



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The manager reported on the composition and size of the System Open Market Account. As of the most recent release dated March 4, 2020, total SOMA domestic securities holdings stood at \$3,851.4 billion, an increase of \$28.5 billion from the prior release of February 26. Within that total, Treasury notes and bonds accounted for \$2,027.7 billion and Treasury bills for \$303.0 billion, with agency mortgage-backed securities making up the remaining \$1,371.8 billion. It should be noted that this account reflects SOMA securities holdings only — the total size, composition, and week-over-week change — and does not encompass the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; accordingly, this review makes no representation about the scale or terms of any such operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review drew on the most recent readings across the real side of the economy, which on the whole still described a firm expansion even as forward-looking risks were building. Core PCE inflation was running at 1.53 percent on a twelve-month basis, below the Committee's 2 percent objective. Labor market indicators remained strong: the unemployment rate stood at 3.5 percent, well below the estimated natural rate of 4.44 percent, and initial jobless claims were low at 216,000. The Employment Cost Index registered 138.9, and M2 money supply stood at \$15,438.8 billion. The Chicago Fed National Activity Index, at -0.25, pointed to activity running somewhat below its historical trend.

The Beige Book characterized economic activity as expanding at a modest to moderate rate across the majority of Districts, though the St. Louis and Kansas City Districts reported no change. Consumer spending generally picked up but was uneven, with mixed auto sales, and growth in tourism was flat to modest. Notably, several Districts indicated that the coronavirus was already negatively affecting travel and tourism. Manufacturing expanded in most of the country, but some supply chain delays were reported as a result of the coronavirus, and producers in several Districts feared further disruptions in coming weeks. Employment increased at a slight to moderate pace, with hiring constrained by a tight labor market, and wages grew at a modest to moderate rate. Near-term outlooks were mostly for modest growth, with contacts citing the coronavirus and the upcoming presidential election as potential risks.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions displayed a marked divergence between broad-index readings and the more granular market signals. The financial stress index registered 0.072, a benign level on its own scale, yet the VIX stood at 41.94, indicating extreme volatility and acute market unease. The Baa corporate



spread had widened to 2.52, consistent with rising credit stress and higher borrowing costs for firms. The yield curve remained only marginally positive, with the 10-year/2-year spread at 0.25. Most striking, the 3-month Treasury bill rate sat 0.515 percentage point below the current federal funds target, indicating that market participants had already priced in aggressive further easing relative to the prevailing 1.00 to 1.25 percent range.

STAFF ECONOMIC OUTLOOK

Taken together, the forward-looking quantities available to the staff pointed to a policy stance that, on standard rule-based grounds, was close to appropriate but leaning modestly toward accommodation. The estimated neutral real rate (r^*) was negative at -0.199 , implying limited distance between the current stance and neutral and suggesting that the prevailing target range was, if anything, somewhat restrictive. Inflation momentum was weakly positive at 0.145 , and unemployment momentum was flat at 0.0 , so neither variable signaled an urgent break from current conditions on the realized data. The reference rules were judged reliable this period.

Against those inputs, the loss-minimizing recommendation from the deterministic policy engine was 0 basis points. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each returned 0 basis points, reflecting inflation below target paired with an unemployment rate well beneath the natural rate. The First-Difference rule, which responds to change rather than to levels, returned -25 basis points, capturing the mild inflation momentum and the absence of unemployment deterioration. The staff noted that these outputs rest on realized, largely backward-looking data and would not yet reflect the fast-moving disruptions to travel, tourism, and supply chains documented qualitatively in the Beige Book; the gap between rule-implied levels and market-implied pricing was therefore expected to remain a central tension for the outlook.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants opened their discussion in broad agreement that the incoming financial market signals warranted serious attention, even as the realized macroeconomic data remained solid. All five members judged that conditions had deteriorated meaningfully since the prior 50 basis point inter-meeting cut, and each pointed to the same cluster of indicators: a VIX at 41.94 reflecting extreme market stress, a Baa spread at 2.52 signaling widening credit strain, and a 3-month Treasury bill rate sitting 0.515 percentage point below the current target range, which participants read as markets pricing aggressive further easing. Several observed that core PCE inflation at 1.53 percent, below the 2 percent objective, removed any meaningful tradeoff on the price side — easing carried little risk of overheating. On the predictive question of the likely policy path, all five members converged on a full 100 basis point cut, bringing the range to 0.00 to 0.25 percent.



