PREDICTED FED DECISION **HOLD**

2.25%-2.50%

OPENFED OPTIMAL RATE **−25 bps**

2.00%-2.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold the target range at 2.25% to 2.50%, yet its own framework identifies a 25 basis point cut as the loss-minimizing move, a one-increment gap that all five members endorsed.

STATEMENT

The most striking feature of this meeting is that the Committee's prediction and its own optimal judgment part ways by exactly one policy increment, and both conclusions rest on the same reading of the data. On the predictive side, all five members independently arrived at holding the target range at 2.25% to 2.50%, and none moved from that position after seeing the others. The logic was consistent across viewpoints: core PCE at 1.36% sits well below the 2 percent objective, which removes any case for tightening, while the labor market gives no reason to ease preemptively. Unemployment at 3.8% remains below the 4.6% estimated natural rate, jobless claims at 223,000 are low, and the Beige Book describes tight labor markets, worker shortages, and broad wage gains alongside continued expansion. With financial conditions calm as well, the case for patience carried the room.

That calm was itself part of the argument for standing pat. Participants noted a financial stress index of 0.042 and a VIX of 13.41, with the Baa spread at 2.25 showing no acute credit widening. A number of participants observed that a surprise move into markets this quiet could be destabilizing in its own right, signaling an alarm the data do not support. At the same time, participants generally acknowledged cautionary signals worth respecting: the Chicago Fed National Activity Index at -0.43 points to below-trend growth, the 10-year to 2-year spread at 0.16 is positive but very flat, and the Beige Book flagged shutdown drag, weakening global demand, tariff costs, and deferred business investment. The consensus reading was that these are growth-softness cautions, not realized inflation pressure or labor deterioration, and so counsel against tightening without yet forcing an easing.

The Committee's deterministic framework weighs those same conditions differently and lands on a recommended cut of 25 basis points. All four reference rules point toward easing, and by a wider margin than the framework ultimately adopts: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each return -75 basis points, and the first-difference rule -50, with the rules judged reliable this meeting. Those signals are driven by the inflation shortfall against target combined with an estimated r* of -0.5, which implies that a 2.25% to 2.50% range leaves real policy meaningfully restrictive. The loss function tempers the rules' aggressive reading down to -25, and participants found that restraint well-founded. Inflation momentum is negative at -0.065, reinforcing that disinflation, not overheating, is the binding risk, while unemployment momentum of +0.1 registers a slight upward drift beneath the strong headline. Participants read the quarter-point step as an insurance move that corrects modest excess restriction without the shock a 75 basis point cut would deliver into benign markets.

Reconciling the two conclusions, participants generally characterized the divergence as a single 25 basis point increment: the framework's math says begin easing to address a below-target inflation shortfall and a very low neutral rate, while the predictive hold reflects the Committee's read of prevailing patience and the absence of any acute trigger. That gap is small and, in the Committee's view, defensible on both sides. The optimal case is that current policy is modestly too tight for conditions; the predictive case is that with markets calm, labor solid, and no crisis at hand, the real Federal Reserve is likely to wait for clearer signals before moving. The Committee therefore predicts a hold at 2.25% to 2.50% while judging a 25 basis point cut to be the loss-minimizing policy.

COMMITTEE VOTE

The predictive vote to hold the target range at 2.25% to 2.50% was unanimous at 5-0, and on the optimal side all five members endorsed the framework's -25 basis point recommendation as-is, a 5-0 endorsement with no members declining or endorsing only in part.