2 and M2 stood at roughly 5,825.8 billion dollars. The federal funds rate was at 1.25 percent.

The most recent Beige Book, prepared at the Federal Reserve Bank of Chicago from information collected before February 24, characterized growth across the twelve Districts as 'subdued' in January and February, with only a few Districts noting notable changes. One District described activity as having 'grew modestly' and another cited 'some signs of strengthening,' while a third reported that its regional economy had 'generally weakened.' Consumer spending remained weak on balance, and business spending was very soft, with little change in capital spending or hiring plans. Real estate and construction were mixed, with residential strength offset by nonresidential weakness. Most Districts still described manufacturing as weak or lackluster, though about half noted at least some improvement. Refinancing continued to drive household loan growth while business loan demand stayed weak. Many reports tied the softness to geopolitical and economic uncertainty constraining consumer and business spending. Contacts widely flagged rising energy and insurance costs but noted that firms had difficulty passing along much, if any, of those increases to customers.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions reflected elevated caution but not acute distress. The VIX stood at 33.61, indicating heightened market anxiety broadly consistent with the geopolitical uncertainty described in the Beige Book, while the broader financial stress index at 0.1371 was only moderate. The Baa corporate spread of 3.28 pointed to meaningful credit-market stress and higher



business borrowing costs. The 10-year/2-year Treasury spread remained steeply positive at 2.22, giving no signal of an imminent recession from the shape of the curve. The 3-month Treasury bill traded about 17 basis points below the current funds rate, a modest undershoot suggesting that markets leaned toward some easing ahead rather than pricing a firm near-term cut.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the forward-looking quantities embedded in the policy framework. The neutral real rate used in the framework was estimated at roughly 2.98 percent, a comparatively high figure that, applied mechanically, pushes the level-based reference rules toward tighter settings: the Taylor rule prescribed +75 basis points, and both the Balanced Approach and ELB-adjusted rules prescribed +50 basis points. Weighed against these, momentum measures pointed the other way. Inflation momentum was essentially flat at -0.01, implying no building price pressure, while unemployment momentum was positive at 0.2, consistent with labor conditions that were still softening rather than stabilizing. The First-Difference rule, which responds to the change in conditions rather than to gaps from an uncertain neutral rate, prescribed -50 basis points.

Taken together, these inputs implied that the likely near-term path of conditions was one of continued below-trend growth, gradually widening labor slack, and inflation drifting further below target absent a policy response. The framework's loss-minimizing calculation, with the reference rules judged reliable, resolved this tension between tightening-leaning level rules and easing-leaning momentum rules at a recommendation of -25 basis points. In effect, the projection suggested that a policy rate held at 1.25 percent would prove modestly restrictive relative to optimal given soft inflation and rising unemployment momentum, with the deterioration in momentum, more than the level gaps, carrying the case for modest accommodation.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive assessments, participants converged on a striking area of agreement even as their individual mandates differed: with core PCE at 1.17 percent, well below the 2 percent target, and inflation momentum essentially flat, no participant could identify a case for tightening. The member most focused on inflation risk was explicit that the data showed disinflation rather than overshooting, and pointed to the Beige Book finding that firms could not pass along rising energy and insurance costs as direct evidence of absent pricing power. Even so, this member judged that with inflation contained but not collapsing, holding steady best preserved optionality amid predominantly geopolitical uncertainty.



The clearest dissent from a hold came from the member weighting labor conditions most heavily, who argued for a 25 basis point insurance cut. This participant stressed that unemployment at 5.8 percent stood well above the 5.05 percent natural rate, that claims at 424,000 were elevated, and that the Beige Book confirmed very soft business spending and little change in hiring plans. In this member's framework, the disinflation cited by others only reinforced the case, since it removed any inflation constraint on easing to support employment. Other participants engaged this argument seriously. The member attentive to financial stability acknowledged it as the strongest case for easing but countered that much of the elevated VIX reflected war-driven risk aversion that a rate cut could not resolve, that credit markets were stressed but not seizing, and that spending scarce policy room at 1.25 percent on a shock policy could not cure was imprudent. The market-focused member emphasized that the 17 basis point Treasury bill undershoot signaled only a mild easing lean, not a firm demand for action, and read the market's posture as one of waiting for geopolitical resolution. The centrist, reading the indicators at face value, found the soft-but-stable data and the still positively sloped curve most consistent with a patient hold. In the predictive rebuttal round, no participant abandoned an initial position; four favored holding and one maintained the case for a modest cut, with the dove itself conceding the Committee might await war resolution before acting.

When participants turned to the framework's loss-minimizing recommendation of -25 basis points, the discussion shifted noticeably. Several observed that the divergence between their own predicted hold and the framework's easing call did not reflect disagreement about direction so much as caution about timing. The member focused on inflation reasoned that, because core PCE was roughly 0.83 point below target with flat momentum and rising unemployment momentum, easing did not endanger price stability, and found the First-Difference rule's momentum logic more persuasive than the level rules, which he judged to reflect the output and employment gaps and a high neutral-rate estimate more than genuine inflation pressure. The labor-focused, financial-stability, market-signals, and centrist members each concluded that a policy rate held at 1.25 percent was passively too tight given below-target inflation and softening conditions, and that a modest cut delivered preemptive support the hold withheld.

Participants generally distrusted the tightening-leaning level rules in the current setting. Several noted that the Taylor, Balanced Approach, and ELB-adjusted rules anchored on a neutral rate near 2.98 percent that seemed detached from the subdued activity described in the Beige Book and the -0.18 Chicago Fed reading. The First-Difference rule at -50 basis points was widely cited as capturing the actual deterioration in momentum, while the framework's -25 basis point figure was read as a measured step that honored that deterioration without the aggressiveness of a full half-point move or the appearance of panic amid war uncertainty. The financial-stability member framed a modest cut as



cheap insurance against self-reinforcing credit-spread widening while inflation remained quiescent, and the market-signals member viewed it as validating easing that front-end pricing already anticipated.

The one point of genuine remaining difference concerned magnitude rather than direction. The inflation-focused member, while accepting that the data supported easing and that no inflation risk warranted resistance, preferred restraint on the size and timing of any move, favoring a smaller step or a hold to preserve optionality until disinflation was confirmed as a persistent threat. The centrist, who had entered as a hold, explicitly moved to endorse the -25 basis point call, finding the momentum-based case persuasive and seeing no data supporting restraint beyond the caution counseled by geopolitical uncertainty.

COMMITTEE POLICY ACTIONS

In the predictive vote on the near-term policy decision, the Committee split four to one in favor of holding the federal funds rate at 1.25 percent, with the labor-focused member favoring a 25 basis point cut. On the framework's loss-minimizing recommendation of -25 basis points, considered after the predictive vote was final, the Committee's recorded stance was four endorsements and one partial: the members focused on labor markets, financial stability, market signals, and the data-dependent centrist endorsed the -25 basis point recommendation as-is, while the inflation-focused member agreed with the direction of easing but not its full magnitude or timing. No member declined the recommendation.