



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account held \$543.8 billion in domestic securities as of the April 23 release, essentially unchanged from the prior release on April 16. The portfolio was composed of \$435.1 billion in Treasury notes and bonds and \$70.3 billion in Treasury bills, with the balance in other domestic holdings. The week-over-week change in total holdings was reported at zero. Members were reminded that these figures cover SOMA securities holdings only—total size, composition, and change from the prior release—and do not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source is currently available; accordingly, the discussion of open market operations here is confined to the outright portfolio.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity had continued to soften. Core PCE inflation on a year-over-year basis stood at 1.78%, just below the 2.0% reference point. The unemployment rate was 5.1%, marginally above the estimated natural rate of 5.05%, while initial jobless claims registered 349,000. The Chicago Fed National Activity Index was -0.67, consistent with growth running below its trend pace. The Employment Cost Index was reported at 108.3, and M2 stood at roughly \$7,661 billion. Against this backdrop, the current federal funds rate was 2.25%, following the aggressive easing of the prior meeting.

The most recent Beige Book, prepared in mid-April on information collected on or before April 7, described conditions as having weakened since the previous report. Nine of the twelve Districts noted a slowing in the pace of activity, while Boston, Cleveland, and Richmond characterized conditions as mixed or steady. Consumer spending was described as softening across most of the country, with several Districts reporting year-over-year declines in retail or auto sales; automobile sales in particular were reported flat or falling in a number of Districts. Tourism was generally strong, aided by foreign visitors. Residential real estate and construction were characterized as anemic, and commercial activity had slowed. Financial institutions in many Districts reported some deceleration in consumer loan demand, tightening lending standards, and deterioration in asset quality. Labor markets were mostly described as weakening, though a few Districts noted shortages of skilled workers and some wage pressures. Increases in input costs were widespread, accompanied by somewhat smaller rises in selling prices.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as strained but not in acute distress. The financial stress index stood at 0.52, elevated but off the peaks seen earlier in the year. The VIX was 20.26, described as



moderate rather than panic-level. The Baa corporate spread of 3.18 pointed to genuine borrowing-cost stress in the corporate sector. The 10-year/2-year Treasury spread was positively sloped at 1.55, so the acute recession signal associated with an inverted curve was absent. The 3-month Treasury bill traded 0.92 percentage point below the current funds rate, a configuration consistent with flight-to-safety demand and with market expectations of further easing already embedded in the front end of the curve.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the estimated neutral rate and the available momentum measures. With r^* estimated at 1.728 and core inflation near 1.78%, the current funds rate of 2.25% implied a real stance that was only marginally restrictive—and, on some readings, already accommodative. Inflation momentum was modestly positive at 0.135 and unemployment momentum was small at 0.05, indicating drift rather than sharp acceleration in either direction. Taken together, these quantities pointed to an economy near balance on both mandates but with a slow upward tilt in price pressures and a gentle softening in labor conditions, neither yet demanding an abrupt policy adjustment.

Reference-rule outputs were mixed and, importantly, flagged as not reliable this meeting. The Taylor rule and the First-Difference rule both indicated 0 bps, consistent with near-neutral inflation and unemployment gaps, while the Balanced Approach and ELB-adjusted rules each indicated -75 bps, weighting growth deterioration more heavily. Because the rule set was judged unreliable, the loss-minimizing engine leaned toward the two rules nearest current conditions and produced a recommendation of 0 bps. The projection implied by these figures was that prior easing was still transmitting, that the stance was close to appropriate given the estimated neutral rate, and that the conditions likely to prevail over the coming period would not, on the staff's forward reading, require further immediate accommodation absent a clear deterioration in the labor market or credit conditions.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive assessments, all five participants arrived independently at a 25 basis point cut, though they reached that point from distinct starting positions. The participant most attentive to labor conditions emphasized that unemployment at 5.1% had crept above the 5.05% natural rate, that jobless claims at 349,000 were elevated, and that the Beige Book described labor markets as 'mostly weakening' across most Districts, with the CFNAI at -0.67 confirming below-trend growth. From this vantage a continued cut was warranted to protect employment, but the participant judged that a moderate 25 basis point step, rather than a repeat of the prior 75 basis point move, was the right calibration given the calmer financial backdrop.



