



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Open Market Desk reported that System Open Market Account holdings of domestic securities totaled \$4,218.1 billion as of the April 22 release, the most recent available on or before the point-in-time cutoff for this meeting. Holdings were composed of \$2,346.7 billion in Treasury notes and bonds and \$1,737.1 billion in agency mortgage-backed securities, with the remainder in other domestic securities. The portfolio rose by \$2.6 billion relative to the prior release of April 15. The staff noted that these figures cover SOMA securities holdings only — their total size, composition, and week-over-week change — and do not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source is currently available; the review therefore made no representation about those operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed a range of incoming indicators suggesting an economy expanding at a modest and somewhat uneven pace. The unemployment rate stood at 5.5 percent, close to the estimated natural rate of 5.38 percent, and initial jobless claims were reported at 294,000, a low level consistent with a labor market that continued to firm. Core PCE inflation was 1.03 percent on a year-over-year basis, roughly a full percentage point below the Committee's 2 percent objective. The Employment Cost Index reading of 122.9 pointed to ongoing wage gains without signs of a sharp acceleration. The Chicago Fed National Activity Index registered -0.42, indicating growth somewhat below its historical trend. M2 money supply was reported at \$11,846.0 billion.

The most recent Beige Book material available described economic activity as having increased at a modest pace, with reports of planned activity mixed across sectors. On net, manufacturing reports were characterized as negative while service-sector reports were positive. Retail and restaurant sales were said to have grown moderately, with several retailers reporting year-over-year gains and expecting continued growth, and multiple restaurant owners citing rising consumer demand as a basis for expansion. In manufacturing, firms in furniture, transportation equipment, and plastics and rubber products reported plans to add workers or expand, while large layoffs were reported in primary metals and chemicals. Service-sector hiring plans were generally positive in warehousing, health care, social assistance, and business support, offset in part by planned reductions in air and truck transportation and advertising. Residential real estate conditions continued to improve in most parts of the District, with home sales up on a year-over-year basis, while commercial and industrial real estate and construction were mixed. Lending at a sample of small and midsized banks increased modestly, and spring plantings in southern District states were off to a slow start owing to wet weather.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were described as calm and generally accommodative. The financial stress index stood at a very low 0.057, and the VIX at 12.71 pointed to subdued market volatility. The Baa corporate spread was 2.54, a moderate level that gave no indication of acute credit-market strain. The 10-year/2-year Treasury spread was positive at 1.42, showing no inversion and no near-term recession signal from the shape of the curve. The 3-month T-bill spread against the current target range was -0.095, with the front end sitting below the range midpoint — pricing consistent with market expectations of no near-term change in the target range. Taken together, the staff characterized conditions as loose but not frothy, with no signs of distress in credit or funding markets.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and on the momentum embedded in the inflation and unemployment data. With the estimated neutral real rate (r^*) at -0.5 percent, the current target range of 0.0 to 0.25 percent was assessed as roughly appropriate rather than markedly stimulative, implying limited scope for the current stance to generate strong upward pressure on prices or activity in the near term. Inflation momentum was slightly negative at -0.14, suggesting that price pressures were more likely to continue drifting sideways to lower before firming than to accelerate toward the 2 percent objective in the immediate projection window. Unemployment momentum was -0.15, consistent with a labor market that was expected to continue improving gradually from a level already near the estimated natural rate.

All four reference rules — the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule — pointed to no change in the target range, and the reference rules were judged reliable at this meeting. The consistency of these rule prescriptions, combined with a negative neutral rate and modestly negative momentum in both inflation and unemployment, implied a baseline in which conditions evolve slowly: continued below-trend but positive activity, a labor market edging toward full employment, and inflation returning to target only gradually. The staff projection therefore anticipated no near-term pressure that would call for a departure from the current stance, while noting that a turn to positive inflation momentum would be a natural precondition for any future firming.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants converged on the view that the appropriate action at this meeting was to maintain the target range at 0.0 to 0.25 percent. From an inflation-focused perspective, one participant emphasized that core PCE at 1.03 percent sat well below the 2 percent objective, leaving inflation risk tilted to the downside rather than the upside. This participant judged that the 'reasonable confidence' threshold for inflation returning to 2 percent, invoked in prior guidance, was plainly not met at present, and that a premature move to tighten would be unwarranted



even from a vigilant inflation stance. At the same time, this participant firmly rejected any case for easing, noting that unemployment at 5.5 percent was near the 5.38 percent natural rate and that financial conditions showed no distress. Holding was framed as preserving optionality — keeping the Committee positioned to firm promptly once inflation momentum turned positive and labor slack fully disappeared.

A participant weighting employment risk most heavily began from the labor market itself, observing that unemployment near the natural rate, jobless claims at 294,000, and continued negative unemployment momentum indicated a labor market that was still improving rather than deteriorating. The absence of rising unemployment or slowing job growth removed the trigger that would otherwise argue for adding support. This participant acknowledged that the Chicago Fed index at -0.42 gave some pause, but concluded that below-trend growth alone, without actual labor softening, did not justify easing — particularly with the funds rate already at the effective lower bound, which left no meaningful room to cut. The mixed but non-contracting Beige Book labor picture, with service-sector and consumer-spending strength offsetting layoffs in primary metals and chemicals, reinforced this reading.

A participant focused on financial stability reviewed the stress and credit indicators and found no basis for a move in either direction. The stress index at 0.057, VIX at 12.71, a moderate Baa spread of 2.54, and a positively sloped yield curve at 1.42 all pointed to calm, non-fragile conditions. This participant stressed that an abrupt reversal of the prior guidance — which had characterized an April increase as 'unlikely' — would risk jolting tranquil markets with no offsetting benefit given inflation so far below target. A participant emphasizing market-implied pricing reinforced this point, noting that the 3-month T-bill spread of -0.095 placed the front end below the range midpoint, so markets were priced for no near-term move; deviating would surprise markets already positioned for patience. The data-dependent participant read the indicators literally and reached the same conclusion: with inflation confidence absent, no overheating to lean against, and no distress to ease against, the balanced picture called for holding and awaiting further data.

Turning to the framework's loss-minimizing recommendation of 0 bps, participants found that their independent reasoning aligned cleanly with the reference-rule outputs. Several noted that the estimated neutral rate of -0.5 percent meant the current stance was appropriately accommodative rather than excessively loose, and that inflation momentum of -0.14 and unemployment momentum of -0.15 gave no signal demanding a move. The inflation-focused and data-dependent participants found the Taylor rule most persuasive, citing its direct weighting of the inflation gap against a small employment gap. The employment-focused and stability-focused participants leaned instead on the



ELB-adjusted rule, which they read as respecting the effective lower bound and the negative neutral rate. In the rebuttal round, no participant advanced an argument that shifted another's emphasis; rather, participants observed that the convergence across market pricing, all four reference rules, and the inflation data appeared genuine rather than accidental. The market-focused participant characterized this convergence as evidence that holding carried the lowest policy risk this meeting, and would have viewed divergence among these signals as more worrying than their agreement.

COMMITTEE POLICY ACTIONS

In the predictive vote on the appropriate policy action, all five members supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent; the tally was five to zero for no change. On the deterministic optimal policy engine's recommendation of 0 bps, the Committee likewise recorded full agreement: all five members — the inflation-focused member, the employment-focused member, the financial-stability member, the data-dependent member, and the market-signal member — endorsed the recommendation as-is, with no members declining and none registering partial agreement. The predictive and optimal-side outcomes were thus fully consistent, reflecting a unanimous judgment that the current stance was well-calibrated and that patience remained warranted until greater confidence in inflation's return to 2 percent developed.