



## **DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS**

The System Open Market Account's domestic securities holdings were reviewed as of the most recent release. The manager noted that these figures cover SOMA securities holdings only — 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; accordingly, this review is limited to the outright holdings reported.

## **STAFF REVIEW OF THE ECONOMIC SITUATION**

The staff reviewed data indicating that the recovery remained under way but incomplete. Core PCE inflation stood at 1.14 percent on a twelve-month basis, running well below the Committee's 2 percent objective. The unemployment rate was 6.7 percent, still far above the estimated natural rate of 4.37 percent, and initial jobless claims remained elevated at 712,000. The Chicago Fed National Activity Index at 0.83 and an Employment Cost Index reading of 141.4 were consistent with ongoing but uneven expansion, and M2 stood at \$18,812.1 billion.

The Beige Book characterized economic activity as increasing moderately, with staff levels rising slightly. Firms tied to IT, housing, and consumer durables were faring better than those in travel, energy, and hospitality. Supply chain constraints were reported to have boosted transportation costs and prices for certain construction and manufacturing inputs, though contacts generally described wage and price growth as modest to slight. Hiring plans were restrained because of the pandemic's uncertain path. Across Districts the tone was one of gradual improvement layered over persistent softness: Richmond reported robust housing and strong port and trucking volumes; Atlanta and Chicago noted moderate gains but flagged challenged commercial real estate; Minneapolis pointed to child care and virtual schooling as obstacles to labor participation, particularly among women; and St. Louis reported that conditions deteriorated toward the end of the reporting period, with the twelve-month outlook improved but still slightly pessimistic.

## **STAFF REVIEW OF THE FINANCIAL SITUATION**

Financial conditions were broadly stable and accommodative. The financial stress index at 0.1161 was low, indicating calm rather than tight conditions, and the VIX at 22.27 was elevated relative to placid norms but well short of crisis levels. The Baa corporate spread of 2.22 was historically moderate, pointing to functioning credit markets without signs of seizure. The 10-year/2-year Treasury spread of 0.79 was positively sloped, showing no inversion that would signal an imminent recession, and the 3-month T-bill spread of -0.035 relative to the current rate was negligible, consistent with front-end pricing anchored at the effective lower bound and showing no funding-market strain. Taken together,



the indicators described orderly markets and ample liquidity.

## STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the momentum readings. With  $r^*$  estimated at  $-0.188$ , the neutral real rate was below zero, implying that the current target range of 0.0 to 0.25 percent leaves policy genuinely accommodative and that the effective lower bound is binding — unconstrained policy prescriptions would call for going lower, but that path is not available. Inflation momentum of 0.41 was mild and did not point to a near-term breakout above target, suggesting inflation would likely remain below 2 percent for some time even as localized supply-chain cost pressures persisted. Unemployment momentum of  $-1.6$  indicated the labor market was still improving, though from a deeply damaged starting point and against a still-large gap to the natural rate, implying only gradual progress toward maximum employment.

The reference-rule outputs were judged reliable this meeting and converged uniformly on 0 basis points: the Taylor rule, the Balanced Approach rule, the First-Difference rule, and the ELB-adjusted rule all read 0 bps. The convergence reflected the combination of below-target inflation, a wide employment gap that argued against any withdrawal of accommodation, and a binding lower bound that removed further easing as an option. The staff projection was accordingly one of continuity: conditions consistent with holding the current stance, with the recovery expected to proceed modestly and unevenly, and with the path dependent on the evolution of the pandemic.

## PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their independent opening assessments, all five participants arrived at the same conclusion — no change to the target range — though from distinct vantage points. The member most attentive to inflation risk observed that core PCE at 1.14 percent was running well below target, so that even a hawkish reading found no trigger to tighten; the only inflation watch item was the Beige Book note on supply-chain costs lifting certain input prices, which this member judged localized rather than broad-based. With rates already at the floor there was nothing to cut, and no crisis to force emergency action in either direction.

The employment-focused member weighted the labor data heavily — 6.7 percent unemployment against a 4.37 percent natural rate, elevated claims, and restrained hiring plans — and expressed an instinct toward maximum accommodation. The decisive constraint, this member concluded, was the effective lower bound: cutting into negative territory was not supported and could disrupt markets, so holding at the floor already delivered the maximum feasible accommodation and was itself the pro-employment vote rather than a retreat from one. The stability-minded participant emphasized



that the stress index at 0.1161, a contained Baa spread of 2.22, a positively sloped curve, and a negligible T-bill spread all described calm, functioning markets; from that lens there was no case to tighten and little benefit to cutting at the lower bound, where such a move might instead signal alarm. The data-dependent member read the indicators at face value and favored the most literal consensus outcome, while the market-signal participant noted that front-end pricing and the Committee's own median projected rate of 0.1 percent both sat inside the current band, confirming that markets had priced no change.

In the rebuttal round no participant was moved from that position. The employment-focused member reaffirmed vigilance on the incomplete labor recovery and readiness to resist any tightening, while accepting that holding was the correct expression of an accommodative stance given the binding floor. The stability member acknowledged St. Louis's report of late-period deterioration and lingering pandemic uncertainty but judged that these argued for maintaining accommodation, not changing course. The inflation-focused member reiterated that supply-chain pressures remained a watch item rather than evidence of a breakout.

Turning to the framework's loss-minimizing recommendation of 0 basis points, participants found their own reasoning reinforced. Several singled out the ELB-adjusted rule as most persuasive: with  $r^*$  at -0.188, neutral was below zero, the lower bound was binding, and holding at 0.0 to 0.25 percent was the literal optimum since further easing was unavailable. The inflation-focused member found the Taylor rule most compelling because it directly incorporated the inflation gap and still produced no room to tighten, and flagged that if the noted cost pressures were to broaden, inflation vigilance would argue for readiness to move sooner than a dove would. The employment-focused member read the ELB-adjusted rule as recognizing that holding at the floor sustains maximum support until the labor gap closes, and cited downside risks — the uncertain virus path and fiscal-support dependence for lower-income households — as reinforcing keeping policy maximally easy. The stability member added that ample M2 liquidity and the absence of funding strain meant withdrawing accommodation would risk destabilizing still-fragile credit channels, and pointed to challenged commercial real estate and a cautious small-business outlook as latent vulnerabilities to avoid aggravating.

Across the final exchange, participants agreed that the alignment of the reference rules, market pricing, and their own varied priorities was itself informative: the convergence indicated that the lower-bound hold was genuinely calibrated rather than a lagging stance, and that any divergence would have signaled a possible policy error. Participants generally judged that prior guidance tying rates near zero until the economy reaches maximum employment and 2 percent inflation implied continuity at the current range, since neither condition had been met and no destabilizing catalyst had



emerged.

### 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 for no change. On the deterministic 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 predictive decision and the optimal-side outcome therefore coincided, with the inflation-focused, employment-focused, stability-focused, data-dependent, and market-signal members each endorsing the hold at the effective lower bound.