



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$6,487.9 billion as of October 28, down \$29.9 billion from the prior release on October 21. The portfolio remained concentrated in Treasury coupon securities, with notes and bonds accounting for \$3,847.2 billion of the total, alongside \$326.0 billion in Treasury bills. Agency mortgage-backed securities holdings totaled \$1,990.6 billion. The manager 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.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 1.38 percent on a twelve-month basis, well below the Committee's 2 percent objective. The unemployment rate was 7.9 percent, far above the estimated natural rate of 4.0 percent, and initial jobless claims remained elevated at 751,000. The Employment Cost Index registered 140.7, and M2 money supply stood at \$18,647.9 billion. The Chicago Fed National Activity Index, at 0.27, was modestly positive, consistent with growth somewhat above its historical trend but well short of a reading that would suggest a full recovery in economic activity.

The most recent Beige Book characterized economic activity as continuing to increase across all Districts, with the pace of growth described as slight to modest in most. Manufacturing generally increased at a moderate pace, and residential housing demand remained steady though constrained by low inventories; commercial real estate conditions, by contrast, continued to deteriorate in many Districts outside of warehouse and industrial space. Consumer spending growth remained positive, with some Districts reporting a leveling off of retail sales. Employment increased in almost all Districts, though growth remained slow and firms continued to report new furloughs and layoffs even as manufacturing added jobs; most Districts described labor markets as tight, attributing this to workers' health and childcare concerns. Wages rose slightly in most Districts, often tied to difficulty finding workers for low-wage or high-demand jobs. Prices rose modestly, with input costs generally increasing faster than consumer prices and only some sectors — notably construction, manufacturing, retail, and wholesale — passing higher costs along. Banking contacts in many Districts expressed concern that delinquency rates might rise in coming months, though such rates had thus far remained stable.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions remained accommodative overall, though with a notable pocket of elevated volatility. The VIX stood at 37.59, well above levels associated with calm markets, signaling persistent risk aversion. By contrast, the financial stress index was relatively low at 0.1443, and



the Baa corporate bond spread of 2.62 indicated meaningful but not crisis-level credit-cost pressure. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 0.69, offering no acute recession signal. The 3-month T-bill traded 2.5 basis points below the current policy rate, essentially flat and consistent with market expectations of no near-term change in policy. Taken together, the indicators pointed to broadly easy conditions coexisting with lingering volatility rather than a renewed tightening of financial conditions.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral real rate and on momentum measures for the two mandate variables. The estimated r^* was negative, at -0.199 , implying that a neutral setting of policy is already very low and that the current target range does not represent an unusually loose stance relative to that benchmark. Unemployment momentum was strongly negative at -3.15 , consistent with a continued but gradual decline in the jobless rate from its elevated level; inflation momentum was modestly positive at 0.185 , suggesting little near-term impetus toward or beyond the 2 percent objective. These readings together imply a projected path in which labor-market conditions improve slowly while price pressures remain subdued.

The reference rules were reported as reliable under current conditions. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule all pointed to 0 basis points, and the loss-minimizing recommendation likewise came to 0 basis points. The First-Difference rule was the lone outlier at 75 basis points, reflecting its change-based sensitivity to the improving unemployment momentum rather than the still-wide level of the employment gap. On balance, the level-based rules and the negative neutral rate implied that maintaining the current setting was the loss-minimizing path, with the momentum-driven divergence flagged as a signal to monitor rather than to act upon.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive discussion, all participants arrived independently at a preference for holding the target range at 0.0 to 0.25 percent. The inflation-focused participant framed the central question as whether inflation risk was elevated enough to justify tightening, and concluded plainly that it was not: core PCE at 1.38 percent represented a persistent undershoot, not an overshoot, with the Beige Book showing only modest price increases, limited passthrough of input costs, and slight wage growth. Absent any wage-price pressure to lean against, and with rates already at the floor, this participant saw no case for either direction and judged holding fully consistent with the prior guidance to maintain accommodation until inflation reaches 2 percent and the labor market recovers.



The participant most attentive to labor conditions emphasized that unemployment at 7.9 percent was nearly double the 4.0 percent natural rate, that initial claims at 751,000 remained elevated, and that the Beige Book described employment growth as slow amid ongoing furloughs and layoffs. This participant's instinct was toward maximum accommodation, but recognized the binding practical constraint: with the range already at the effective lower bound, there was no conventional room to ease further. A point raised by the participant focused on financial stability proved persuasive here — that moving into negative territory would risk destabilizing money markets and compressing bank margins, potentially harming credit availability and, in turn, employment. Holding at the floor was therefore judged the maximally supportive stance available. The financial-stability participant, for their part, stressed that while the VIX at 37.59 warranted monitoring, elevated volatility alone — unaccompanied by a spike in the stress index or a crisis-level widening of the Baa spread at 2.62 — did not justify emergency action, and flagged deteriorating commercial real estate and banking contacts' delinquency concerns as latent risks to watch rather than immediate triggers.

The data-dependent participant, taking indicators at face value without a mandate tilt, observed that inflation was too low to justify a hike and the labor market too weak to justify tightening, while the rate sat at its floor — a configuration in which every mandate consideration pointed the same way. The market-signal participant reinforced this from the pricing side: the slightly negative T-bill spread implied no near-term move, the positively sloped yield curve gave no recession-driven easing signal, and the low stress index indicated conditions that were accommodative rather than acutely tight. Both rounds of the predictive discussion closed with the Committee unanimous, no participant having offered an argument to move in either direction.

When the discussion turned to the framework's loss-minimizing recommendation, participants found their predictive conclusions confirmed. Several noted that four of the five reference rules clustered at 0 basis points and that the negative estimated neutral rate of -0.199 meant a neutral policy setting was already very low, leaving no room to tighten. The First-Difference rule's 75 basis point reading drew consistent attention as an outlier: the labor-focused participant judged it 'completely wrong given the huge employment gap,' the centrist described it as momentum-driven and unsupported by levels, and the market-signal participant observed that markets were not pricing any such tightening. Participants generally judged that the rule reacted to the improving unemployment momentum of -3.15 while ignoring the still-crisis-elevated level of joblessness and the effective lower bound.

In the concluding rebuttal, no participant was moved from the hold position, and the reasoning if anything converged more tightly. The inflation-focused participant reiterated that inflation momentum of 0.185 was far from overheating and said that, as a matter of discipline, there was simply



no inflation risk to lean against, while noting they would monitor input-cost pass-through as a future signal. The labor and stability participants each drew support from the market-signal participant's read that markets priced no hike and continued to demand liquidity, and the centrist characterized the consensus as genuine rather than forced, with no member offering data that contradicted a hold. A few participants emphasized that holding at the floor, far from being a passive choice, was the actively appropriate and maximally supportive stance given the wide employment gap, subdued inflation, and lingering financial fragility.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five participants supported maintaining the target range for the federal funds rate at 0.0 to 0.25 percent, a unanimous 5-0 outcome with no participant favoring a change in either direction. On the framework's loss-minimizing recommendation of 0 basis points, the Committee was likewise in full agreement: all five members — the inflation-focused participant, the labor-market participant, the financial-stability participant, the data-dependent centrist, and the market-signal participant — endorsed the recommendation as presented, with none declining and none registering only partial support. The predictive and optimal-side deliberations thus reached the same conclusion, reinforcing the Committee's judgment that the current stance remained appropriately calibrated.