



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of January 20, 2021, total SOMA domestic securities holdings stood at \$6,802.9 billion, comprising \$4,044.2 billion in Treasury notes and bonds, \$326.0 billion in Treasury bills, and \$2,090.0 billion in agency mortgage-backed securities. This represented an increase of \$81.1 billion from the prior release of January 13, 2021, with the bulk of the portfolio remaining concentrated in longer-dated Treasury securities. It should be noted that these figures cover SOMA securities holdings only — total size, composition, and week-over-week change — and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data on economic activity, the labor market, and prices. Core PCE inflation was running at 0.98 percent on a twelve-month basis, roughly half the Committee's 2 percent objective. The unemployment rate stood at 6.7 percent, well above the estimated natural rate of 4.36 percent, indicating substantial remaining slack in the labor market. Initial claims for unemployment insurance remained elevated at 965,000. The Chicago Fed National Activity Index registered 0.27, and the Employment Cost Index stood at 141.4, consistent with only modest wage gains. M2 money supply was reported at \$19,186.9 billion.

The most recent Beige Book characterized economic activity as expanding modestly, with labor markets described as mixed and some nonlabor costs continuing to rise. Retail sales were down on balance and tourism activity slowed, while residential real estate demand remained strong and home prices continued to rise; challenges persisted in commercial real estate. Manufacturing activity rose and conditions at financial institutions were reported as stable. District-level reports reinforced the picture of an uneven, incomplete recovery: several Districts noted activity remaining below pre-pandemic levels, holiday spending that came in better than feared but below the prior year, and health risks and other obstacles keeping some workers out of the labor force. Wage and price pressures were generally described as slight to modest across Districts, and outlooks, though often positive, remained clouded by elevated uncertainty.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were broadly accommodative and showed no signs of acute stress. The financial stress index stood at 0.1147, a low reading consistent with orderly conditions. The VIX was moderate at 21.58 — elevated relative to calm periods but well short of crisis levels, consistent with residual pandemic uncertainty rather than market dislocation. The Baa corporate spread of 2.13 percentage



points indicated that credit markets were functioning normally, without the widening seen in periods of acute credit strain. The 10-year/2-year Treasury spread was positively sloped at 0.97 percentage point, offering no inversion-based recession signal, while the 3-month Treasury bill spread relative to the current policy rate was essentially flat at -0.035 percentage point, indicating a well-anchored front end and no expectation of a near-term policy move.

STAFF ECONOMIC OUTLOOK

The staff outlook was framed around the forward-looking quantities available to the Committee. The estimated neutral real rate (r^*) was -0.208, implying that the neutral setting of policy lay below zero and that the current target range of 0.0 to 0.25 percent was genuinely accommodative rather than merely nominally low. Inflation momentum was barely positive at 0.055, pointing to no meaningful acceleration in price pressures over the projection horizon. Unemployment momentum at -0.85 indicated ongoing improvement in the labor market, though from a level still far from maximum employment given the gap between the 6.7 percent unemployment rate and the 4.36 percent natural rate.

The reference-rule outputs were mutually reinforcing: the Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule each prescribed no change in the policy rate, and the rules were judged reliable for this meeting. Taken together, these figures implied a projected path in which inflation remains below target for some time while labor-market slack narrows only gradually, with the effective lower bound binding on the conventional policy tool. The staff analysis suggested that, absent a marked change in inflation momentum, conditions consistent with the current stance were likely to persist over the near term.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants broadly agreed that the data offered no case for either tightening or easing and that maintaining the current target range was warranted. Approaching the question from an inflation-focused perspective, one participant emphasized that core PCE at 0.98 percent represented persistent undershooting rather than overshooting, and that inflation momentum of 0.055 showed no acceleration toward any concern threshold. This participant noted that the large gap between unemployment at 6.7 percent and the 4.36 percent natural rate, together with elevated jobless claims, pointed to conditions that typically restrain rather than accelerate inflation. While some nonlabor costs were rising and home prices remained strong, these were viewed as localized rather than evidence of a broad wage-price dynamic; the Employment Cost Index and Beige Book reports of only modest wage gains reinforced that reading. This participant stressed continued vigilance, indicating a readiness to advocate reassessing the stance promptly should inflation momentum turn up



as vaccination progressed.

A participant most attentive to labor-market outcomes described the employment picture as one of deep and incomplete recovery, citing the wide unemployment gap, initial claims at 965,000, and Beige Book characterizations of mixed labor markets with health risks keeping some workers out of the labor force. This participant's instinct was to support additional accommodation for employment, but noted that the decisive constraint was the effective lower bound: with the range already at 0.0 to 0.25 percent, a conventional cut would push rates into or below zero, an unproven and risky step not justified by the orderly financial conditions prevailing. Given that r^* was estimated below zero, the current stance was judged genuinely accommodative, and holding at the floor was seen as the most supportive feasible choice for the labor market, with employment support continuing to flow through asset purchases.

A participant focused on financial stability read the stress and credit indicators as uniformly calm — a low stress index of 0.1147, a contained Baa spread of 2.13, a positively sloped yield curve, and a front end well-anchored to the current range. From this vantage the central concern was that any surprise move in either direction could destabilize conditions that were currently stable, and that a hold avoided introducing a policy shock. This participant flagged the persistent challenges in commercial real estate noted in the Beige Book as a latent credit risk best not aggravated. A participant weighting market signals most heavily reached the same conclusion by a different route, observing that the flat 3-month bill spread implied markets expected no near-term move and that the coherence of the curve, spreads, and stress index indicated the current range was correctly priced.

The data-dependent participant offered a literal reading of the indicators, noting that below-target inflation and substantial labor-market slack both pointed toward maintaining the current stance, and that the prior meeting's guidance to hold until maximum employment and inflation moderately above 2 percent remained far from met on both counts. Across the discussion, participants observed that the four reference rules all returned no change and were judged reliable, and that the framework's loss-minimizing recommendation coincided with the stance each had independently reached. Several participants remarked that this convergence — from inflation, employment, stability, market, and data-driven lenses alike — revealed a stance that was appropriately calibrated rather than the product of any single dominant concern.

In the rebuttal rounds, no participant was moved to revise. The inflation-focused participant reaffirmed that hawkish vigilance was simply not triggered by the data while remaining alert to any upturn in inflation momentum; the employment-focused participant confirmed that holding at the floor already served the labor mandate maximally given the binding lower bound; and the stability, market, and



data-dependent participants each noted that the arguments raised by others reinforced rather than challenged their reading. Participants generally judged that both legs of the mandate, together with the reference rules and the negative estimate of r^* , pointed to the same outcome.

COMMITTEE POLICY ACTIONS

The Committee's predictive vote was unanimous, with all five members supporting no change to the target range for the federal funds rate, leaving it at 0.0 to 0.25 percent (a tally of 5 to 0). On the separate question of the deterministic optimal policy framework's recommendation of 0 basis points, the outcome was likewise one of full agreement: all five members — the inflation hawk, the labor market dove, the financial stability voice, the data-dependent centrist, and the market signal realist — endorsed the recommendation as-is, with none declining and none registering a partial reservation on magnitude or timing.