



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account continued to expand rapidly over the intermeeting period. As of the most recent release, dated April 22, total SOMA domestic securities holdings stood at \$5,499.2 billion, an increase of \$173.8 billion from the prior release of April 15. The composition was concentrated in Treasury notes and bonds, which totaled \$3,298.8 billion, alongside \$326.0 billion in Treasury bills and \$1,615.6 billion in agency mortgage-backed securities. The desk's operations thus remained heavily weighted toward longer-dated Treasury securities, with continued accumulation of agency MBS. It should be noted that these figures cover SOMA securities holdings only — total size, composition, and week-over-week change — and do not reflect the results of repo or reverse-repo operations, for which no point-in-time-safe data source currently exists; accordingly, the account of open market operations here is confined to the outright holdings just described.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that economic activity had contracted sharply and abruptly across all regions as a result of the COVID-19 pandemic. Initial claims for unemployment insurance reached 5,245,000 in the latest week, and the Chicago Fed National Activity Index registered -4.19 , a reading consistent with activity far below trend and with a contraction well outside the range of ordinary downturns. The measured unemployment rate was 4.4 percent, essentially at the estimated natural rate of 4.43 percent, but the staff cautioned that this figure was a lagging snapshot that had not yet captured the layoffs and furloughs still unfolding. The Beige Book reported that the hardest-hit industries, owing to social distancing measures and mandated closures, were leisure and hospitality and retail apart from essential goods. Most Districts reported declines in manufacturing with significant variation across industries: producers of food and medical products cited strong demand alongside production delays and supply chain disruptions, some segments such as autos had largely shut down, and the energy sector reduced investment and output amid low prices. Employment declined in all Districts, steeply in many, with the most severe cuts in retail and leisure and hospitality; contacts in several Districts described temporary layoffs and furloughs they hoped to reverse once activity resumed.

On prices, the staff noted that core PCE inflation stood at 1.51 percent on a twelve-month basis, below the Committee's 2 percent objective. The Beige Book characterized the general direction of both selling prices and non-labor input prices as downward, with Districts reporting slowing price growth, flat prices, or modest to moderate declines on balance, developments attributed to weaker demand in the wake of the pandemic. Four Districts reported further declines in energy prices. Against this broad softening, supply chain disruptions and shifts in the composition of demand produced significant price increases for some essential services such as freight and for certain agricultural commodities and



consumer goods. No District reported upward wage pressure; most cited general wage softening and salary cuts, with exceptions confined to high-demand sectors such as grocery stores awarding temporary 'hardship' or 'appreciation' pay. Districts reporting on loan demand described it as high, both from companies drawing on credit lines and from households refinancing mortgages, and business contacts generally expressed highly uncertain outlooks, with most expecting conditions to worsen over the coming months.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions remained strained but showed signs of some stabilization over the intermeeting period. The financial stress index stood at 0.255, a level the staff characterized as elevated but moderate rather than extreme, suggesting that market functioning was strained but had not seized. Equity market volatility remained severe, with the VIX at 41.98, though off its earlier crisis peaks. The Baa corporate bond spread was 3.29, indicating meaningful credit stress and elevated borrowing costs without reaching blowout levels. In money markets, the 3-month Treasury bill spread relative to the current policy rate was -0.015, essentially at the floor, and the 10-year to 2-year Treasury yield curve spread was positive at 0.41, so the curve was not inverted. Taken together, the market data suggested that participants in short-term funding markets viewed the current target range as appropriate and were not pricing a move below it, even as credit and volatility measures continued to reflect the real-economy contraction.

STAFF ECONOMIC OUTLOOK

The staff's outlook was framed by the observation that the estimated neutral rate, r^* , stood at -0.204, implying that the neutral real rate itself sat near or below zero. On this reading, the current target range of 0.0 to 0.25 percent would be accommodative relative to neutral rather than restrictive, notwithstanding its proximity to the effective lower bound. Inflation momentum was only marginally positive at 0.065, and unemployment momentum registered at zero, consistent with an unemployment level that had not yet moved despite the surge in claims. These momentum figures, read alongside the Beige Book's picture of broad price softening and steep employment declines, pointed toward continued disinflationary pressure and a labor market poised to deteriorate substantially in the period ahead as the collapse in activity worked its way into the level data.

