



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$774.9 billion as of the October 24 release, the most recent available before the point-in-time cutoff. The portfolio was composed of \$472.1 billion in Treasury notes and bonds and \$267.0 billion in Treasury bills, with the balance in other domestic holdings. Relative to the prior release of October 17, total holdings were essentially unchanged, showing no net change over the week. Members were reminded that these figures cover SOMA securities holdings only — their total size, composition, and week-over-week movement — and do not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; the discussion of open market operations was therefore limited to the outright holdings reported here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators pointing to continued but slowing expansion. Core PCE inflation on a year-over-year basis was 1.38 percent, well below the 2.0 percent objective, and the Employment Cost Index reading of 106.8 gave no indication of accelerating labor costs. In the labor market, the unemployment rate was 4.7 percent, still below the staff's estimated natural rate of 5.05 percent, while initial jobless claims registered 334,000 — elevated but not at a level signaling rapid deterioration. Broader activity measures were softer: the Chicago Fed National Activity Index stood at -0.27, consistent with growth running below trend. M2 money supply was \$7,371.7 billion.

The most recent Beige Book, prepared on information collected on or before October 5, characterized activity as continuing to expand in all Districts through September and early October but at a decelerated pace since August. Seven Districts reported growth similar to the prior report and five reported slower growth, with the expansion variously described as 'moderate,' 'modest' and 'mixed.' Consumer spending grew but unevenly, and manufacturing and service-sector gains weakened, particularly in areas tied to home construction and real estate. Residential real estate markets continued to weaken across most Districts, with further declines in sales, prices and construction. Financial institutions reported rising delinquencies, a slight deterioration in credit quality, and tighter credit standards, especially for real estate lending; business lending generally rose while consumer lending slowed. Contacts in a number of industries noted a higher-than-usual degree of uncertainty about the outlook.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions reflected lingering but contained strain. The financial stress index was 0.291 — elevated relative to calm periods but well below levels associated with acute dislocation. The VIX stood



at 20.8, similarly elevated but off crisis levels, and the Baa corporate spread of 1.98 pointed to moderate credit-cost pressure rather than a severe blowout. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at +0.62, showing no acute recession signal from the term structure. Notably, the 3-month Treasury bill traded 0.85 percentage point below the current 4.75 percent federal funds rate, indicating that markets were already pricing in near-term easing of roughly a quarter point.

STAFF ECONOMIC OUTLOOK

The staff outlook, drawing on the forward-looking quantities available, pointed toward gradual accommodation rather than an abrupt shift. With the estimated neutral rate (r^*) at 1.491 and the nominal funds rate at 4.75 percent, current policy appeared somewhat restrictive relative to the neutral stance, implying scope for some easing. Momentum readings were small in both directions: inflation momentum was slightly negative at -0.06, suggesting price pressures were cooling rather than building, while unemployment momentum was mildly positive at +0.05, consistent with early, gradual softening in the labor market rather than realized deterioration.

The reference rules diverged in a manner that itself was informative. The Taylor rule, Balanced Approach rule, and ELB-adjusted rule each prescribed -75 basis points, reactions driven largely by the wide undershoot of inflation below target combined with growth running below trend. The First-Difference rule, which adjusts incrementally from the current policy stance rather than resetting to a level target, prescribed -25 basis points. The framework's loss-minimizing recommendation, with reference rules judged reliable, was -25 basis points. The gap between the aggressive level rules and the more modest first-difference and loss-minimizing outputs implied that policy was close to appropriately calibrated: some easing was warranted to cushion credit tightening and below-trend growth, but a large front-loaded move would risk over-stimulating given still-firm employment and only moderate financial stress.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants converged on a picture of an economy that was slowing but not contracting, with inflation genuinely contained. All members observed that core PCE at 1.38 percent sat well below the 2.0 percent objective and that the Employment Cost Index gave no sign of a wage-price spiral. The member most attentive to inflation risk noted that although the prior statement had flagged that 'some inflation risks remain,' the actual data undercut that concern; with prices subdued, this member's usual reluctance to ease was materially eased, and the case for continued but measured accommodation was accepted. Several participants emphasized the softening in real activity — the Chicago Fed index at -0.27, decelerating growth in five Districts, weakening housing, and tightening credit standards — as the principal justification for a further cut.



The member most focused on employment framed the case as forward-looking. This participant acknowledged that unemployment at 4.7 percent remained below the 5.05 percent natural rate and that claims at 334,000 did not yet signal rapid weakening, so no realized labor deterioration demanded aggressive action. The concern was instead pre-emptive: credit tightening and rising delinquencies could spill into hiring in coming months, and the Beige Book's reference to a higher-than-usual degree of uncertainty reinforced the wisdom of an insurance-style step. A measured cut was judged the appropriate response to a risk rather than to realized damage.

The participant attentive to financial stability read the credit and stress indicators as elevated but contained — a stress index of 0.291, VIX of 20.8, and a Baa spread of 1.98 all pointing to lingering strain well off crisis levels. This member cautioned that a larger, front-loaded move could itself signal alarm and amplify the very market anxiety it was meant to soothe, particularly coming on top of the prior meeting's 50-basis-point cut. The member weighting market signals most heavily observed that the 3-month bill trading 0.85 point below the funds rate was consistent with roughly a quarter-point cut plus expectation of further gradual moves, not a 75-basis-point jolt, and that the positively sloped yield curve at +0.62 removed any acute recession signal that would justify aggressive easing. The data-dependent participant summarized the balance as the literal consensus reading: growth slowing, inflation contained, stress moderate, employment still firm.

When the discussion turned to the framework's loss-minimizing recommendation of -25 basis points, participants engaged directly with the divergence among the reference rules. Members generally judged that the level-based rules prescribing -75 basis points were over-fitting to the wide inflation gap and below-trend growth, while the First-Difference rule's incremental logic better fit conditions in which momentum readings were small and policy had already been eased at the prior meeting. Participants noted that with r^* estimated at 1.491 against a 4.75 percent nominal rate, the stance remained somewhat restrictive and warranted some easing, but that stacking another large cut on the prior 50-basis-point reduction risked overshooting given the uncertainty in the outlook.

No participant advanced a case for holding steady or for a cut larger than 25 basis points that the data would support. The inflation-focused member valued the smaller step for preserving optionality should latent price risks reassert; the employment-focused member valued it for continuing support while leaving flexibility to act again if labor weakened further; the financial-stability member valued it for extending last meeting's insurance without destabilizing credit markets; and the market-signal member noted it aligned policy with efficient market expectations. Members agreed the incremental, data-dependent approach best matched a softening-but-not-collapsing economy.

COMMITTEE POLICY ACTIONS



In the predictive round, all five members independently supported a 25-basis-point reduction in the target federal funds rate to 4.50 percent, and the final predictive vote was unanimous at -25 basis points (5 of 5). On the deterministic optimal policy engine's recommendation of -25 basis points, the Committee likewise reached 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 — voted to endorse the recommendation as-is, with no members declining and none registering only partial support (endorse 5, decline 0, partial 0).