



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The Committee reviewed the most recent data on the System Open Market Account. As of October 26, total SOMA domestic securities holdings stood at \$8,189.7 billion, comprising \$4,804.8 billion in Treasury notes and bonds, \$298.3 billion in Treasury bills, and \$2,670.0 billion in agency mortgage-backed securities. This represented a decline of \$23.3 billion from the prior release of October 19, continuing the gradual reduction in the portfolio. It was noted that this review covers SOMA securities holdings only — total size, composition, and the week-over-week change — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists; accordingly, no discussion of those operations was undertaken.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that inflation remained well above the Committee's 2 percent objective. Core PCE inflation stood at 4.27 percent on a twelve-month basis. Labor market conditions remained tight: the unemployment rate was 3.5 percent, well below the estimated natural rate of 4.43 percent, and initial jobless claims were 214,000, giving no indication of deterioration in labor demand. The Employment Cost Index registered 152.1, and the Chicago Fed National Activity Index was 0.1, consistent with activity near trend. M2 stood at \$21,503.4 billion.

The Beige Book material pointed to a broadly softening picture even as price pressures persisted. Activity was described as contracting at a modest pace overall, with employment continuing to grow modestly and labor shortages easing somewhat while wage growth slowed a bit. Consumer spending was reported as flat and manufacturing as weakening slightly, and businesses were characterized as increasingly pessimistic about the outlook. Across districts the accounts were varied but shared a common thread: activity in several districts was flat or little changed, home construction and existing-home sales declined, and talk of recession rose among contacts. Pricing pressures were repeatedly described as persistent, though several districts reported that cost and price growth had moderated or eased, unevenly. A number of districts continued to note labor shortages, rising wages, and use of non-wage incentives to recruit and retain staff, with one district reporting that wages rose rapidly.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as tighter but not disorderly. The financial stress index stood at 0.2665, a moderate reading rather than one signaling acute systemic distress. The VIX was 27.28, elevated and indicative of jittery markets but short of panic-level volatility. The Baa corporate spread was 2.37, contained and consistent with credit markets that continued to function without



dramatic widening. The 10-year/2-year Treasury spread was inverted at -0.35 , a signal often associated with rising recession risk, while the 3-month T-bill spread of 0.845 over the current target rate suggested that markets were pricing in a meaningful further increase in the near-term policy rate.

STAFF ECONOMIC OUTLOOK

The staff projection took as its starting point that policy had not yet reached a restrictive setting. With the current target range at 3.0 to 3.25 percent, the estimated neutral rate (r^*) of -0.5 percent embedded in the loss framework and the Committee's prior median projection of 4.4 percent both implied that the policy rate remained below the level the staff judged consistent with returning inflation to target. Inflation momentum was still positive at 0.085 , indicating that price pressures had not yet decisively turned, while unemployment momentum was modest at 0.05 , consistent with a labor market that had not begun to loosen materially.

The reference rules were assessed as reliable in the current environment. The Taylor rule and the First-Difference rule each pointed to a 75 basis point increase, reflecting the large inflation gap set against a labor market operating well below its estimated natural rate. The Balanced Approach and ELB-adjusted rules instead indicated a 25 basis point reduction, drawing heavily on the negative neutral-rate estimate and on softening-demand considerations. Taken together, the staff read the balance of these inputs as implying that conditions were likely to warrant continued firm tightening in the near term, with the inversion of the yield curve serving as a marker of elevated recession risk further out rather than a signal of imminent easing.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants agreed that inflation remained the dominant concern. Core PCE inflation at 4.27 percent stood at more than double the 2 percent objective, and several participants pointed to the Beige Book characterization of pricing pressures as persistent, together with reports of continued and in some districts rapid wage gains, as evidence that the disinflation process had not yet taken firm hold. Against this backdrop, and with the target range at 3.0 to 3.25 percent still below the Committee's prior 4.4 percent projected endpoint, participants generally judged that policy was not yet restrictive enough and that further tightening was warranted. All five participants opened with a view favoring a 75 basis point increase, though the reasoning and the degree of comfort with that pace differed across the group.

