



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The manager reported that total System Open Market Account holdings of domestic securities stood at \$8,392.2 billion as of June 8, essentially unchanged from the prior release on June 1. The composition remained heavily weighted toward Treasury notes and bonds, at \$4,942.8 billion, with Treasury bills at \$326.0 billion and agency mortgage-backed securities at \$2,698.6 billion. Members were reminded that this account summary covers SOMA securities holdings only — total size, composition, and week-over-week change — and does not reflect the results of repo or reverse-repo operations, for which no point-in-time-safe data source is currently available. The flat week-over-week change is therefore a statement about the securities portfolio and should not be read as characterizing operations beyond it.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed data showing inflation still running well above the Committee's objective. Core PCE inflation stood at 3.82 percent on a year-over-year basis, nearly double the 2 percent target. The Employment Cost Index registered 150.1, consistent with the continued wage growth reported broadly across districts. Labor market indicators pointed to persistent tightness: the unemployment rate was 3.6 percent, well below the estimated natural rate of 4.44 percent, and initial jobless claims were low at 200,000. The Chicago Fed National Activity Index at 0.47 indicated above-trend growth, and M2 money supply was reported at \$21,728.0 billion.

The Beige Book reinforced the picture of firm but decelerating activity accompanied by broad price and wage pressure. Several districts described growth as slight or modest, with slowing attributed to supply disruptions, worker shortages, and a COVID resurgence. Labor scarcity was a widespread problem, with headcounts increasing only slightly in some districts and rising moderately to strongly in others. Wage and price growth were reported as widespread across nearly every district, though a couple of districts noted the pace of both had eased somewhat. Notably, the reports also carried a cautionary tone: contacts in multiple districts cited 'growing fears of recession,' with consumers and firms described as turning more cautious, retail sales moderating, and housing demand softening slightly in places.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as moderately tight but orderly. The financial stress index at 0.2167 indicated no systemic strain, and the Baa corporate spread over Treasuries at 2.07 was moderate, showing no acute widening or funding stress in credit markets. The VIX at 23.96 was elevated but not at panic levels, consistent with markets digesting expectations for firmer policy rather than pricing disorderly repricing. The 10-year/2-year Treasury spread at 0.25 remained positive though



flattening, so the curve was not signaling an imminent recession. The 3-month Treasury bill spread of 0.365 over the current 0.75 to 1.0 percent target range indicated that markets had already priced in substantial near-term tightening, a step meaningfully larger than an incremental move.

STAFF ECONOMIC OUTLOOK

The staff outlook emphasized that policy remained accommodative relative to the destination implied by both reference rules and the Committee's own last projected 1.9 percent median. With the current target range at 0.75 to 1.0 percent, the reference rules were judged reliable this meeting and pointed uniformly toward a 75 basis point step: the Taylor rule, Balanced Approach rule, First-Difference rule, and ELB-adjusted rule all printed 75 basis points, reflecting an inflation gap that remains large and an unemployment rate below its natural level.

At the same time, the loss-minimizing framework recommended 50 basis points, and the staff described the sources of that divergence. The estimated neutral rate (r^*) was negative at -0.5 , implying that a given nominal move delivers restriction sooner than the headline figure suggests and that less total tightening is needed to reach a restrictive stance. Inflation momentum was low at 0.095, consistent with price pressures that may be plateauing rather than accelerating, and unemployment momentum was slightly negative at -0.15 , indicative of cooling from an overheated state rather than deterioration. Taken together, these forward-looking quantities suggested that conditions were likely to continue firming along an upward path, with the framework trading a modest amount of front-loading speed for reduced risk of overshooting into an environment where recession fears were already surfacing.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive positions, participants agreed that inflation was the binding problem this meeting but differed on the appropriate pace of tightening. Three members opened in favor of a 75 basis point move and two favored 50 basis points. The participant most focused on inflation argued that core PCE near 4 percent alongside broad, robust wage and price growth in the Beige Book made falling behind the curve the greater danger, and that with the range far below the prior 1.9 percent projected median, a decisive move was needed to reassert credibility. The participant weighting financial stability reached the same conclusion from a different direction, judging that with the stress index at 0.2167, the Baa spread at 2.07, and the VIX contained near 24, markets could absorb a larger move without disorderly repricing — and that under-delivering relative to market pricing risked a sharper, more destabilizing cycle later.



The participant most attentive to market signals grounded the 75 basis point case in the 3-month T-bill spread of 0.365 over the current range, which he read as markets pricing a jump well beyond incremental hiking, with the still-positive 10-2 spread indicating no imminent recession fear. The two participants initially favoring 50 basis points emphasized restraint. The participant focused on labor risk noted that with unemployment at 3.6 percent, claims at 200,000, and headcounts still rising across districts, there was no employment weakness to defend against, so his usual caution was muted; but the recession fears and softening in some districts argued against overtightening into a labor market he wished to preserve. The data-dependent participant likewise weighed the strong inflation and labor data against Beige Book recession sentiment. On rebuttal, the data-dependent participant was persuaded to revise upward to 75 basis points, finding the T-bill spread argument compelling and the recession concern to be sentiment rather than hard data, while the labor-focused participant held at 50. The final predictive vote was 4 to 1 in favor of 75 basis points.

The Committee then turned to the framework's loss-minimizing recommendation of 50 basis points, which diverged from both the unanimous reference rules and the predictive vote. Participants engaged seriously with why the two figures differed. Several observed that the negative r^* estimate of -0.5 meant neutral was low, so restriction arrives sooner than the headline hikes suggest, and that low inflation momentum at 0.095 tempered the case for maximum front-loading. The labor-focused participant characterized the slightly negative employment momentum as cooling from overheated conditions rather than deterioration, and judged that a 50 basis point step would tighten meaningfully while preserving a still-strong labor market. The financial-stability participant agreed that a 50 basis point move advanced decisively toward neutral without shocking credit or equity markets, and endorsed pairing any moderation with a clear commitment to further increases.

Two participants — the labor-focused and financial-stability members — endorsed the 50 basis point recommendation as-is. The remaining three agreed with the upward direction but preferred the larger magnitude. The inflation-focused participant acknowledged that 50 basis points remained firmly restrictive-directional and that he could accept the direction, but insisted that with inflation near 4 percent, front-loading speed should not be sacrificed, and that any moderation to 50 be paired with a firm commitment to additional hikes. The data-dependent participant found 50 defensible in direction but too small in magnitude given the reliable unanimous rules and the decisive inflation gap. The market-signal participant held that the embedded T-bill spread implied markets were braced for and had priced a larger step, and that none of the arguments offered a market-based signal contradicting that read; he respected the loss-minimizing logic but weighted the market path toward 75. Participants generally agreed the disagreement was one of pace, not direction — both the rules and the framework pointed unambiguously upward.



COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy action at this meeting, the Committee's recorded vote was 4 to 1 in favor of a 75 basis point increase, with one member favoring 50 basis points. On the framework's loss-minimizing recommendation of a 50 basis point increase, the Committee did not divide over direction — no member declined the recommendation — but it split on magnitude. Two of the five members (the labor-market-focused participant and the financial-stability participant) endorsed the 50 basis point recommendation as-is, while three members (the inflation-focused, data-dependent, and market-signal participants) agreed with the upward direction but preferred the larger 75 basis point step. The recorded optimal-side tally was thus two endorse, three partial, and zero decline.