



PREDICTED FED DECISION +50 bps

4.25%-4.50%

OPENFED OPTIMAL RATE +50 bps

4.25%-4.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to raise rates 50 bps, and its own deterministic framework independently identifies 50 bps as the loss-minimizing policy, with all five members endorsing both.

STATEMENT

What stands out about this meeting is how completely the two questions before the Committee converged. Core PCE inflation, at 3.88%, remains nearly double the 2% objective, and every member began from that fact. Yet the labor market shows only early, marginal cooling: unemployment at 3.7% sits well below the estimated 4.43% natural rate, initial jobless claims of 225,000 remain low, and the Beige Book describes employment still growing modestly even as labor demand softens and scattered layoffs appear in technology, finance, and real estate. Against this, the deeply inverted 10y-2y spread of -0.84 and flat-to-slightly-positive activity flagged genuine recession risk from cumulative tightening. Weighing these together, all five participants independently arrived at the same predictive judgment: the real Federal Reserve is most likely to raise the target range by 50 bps, to 4.25-4.50%, a deliberate step-down in pace that continues tightening toward the prior projected 4.4% path without reaccelerating.

The case for that specific magnitude, rather than a larger or smaller move, rested on both market and fundamental signals reinforcing one another. Participants attentive to market pricing noted that the 3-month T-bill spread of 0.395 above the current midpoint maps cleanly onto a 50 bp step, meaning markets are already pricing exactly this move and it would not itself be a destabilizing surprise. Those focused on financial stability observed that while the inversion and the Beige Book's evidence of declining bank lending, tightening credit standards, and steep housing declines show prior tightening biting hard, the stress signals that would force a pause are simply not present: the financial stress index at 0.2338 is moderate, VIX at 22.68 is elevated but orderly, and the Baa credit spread of 1.97 shows contained credit conditions. A pause or cut with inflation this high was judged indefensible; a return to a



jumbo hike into an inverted curve was judged an unnecessary overtightening risk.

The Committee's own deterministic framework independently identified 50 bps as the loss-minimizing policy, and the agreement with the predictive vote was not incidental to the reasoning but central to it. Notably, the reference rules themselves diverged sharply: the Taylor rule pointed to -25 bps, the balanced-approach and ELB-adjusted rules both to -75 bps, while the first-difference rule pointed to +75 bps. Several members treated that dispersion as the clearest signal that judgment, not any single rule, was required. The easing rules lean heavily on an estimated r^* of -0.5 and an emerging-slack story that participants were unwilling to let outweigh live inflation data; the first-difference rule's +75, by contrast, was seen as over-reacting to the inflation level while ignoring the curve inversion. Inflation momentum, still positive at 0.21, confirmed that prices are decelerating but not defeated, arguing against easing; the slightly negative unemployment momentum of -0.05 argued against acceleration. With the reference rules judged reliable this meeting, the framework's 50 bp recommendation sits as the loss-minimizing middle between these opposing pulls.

The Committee therefore concludes, on both counts, that a 50 bp increase to a 4.25-4.50% range is warranted: it is what the real Federal Reserve is most likely to do, and it is what the Committee's own framework identifies as optimal. The step-down respects the cumulative effect of prior tightening and policy lags while sustaining credible pressure on inflation that remains too high to ease against. Participants agreed the current stance is near, but not yet at, sufficiently restrictive territory. Some noted they would be prepared to argue for a pause should jobless claims climb or headcounts contract broadly in coming periods, but the data today do not justify that shift.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 for a 50 bp increase, and on the framework's optimal recommendation the Committee also landed in full agreement, with all five members endorsing the 50 bp figure as-is (5 endorse, 0 decline, 0 partial).