The participant most focused on inflation risk was the most unequivocal, judging that a tight labor market — unemployment at 3.5 percent, well below the 4.43 percent natural rate, and jobless claims at $214,000$ — left no employment-side reason to slow, and that softening growth was an acceptable cost



of securing price stability. This participant discounted the recession signals, including the -0.35 yield-curve inversion and the VIX at 27.28, as real but not disqualifying given that credit spreads and the financial stress index remained short of crisis levels. The participant attentive to labor conditions reached the same vote by a different route: the trigger for caution, a rise in unemployment or a slowing of job growth, was simply not present, with the Beige Book still showing employment growing modestly and firms planning to add workers. This participant nonetheless flagged a genuine preference to moderate the pace at a coming meeting should any labor softening emerge, and described the case for stepping down to 50 basis points as the most persuasive challenge to the consensus.

The participant most attentive to financial stability worked through the stress indicators in turn — a moderate stress index at 0.2665, an elevated but not panicked VIX, and a contained Baa spread at 2.37 — and acknowledged a real instinct to moderate the pace to 50 basis points in light of contracting activity, growing business pessimism, and cooling wages. What tipped this participant toward the consensus was a stability consideration of a different kind: with the 3-month T-bill spread of 0.845 indicating that markets were already positioned for a move of roughly 75 basis points, an abrupt step-down risked its own repricing and volatility, and slowing while inflation remained hot could unsettle credibility. The participant weighting market signals most heavily reinforced this reading, arguing that the very indicators he watched most closely showed markets absorbing tightening and still pricing more of it, so that nothing in market-based stress signals argued for slowing. The participant favoring the most literal reading of the data noted that both mandate legs pointed the same way and that the step-down arguments were speculative about future overtightening rather than grounded in a present trigger.

When the discussion turned to the framework's loss-minimizing recommendation of 75 basis points, participants found their predictive judgments and the framework output converging. Several singled out the Taylor rule as most persuasive for responding directly to the large inflation gap in a tight labor market, while others preferred the First-Difference rule for adjusting gradually to still-positive inflation momentum without overreacting to noisy level estimates — a logic the stability-minded participant described as well suited to avoiding abrupt shocks. Participants generally discounted the Balanced Approach and ELB-adjusted rules, which called for a 25 basis point cut, on the grounds that they leaned on the -0.5 percent neutral-rate estimate and growth fears more than on realized conditions, with employment strong and inflation elevated. The labor-focused and stability-focused participants both took the cut signals seriously as forward-looking risks but judged them premature absent realized damage, and each said the -0.35 inversion warranted close watching of claims, payrolls, and credit stress in the period ahead.



In the concluding exchange, no participant offered evidence of acute stress or realized labor-market deterioration that would justify diverging from the framework's recommendation. Participants observed that the convergence of market pricing, the reliable reference rules, and the loss-minimizing output on the same magnitude signaled that policy remained behind the inflation curve while the financial plumbing stayed intact enough to absorb another firm move. The prevailing sentiment was that a 75 basis point increase to a target range of 3.75 to 4.00 percent was consistent with the persistence of inflation, the tightness of the labor market, prior guidance of ongoing increases, and the level of rates markets were already anticipating.

COMMITTEE POLICY ACTIONS

In the predictive round, all five participants supported a 75 basis point increase in the target range, to 3.75 to 4.00 percent, yielding a unanimous 5-0 tally. On the deterministic optimal policy engine's recommendation of 75 basis points, the Committee's recorded stance was likewise unanimous: all five participants — the inflation-focused member, the labor-market member, the financial-stability member, the data-dependent centrist, and the market-signal member — endorsed the recommendation as-is, with none declining and none registering partial agreement. The predictive vote and the optimal-side outcome were thus in full agreement.