



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's holdings of domestic securities totaled \$7,202.7 billion as of the April 21 release, the most recent available on or before the point-in-time-safe cutoff. Treasury notes and bonds accounted for \$4,276.0 billion of the portfolio, Treasury bills for \$326.0 billion, and agency mortgage-backed securities for \$2,237.1 billion. Holdings rose by \$25.1 billion from the prior release on April 14, reflecting the continued pace of purchases. The staff noted that these figures cover SOMA securities holdings only — total size, composition, and the week-over-week change — and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists; that dimension of open market operations is therefore not reported here.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 1.95 percent on a twelve-month basis, just below the Committee's 2 percent objective. The unemployment rate was 6.0 percent, well above the estimated natural rate of 4.46 percent, leaving a gap of roughly 1.5 percentage points. Initial jobless claims remained elevated at 576,000. The Chicago Fed National Activity Index registered -1.09, signaling activity below its historical trend. The Employment Cost Index reading was 142.4, and M2 stood at \$19,669.8 billion. The current federal funds target range was 0.0 to 0.25 percent, with the Committee's most recent SEP median projected rate at 0.1 percent.

Beige Book reports described an economy expanding at a modest-to-moderate pace across most districts, with several districts noting a pickup. New York reported growth at a strong pace for the first time during the pandemic, broad-based across industries, with hiring picking up and wages growing moderately. Cleveland described expansion accelerating alongside a new round of government stimulus and wider vaccine availability, with even the hard-hit accommodation and food services sector showing improvement. A recurring theme was the interplay of firm demand and supply constraints: Philadelphia characterized demand as 'on fire' while noting that 'myriad supply constraints' held activity below pre-pandemic levels. Richmond and Cleveland reported spreading supply-chain disruptions, delays, and shortages of raw materials and finished goods, putting upward pressure on input costs. New York noted that input price pressures had intensified and that more businesses were raising selling prices, and several First District contacts voiced growing concerns about inflation. On balance, prices across districts were reported to have risen at modest to moderate paces.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and accommodative. The financial stress index stood at 0.094, a very low reading indicating no market strain, and the VIX was subdued at 17.5. The Baa



corporate bond spread was 2.0, consistent with tight, healthy credit conditions and no signs of widening. The 10-year/2-year Treasury spread was steeply positive at 1.42, showing no inversion and no recession signal from the yield curve. The 3-month T-bill spread relative to the current policy rate was slightly negative at -0.095, consistent with a front end anchored at the effective floor and no near-term tightening priced in. Taken together, these readings pointed to well-functioning markets and easy borrowing conditions.

STAFF ECONOMIC OUTLOOK

The staff's projection drew on several forward-looking quantities. The estimated neutral real rate (r^*) was negative at -0.196, implying that the current 0.0 to 0.25 percent target range is less accommodative in real terms than its nominal level alone would suggest, and that little room exists to ease further before reaching negative territory. Inflation momentum was modestly positive at 0.165, consistent with the upstream cost and selling-price pressures documented across districts and pointing to some further upward drift in price readings in the near term. Unemployment momentum was negative at -0.25, indicating gradual improvement in labor market conditions rather than rapid healing of the roughly 1.5-percentage-point gap to the natural rate.

The reference-rule outputs reinforced this picture. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each prescribed 0 basis points, reflecting the dominance of the large employment gap and near-target inflation. The First-Difference rule was the sole outlier at 25 basis points, a reading that weights recent momentum rather than the level of the gaps and that is bounded away from relevance by the effective lower bound. The framework judged the reference rules reliable. On balance, the projection implied conditions that support maintaining the current stance: an incomplete recovery still short of maximum employment, inflation approaching but not yet exceeding target, and building but supply-tilted price pressures that warranted monitoring rather than immediate response.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

All participants entered the discussion favoring no change to the 0.0 to 0.25 percent target range, but they arrived at that view from distinct vantage points, and the deliberation surfaced genuine differences of emphasis. Participants generally judged that the two conditions embedded in prior guidance — maximum employment and inflation running above 2 percent — were both unmet. Core PCE at 1.95 percent sat just below target, and unemployment at 6.0 percent remained far above the 4.46 percent natural rate. Several participants pointed to the 576,000 level of initial claims and the Chicago Fed index reading of -1.09 as confirmation that activity remained below trend and the labor recovery incomplete.



The participant most focused on inflation risk drew attention to the Beige Book's saturation with price signals — intensifying input costs in New York, spreading supply-chain disruptions in Cleveland and Richmond, firms raising selling prices, and wage growth across multiple districts — and later noted that inflation momentum read positive at 0.165 and that the Employment Cost Index reading added to concern about cost-push pressure. This participant was candid that a hawkish trigger had not been met: core PCE was at, not above, target, and the large employment gap muted any case for tightening. This participant emphasized that holding at the effective lower bound was a genuine floor rather than an accommodation-adding choice, since no rule recommended a cut, and asked that the record reflect a balance of risk tilting toward inflation, with patience that would erode if price pressures broadened beyond supply factors and ceased to look transitory.

The participant weighting employment most heavily framed the same data through the lens of labor-market slack, arguing that the roughly 1.5-percentage-point gap to the natural rate and still-elevated claims argued firmly against any tightening. This participant considered whether weakness warranted easing but concluded that rates were already at the effective floor with essentially no room to cut, that the steep yield curve and low stress readings showed no recession signal demanding emergency action, and that district reports of hiring picking up and moderate wage growth described an economy improving rather than deteriorating. Beige Book price pressures were read as supply-driven and likely transitory rather than sustained and wage-driven.

The participant attentive to financial stability observed that the stress index at 0.094, the VIX at 17.5, and the Baa spread at 2.0 collectively indicated calm, well-functioning markets with no credit distress or systemic risk, and that the steep, non-inverted 2s10s curve carried no recession signal. This participant judged that tightening into such benign conditions would risk disrupting them with no offsetting stability benefit, while a cut was unwarranted. The participant most attuned to market pricing noted that the negative 3-month bill spread of -0.095 implied no near-term hikes were priced, and that the steep curve reflected expectations of eventual reflation far out rather than imminent action — markets, in this reading, had already efficiently priced a hold and saw the district price pressures as consistent with a tolerance for temporary overshoot. The data-dependent participant tied the strands together, stressing the literal reading that both mandate conditions remained open and that three of four reference rules pointed to 0 basis points.

In reconciling their views with the optimal-policy framework, participants converged on the same conclusion. They noted that the negative r^* of -0.196 meant the current stance was already accommodative in real terms and left little room to ease, that unemployment momentum at -0.25 signaled only gradual improvement, and that the Taylor, Balanced Approach, and ELB-adjusted rules all



printed 0 basis points because the employment gap dominated the loss function. The First-Difference rule's 25 basis point reading was widely treated as an outlier that weighted momentum over the level gaps and did not respect the effective lower bound or the anchored front end that market pricing signaled. No participant argued for a cut, a point the inflation-focused participant emphasized as consistent with a refusal to add accommodation, and no participant was persuaded to hike, given inflation still below target and the wide employment gap. The rebuttal rounds did not shift any participant's emphasis; each reaffirmed that holding at 0.0 to 0.25 percent was the loss-minimizing call from their own priority.

COMMITTEE POLICY ACTIONS

In the predictive phase, all five participants indicated a preference for maintaining the target range at 0.0 to 0.25 percent, a unanimous 5-to-0 outcome with no participant favoring a change in either direction. On the optimal-policy framework's recommendation of 0 basis points, the Committee's recorded stance was likewise unanimous: 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 partial agreement. The predictive vote and the optimal-side outcome were therefore in full agreement.