



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account held \$4,203.5 billion in domestic securities as of the June 10 release, the most recent available on or before the point-in-time-safe cutoff. Holdings were composed of \$2,346.6 billion in Treasury notes and bonds and \$1,722.4 billion in agency mortgage-backed securities, with the remainder in other domestic securities. The portfolio was essentially unchanged from the prior release dated June 3, showing a week-over-week change of \$0.0 billion. The staff noted that this review covers SOMA holdings only — total size, composition, and the change from the prior release — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists; those operations are therefore outside the scope of this account.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators pointing to continued but unspectacular expansion. The unemployment rate stood at 5.5 percent, close to the estimated natural rate of 5.38 percent, and initial jobless claims were low at 276,000, consistent with an ongoing but unhurried improvement in labor conditions. Core PCE inflation was running at 0.9 percent on a year-over-year basis, well below the 2 percent objective. The Chicago Fed National Activity Index registered -0.15, indicating growth modestly below its historical trend. The Employment Cost Index reading of 123.6 and M2 money supply of \$11,895.1 billion rounded out the broad picture of steady conditions without evidence of acceleration.

Beige Book reporting reinforced this reading. Economic activity in the surveyed District was described as increasing at a modest pace since the prior report, with retailers and auto dealers noting higher sales and residential and commercial real estate conditions improving in most areas. A survey of District businesses indicated that wages grew moderately, employment growth was modest, and prices charged to consumers were generally unchanged. Manufacturing plans were mostly positive, with firms in transportation equipment, furniture, food and beverage, and machinery reporting intentions to add workers, while a smaller number in wood products and primary metals reported planned layoffs or closures. Service-sector plans were characterized as mixed. Bank lending activity showed moderate improvement.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were calm across the measures the staff reviewed. The financial stress index stood at 0.069, near the low end of its range, and the VIX at 13.22 pointed to subdued market volatility. The Baa corporate spread of 2.73 was moderate, with no sign of widening or strain in borrowing costs. The 10-year/2-year Treasury spread was comfortably positive at 1.75, showing no inversion and no recession signal from the term structure. The 3-month T-bill spread relative to the current rate was



slightly negative at -0.105 , indicating that money markets were not pricing an imminent move in the target rate. Taken together, the data described easy and orderly financial conditions with ample liquidity and functioning credit markets.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment rested on the real quantities available for projection. The estimated neutral real rate (r^*) of -0.5 percent implied a low equilibrium rate, so that the current target range of 0.0 to 0.25 percent was not restrictive and instead provided a degree of accommodation. Inflation momentum was negative at -0.105 , suggesting that price pressures were still drifting away from the 2 percent objective rather than building toward it, and pointing to a subdued near-term inflation path absent a change in underlying forces. Unemployment momentum at -0.05 indicated continued modest downward movement in the jobless rate, consistent with a labor market that was gradually firming but not tightening abruptly.

The reference rules were mutually consistent in their implications. The Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule each produced a 0 bps reading, and the rules were judged reliable for this meeting. The combination of a negative neutral rate, negative inflation momentum, and only gradual improvement in unemployment suggested that conditions were unlikely to force a policy adjustment in the near term, and that the projected path was one of continued accommodation while inflation had scope to firm toward target before liftoff conditions would be satisfied.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants entered the discussion in broad agreement that the target range should be maintained at 0.0 to 0.25 percent, though they reached that conclusion from distinct analytical vantage points. The member most attentive to inflation risk observed that core PCE at 0.9 percent was well below the 2 percent objective and that a hawkish bias was simply not triggered by data showing inflation running low rather than hot. This member framed the prior meeting's liftoff condition as two-pronged — further labor improvement together with reasonable confidence that inflation would return to 2 percent — and judged only the first prong met. With energy and import deflation still weighing and prices in the Beige Book described as generally unchanged, the confidence prong was seen as clearly unsatisfied, so that a hike would be premature despite unemployment sitting close to its natural rate.

The member weighting employment risk emphasized that neither of the conditions that would prompt easing — rising unemployment or slowing job growth — was present. Unemployment at 5.5 percent was near the 5.38 percent natural rate, jobless claims at $276,000$ were low, and the Beige Book pointed to



modest hiring and expansion plans with only isolated layoffs in wood products and primary metals. This member stressed that the range was already at the effective lower bound, leaving little conventional room to ease, and that with no labor deterioration there was no case to spend scarce accommodation. The financial-stability member read the calm stress index of 0.069, the subdued VIX of 13.22, the contained Baa spread of 2.73, and the positively sloped yield curve as benign but potentially fragile, cautioning that a surprise hike into 0.9 percent core inflation could jolt orderly markets and widen spreads unnecessarily.

The member anchored in market signals drew particular attention to the 3-month T-bill spread of -0.105, reading it as evidence that money markets expected the funds rate to remain in its current range through the near term and were not front-running a move. With the yield curve positive and credit markets functioning, this member characterized a hold as a genuine policy choice rather than a crisis response. The data-dependent centrist tied the threads together, noting that the most literal reading of the indicators — labor near mandate but inflation too low, with modest growth, moderate wage gains, and unchanged consumer prices — pointed cleanly to no change. Across both rounds of the predictive discussion, no participant surfaced a data point or argument that shifted another's view; the convergence was reinforced rather than challenged.

When participants turned to the optimal-policy framework, the same reasoning carried through, now grounded explicitly in the forward-looking quantities. The inflation-focused member found the Taylor rule's inflation-gap logic most persuasive, observing that with inflation 1.1 points below target and momentum negative at -0.105, undershooting was itself a risk that argued against tightening; holding preserved the optionality to hike once inflation firmed. The employment-focused member and the financial-stability member both leaned on the ELB-adjusted rule, noting that with r^* at -0.5 percent, policy was not even restrictive and the current stance was already accommodative. The centrist emphasized the Balanced Approach rule, which weighted the large inflation shortfall heavily against the small unemployment gap and yielded no case for liftoff, while the market-signal member noted that market pricing corroborated the rule outputs directly.

Participants generally judged that the agreement between their predictive votes and the framework's recommendation revealed a stance that was appropriately calibrated for present conditions — neither too tight nor too loose. Several observed that the unanimity across the four reference rules, the loss-minimizing recommendation, and market pricing raised confidence in the hold. A couple of participants underscored that this convergence should not be read as a signal of indefinite accommodation: with labor near mandate, liftoff conditions were approaching, and the outstanding requirement was clearer evidence that inflation was moving toward 2 percent.



COMMITTEE POLICY ACTIONS

In the predictive vote, all five members favored maintaining the federal funds target range at 0.0 to 0.25 percent, a unanimous 5-0 outcome with no dissents. On the optimal-policy framework's recommendation of 0 bps, the Committee was again in 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 — endorsed the recommendation as-is, with none declining and none registering only partial agreement. The predictive stance and the optimal-side outcome therefore coincided completely, reflecting a genuine convergence across mandate lenses, reference rules, and market signals on holding the range steady this meeting.