The reference-rule outputs illustrated the tension between the lagging slack measures and the unfolding contraction. The Taylor rule prescribed 75 basis points and the Balanced Approach rule 50 basis points, both keyed to an unemployment rate of 4.4 percent essentially at the 4.43 percent natural rate — a reading that had not yet incorporated the labor-market collapse signaled by claims and the activity index. The ELB-adjusted rule returned 50 basis points, acknowledging the lower-bound



environment but still implying room to the current stance. The First-Difference rule, which prescribes change from the existing stance, returned 0 basis points. With the loss-minimizing recommendation at 0 basis points and the reference rules flagged as reliable, the staff analysis indicated that the higher rule prescriptions largely reflected the stale slack snapshot, while the First-Difference logic and the negative neutral-rate estimate together implied that maintaining the current range was consistent with an appropriately accommodative stance given the constraint.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants broadly agreed at the outset that the appropriate action was to maintain the target range at 0.0 to 0.25 percent, and their reasoning, developed across the deliberation, converged from several distinct starting points. The member most attentive to inflation risk emphasized that core PCE at 1.51 percent was below the 2 percent objective rather than above it, and that the Beige Book confirmed broad disinflation — selling and input prices down across most Districts, four Districts reporting further energy price declines, and no District reporting upward wage pressure. On this view there was no inflation threat to fight and hence no case for a hike, while the isolated price increases in freight and some agricultural and consumer goods were understood as supply-chain composition effects rather than broad demand-driven inflation.

The participant weighting employment risk most heavily described the labor data as catastrophic, pointing to initial claims of 5,245,000 in a single week and to the Beige Book's account of steep employment declines in all Districts with more cuts expected. This member's instinct was to press for maximum accommodation, but observed that the funds rate was already at the effective lower bound and that a conventional cut from that point would require moving into negative territory — a step the Committee had not signaled openness to. Support for the labor market, this member concluded, would now have to come through additional tools consistent with the prior guidance to hold the range until the economy had weathered the crisis, not through a rate move that was no longer available. Several participants took some comfort that the disinflation picture removed any inflation constraint, so that nothing argued against accommodation apart from the exhaustion of the rate instrument.

The participant focused on financial stability underscored that the stress data supported holding rather than easing further. The financial stress index at 0.255 was elevated but not extreme, the VIX at 41.98 reflected severe volatility though off crisis peaks, and the Baa spread at 3.29 signaled meaningful but not blowout credit stress — markets strained but functioning. This member argued that cutting into negative territory would risk destabilizing money markets and impairing bank intermediation, which would be counterproductive to credit repair, and that the appropriate response to credit stress was liquidity and lending tools rather than the policy rate. The member attentive to market signals



reinforced this line, noting that the 3-month Treasury bill spread at -0.015 sat essentially at the floor and that the positive 10-year to 2-year curve of 0.41 showed markets pricing neither a further cut nor a hike; on this reading the current range was already what markets viewed as appropriate. The data-dependent member, entering with no strong prior toward either side of the mandate, found the financial-stability and market-signal arguments most decisive at face value and read the literal consensus of the data as a hold.

In the later rounds, participants turned to the framework's loss-minimizing recommendation of 0 basis points and considered the reference-rule outputs directly. Several observed that the Taylor rule at 75 basis points and the Balanced Approach rule at 50 basis points were driven by the near-parity of the 4.4 percent unemployment rate with the 4.43 percent natural rate, and judged that this slack reading was a stale snapshot that the surge in claims and the -4.19 activity index had not yet reached. On this basis participants characterized the hike-implying rules as backward-looking artifacts in the current environment, notwithstanding that the rules were flagged reliable. The First-Difference rule's prescription of 0 basis points was cited by several members as the most persuasive, both because it respected the effective lower bound and because it recognized that the emergency 100 basis point cut had already been delivered. Participants also noted that the estimated neutral rate of -0.204 implied policy was not restrictive despite being near zero, and that holding preserved optionality should demand and prices rebound sharply on reopening. No participant advanced an argument for a cut below zero or for a hike, and in the rebuttal rounds no member was moved to revise; the convergence on the lower-bound constraint was described as clean and mutually reinforcing across the inflation, employment, financial-stability, market-signal, and data-dependent perspectives.

COMMITTEE POLICY ACTIONS

In the predictive round, all five members judged that the appropriate action was to maintain the target range at 0.0 to 0.25 percent, and the final predictive vote was unanimous at 0 basis points, recorded as five members in favor of no change. On the deterministic optimal policy engine's recommendation of 0 basis points, the Committee likewise reached full agreement: all five members endorsed the recommendation as-is, with none declining and none registering partial agreement. The inflation hawk, the labor market dove, the financial stability voice, the data-dependent centrist, and the market signal realist each endorsed maintaining the 0.0 to 0.25 percent range, consistent with the effective lower bound, the absence of any inflation case for tightening, and the prior commitment to hold the range until the economy had weathered the crisis.