The participant weighting financial stability most heavily pointed to the stress index at 0.52 and the Baa spread at 3.18 as evidence of persistent credit-market strain, while noting that the VIX at 20.26 was off crisis peaks and that the March episode of acute stress appeared to be easing. On this reading, continued support was appropriate but its pace could moderate; matching the easing already implied by the negative Treasury-bill spread with a 25 basis point cut would sustain credit support without appearing panicked or fueling commodity and dollar pressures. The participant most focused on market signals developed the same point, observing that the 3-month bill trading 0.92 percentage point below the funds rate implied a further move of roughly 25 to 50 basis points, and that the positively sloped yield curve and moderate volatility argued against any return to 50 or 75 basis point increments.

The participant most concerned with inflation stated a genuine preference to pause. Core PCE at 1.78% was technically below target, but the widespread input-cost increases and scattered wage pressures in the Beige Book, together with the prior statement's reference to rising inflation expectations, weighed heavily. With the real funds rate near zero after inflation, this participant judged policy already accommodative and cumulative easing already substantial. Nonetheless, acknowledging that a pause could shock a fragile credit environment and recognizing the overwhelming committee consensus, this participant supported the 25 basis point cut as the balanced centrist outcome while flagging a sense that easing was near its end. The data-dependent participant framed the same conclusion in terms of two-sided risk: weakening but not collapsing activity on one side, widespread cost pressures and near-natural unemployment on the other, with a measured cut the most literal reading of the balance.

The character of the discussion shifted when participants turned to the loss-minimizing framework, which recommended holding at 0 basis points. Here the divergence from the predictive vote became the central object of reflection. The inflation-focused participant found the framework aligned with instinct: with the Taylor and First-Difference rules both reading 0, the aggressive -75 rules judged unreliable, r^* at 1.728 leaving policy only marginally restrictive, and inflation momentum positive at 0.135, this participant read the divergence as evidence that the committee's easing bias risked overshooting. The labor-focused participant reconciled the gap differently but reached the same place: unemployment momentum of only 0.05 signaled modest drift rather than a labor emergency, prior easing was still transmitting, and the First-Difference logic counseled against over-adjusting from an already-eased stance. This participant emphasized a readiness to act decisively should claims and payrolls deteriorate sharply, while preserving ammunition in the interim.

The financial-stability participant asked directly whether holding at 2.25% would destabilize credit markets and concluded that the steep positive curve and moderate VIX suggested it would not, adding



that further easing risked feeding the input-cost pressures the Beige Book flagged. The market-signal participant, whose predictive lean had rested on the pre-priced easing in the Treasury-bill spread, judged that because markets had already pre-eased front-end conditions, actual delivery was partly optional and the fundamentals no longer demanded a further cut. The data-dependent participant tied the threads together: with both gaps near neutral, both momentum readings small, and the two most reliable rules pointing to a hold, 2.25% appeared already close enough to neutral that the -25 predictive lean rested more on financial-stress insurance than on the underlying output and inflation gaps. Participants generally observed that the divergence between the expected 25 basis point cut and the framework's hold reflected the difference between validating market expectations and standing on the fundamentals, and several judged that conserving ammunition against still-live inflation risk was the more disciplined course as stress moderated.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five participants supported a 25 basis point reduction in the federal funds rate, to 2.00%, a unanimous 5-0 outcome reflecting the shared judgment that softening activity and persistent credit strain warranted continued but moderated easing. On the separate question of the loss-minimizing framework's recommendation to hold at 0 basis points, the Committee's recorded stance was full agreement: the inflation hawk, the labor-market dove, the financial-stability voice, the data-dependent centrist, and the market-signal realist each endorsed the 0 basis point recommendation as-is, with no members declining and none registering partial agreement. Members thus recognized a genuine tension between the easing path implied by market pricing and softening data and the hold implied by near-neutral gaps against an estimated neutral rate of 1.728, and judged the framework's disciplined case for pausing to be defensible on its own terms.