The member most focused on employment emphasized that the strong labor readings — 3.5 percent unemployment and 216,000 initial claims — were backward-looking and would not capture the rapid job losses feared in the sectors the Beige Book flagged as under strain, namely travel, tourism, transportation, and manufacturing supply chains. This member argued for preemptive, front-loaded action to protect jobs before layoffs materialized, cautioning that waiting for the labor data to confirm damage would mean acting too late. The member attentive to financial stability framed the situation as a systemic liquidity threat, warning that half-measures risked failing to arrest a self-reinforcing credit and liquidity spiral. The member weighting market pricing most heavily stressed that the negative bill spread alone signaled that policy had grown too tight relative to where markets judged it belonged, and that holding would defy the market-implied path and risk deeper disorder. The member ordinarily most cautious on inflation conceded that with prices running below target, the usual case for restraint was muted, and the severity of the shock justified a decisive rather than incremental move. The centrist read the same indicators at face value and concluded that the weight of market and stress signals pointed overwhelmingly toward aggressive easing.

The character of the discussion shifted when participants turned to the deterministic framework's loss-minimizing recommendation of 0 basis points and the reasoning behind it. Here genuine disagreement emerged. The member focused on inflation found the framework persuasive on its own terms: the Taylor and Balanced Approach rules read 0 basis points precisely because inflation was below target and unemployment well below the natural rate, and no price-side data justified emergency easing. This member acknowledged that r^* at -0.199 suggested the current range was somewhat restrictive relative to neutral, and granted modest pause on that point, but ultimately judged that a 100 basis point move overshot any inflation-mandate justification, particularly given that the prior inter-meeting cut had already delivered substantial downside insurance. The framework's hold, in this member's view, was the disciplined, rule-consistent call.

The employment-focused and financial-stability members, by contrast, declined to endorse the framework's recommendation. Both accepted that the rule-based math was honest given its inputs but argued that those inputs were stale and blind to the shock already underway. The employment-focused member noted that none of the arguments defending a hold engaged with forward employment risk, treating it instead as excluded by construction, and held that keeping restrictive policy in place ahead of a labor-market shock was exactly what an employment mandate warns against. The financial-stability member similarly maintained that the framework, however defensible on fundamentals, omitted the systemic dimension it prioritized, and that a credit freeze demanded decisive front-loaded action rather than standing pat. The market-signal member also declined, reiterating that r^* at -0.199 confirmed the 1.00 to 1.25 percent stance was far above neutral



and that markets had repriced faster than the realized data could register. The centrist took an intermediate position: unwilling to dismiss the negative bill spread, elevated VIX, and negative r^* as mere speculation — they were provided facts — yet also unwilling to abandon the fundamentals, this member concluded that the First-Difference rule's -25 basis point logic captured a modest, genuine deterioration without overreaching, and therefore supported the framework's direction of easing but not its magnitude, favoring a small step over either a full hold or the aggressive path.

Across both strands of the discussion, participants generally recognized that the divergence between the market-implied path and the rule-implied levels quantified how much of the shock lived outside standard inputs. A couple of participants characterized the predictive 100 basis point vote as crisis insurance that reflected fast-moving conditions the backward-looking indicators had not yet captured, while others treated it as the literal and appropriate response to what the market signals were already saying. The disagreement was not about the direction of risk — all agreed downside risk was building — but about how far realized data should be permitted to lag market pricing before policy responded.

COMMITTEE POLICY ACTIONS

On the predictive question of the likely policy action, the Committee's five members unanimously anticipated a 100 basis point reduction, lowering the target range from 1.00 to 1.25 percent to 0.00 to 0.25 percent, a vote of 5 in favor with none opposed. On the separate question of the deterministic framework's 0 basis point recommendation, the Committee did not reach full agreement: one member endorsed the recommendation as-is, three members declined to support it, and one member agreed with the direction of the framework's implied easing but not its magnitude, favoring a modest step rather than a full hold. Specifically, the member most focused on inflation endorsed the hold; the members focused on employment, financial stability, and market signals each declined; and the data-dependent centrist registered partial agreement.