



PREDICTED FED DECISION **HOLD**

4.25%-4.50%

OPENFED OPTIMAL RATE **HOLD**

4.25%-4.50%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 4.25%-4.50%, and its own framework independently judges 0 bps to be optimal despite three reference rules pointing to a 75 bp cut.

STATEMENT

Information reviewed at this meeting described an economy sitting close to both of its policy goals at once. Core PCE inflation stood at 2.12%, just above the 2.0% objective, with disinflation having visibly slowed and recent readings coming in firmer than expected. The labor market showed no deterioration: unemployment at 4.1% remained below an estimated natural rate of 4.32%, initial claims were low at 217k, and the Beige Book reported that layoffs remained rare while employment ticked up, with several Districts still citing difficulty finding skilled workers. Financial conditions were calm rather than strained, with a financial stress index of 0.1118, a VIX of 15.1, a tight Baa spread of 1.46, and a positive 10y-2y curve at 0.31 that carried no recession alarm. The 3-month T-bill sat about 15.5 bp below the current rate midpoint, which participants read as markets anticipating gradual easing ahead but not demanding a move at this meeting.

Against that backdrop, and following the 25 bp cut delivered at the prior meeting, participants across all five perspectives arrived independently at the same predictive conclusion: the Committee expects the real Federal Reserve to leave the target range unchanged at 4.25%-4.50%. The reasoning converged from different starting points. Those weighting inflation risk most heavily emphasized that prices remain above target with wage growth 'picked up to a moderate pace' and clear upside risks from tariff-related stockpiling and immigration policy uncertainty, arguing that back-to-back cuts could re-accelerate prices with no offsetting benefit. Those focused on employment noted that with no rising jobless trend, there was simply no labor case to spend a cut defending jobs this meeting, while preserving the ability to ease promptly should employment soften. Participants attentive to financial stability and to market pricing reinforced that cutting into calm, well-anchored conditions risked



re-loosening financial conditions prematurely, with the one genuine watch item, the Beige Book's note on small-business and lower-income delinquency concerns, described as a concern to monitor rather than a materializing stress.

The Committee's own deterministic framework independently identified 0 bps as the loss-minimizing policy, and this was the more instructive part of the deliberation given where the reference rules pointed. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each recommended a 75 bp cut, implying that policy is meaningfully restrictive. Participants judged those signals unreliable here because they rest on an estimated r^* of -0.227 , an implausibly low neutral rate. The first-difference rule, which sidesteps that noisy r^* estimate and responds instead to momentum, returned 0 bps, and participants found its logic the most persuasive this meeting: inflation momentum was positive at 0.17 while unemployment momentum was flat at 0.0, a combination that argues against easing rather than for it. The gap between the -75 bp level rules and the framework's 0 bps output was read not as a call for a large cut but as an indication that current policy, though restrictive on paper, is close to appropriately calibrated given above-target inflation and a firm labor market.

Weighing these considerations together, the Committee concluded that holding the target range at 4.25%–4.50% is both the most likely path for the real Federal Reserve and the optimal policy on its own framework. Holding preserves optionality to respond should credit stress or delinquencies escalate, or should employment weaken, while allowing the Committee to assess the incoming data as tariff and immigration effects resolve. Participants generally judged that cutting 75 bps into positive inflation momentum, steady jobs, and calm markets would risk re-igniting price pressures without a clear justification.

COMMITTEE VOTE

The Committee was unanimous, 5-0, in predicting that the real Federal Reserve will hold the target range at 4.25%–4.50%, and all five members likewise endorsed the framework's 0 bps recommendation as optimal, a 5-0 endorsement.