



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$6,281.8 billion as of April 30, 2025, the most recent release available on or before the point-in-time-safe cutoff. Holdings were composed of \$3,586.9 billion in Treasury notes and bonds, \$195.3 billion in Treasury bills, and \$2,165.0 billion in agency mortgage-backed securities. Relative to the prior release of April 23, total holdings declined by \$14.8 billion, reflecting continued gradual reduction in the portfolio. The staff noted that this review covers SOMA securities holdings only — total size, composition, and week-over-week change — and does not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators pointing to an economy expanding only slowly. Core PCE inflation stood at 2.38 percent on a twelve-month basis, remaining above the Committee's 2.0 percent objective. The unemployment rate was 4.2 percent, just below the estimated natural rate of 4.32 percent, and initial jobless claims at 222,000 remained low by historical standards. The Chicago Fed National Activity Index registered -0.03, consistent with growth near but slightly below trend, and the Employment Cost Index reading was 169.8. M2 stood at \$21,762.5 billion.

The most recent Beige Book characterized economic activity as little changed since the prior report, with uncertainty around international trade policy described as pervasive across Districts. Five Districts saw slight growth, three reported activity relatively unchanged, and four noted slight to modest declines. Non-auto consumer spending was lower overall, though many Districts saw firmer sales of vehicles and some nondurables, generally attributed to a rush to purchase ahead of tariff-related price increases. Home sales rose somewhat amid continued low inventories, and loan demand was flat to modestly higher. On the labor side, employment was little changed to up slightly in most Districts, a slight deterioration from the previous report as a few more Districts reported declines. Several Districts described firms taking a 'wait-and-see' approach to hiring, with scattered reports of firms preparing for layoffs and the most notable headcount declines in government roles or organizations receiving government funding. The outlook in several Districts was reported to have worsened considerably as tariff-related uncertainty rose.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were characterized as moderately tight but showing no signs of acute distress. The financial stress index stood at 0.1672, a moderate reading well short of levels associated with systemic strain. The VIX at 24.7 indicated elevated volatility, consistent with market pricing of trade-policy



uncertainty rather than crisis-level panic. Credit markets appeared to be functioning normally: the Baa corporate bond spread was contained at 1.88 percentage points, with no meaningful widening. The 10-year/2-year Treasury spread was positive at 0.57 percentage point, not inverted, removing an imminent rates-based recession signal. The 3-month T-bill yield sat 17.5 basis points below the current target midpoint, a modest gap suggesting markets anticipate some easing ahead rather than an immediate move. Consistent with Beige Book reports, loan demand was flat to modestly higher and commercial real estate activity expanded slightly.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the available forward-looking quantities. The estimated neutral real rate (r^*) of -0.116 percent, taken together with core PCE near 2.4 percent, implied a real policy rate on the order of 2 percent — meaningfully above the estimated neutral level and therefore consistent with a policy stance judged to be restrictive. Inflation momentum was estimated to be negative at -0.23, suggesting price pressures were easing at the margin rather than accelerating, while unemployment momentum was slightly negative at -0.05, pointing to labor conditions softening only gradually.

The reference rules judged reliable this meeting spanned a wide range. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to -75 basis points, reflecting an unemployment rate near its natural level, inflation not far above target, and a low neutral rate. The First-Difference rule, which adjusts from the current setting rather than solving for a level, pointed in the opposite direction at +25 basis points, giving greater weight to inflation still above objective. Reconciling these, the loss-minimizing framework recommended a modest -25 basis point step — an outcome that recognized the restrictiveness implied by the low r^* and easing inflation momentum while stopping well short of the aggressive easing the level rules would prescribe, in deference to pervasive tariff-related uncertainty around the near-term inflation path.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive discussion, participants converged on maintaining the target range at 4.25 to 4.50 percent, though the reasoning behind that convergence varied by mandate emphasis. Several participants placed primary weight on inflation, noting that core PCE at 2.38 percent remained meaningfully above the 2.0 percent objective and that the Beige Book documented pervasive tariff-driven upside risk, including consumers rushing purchases ahead of expected price increases and near-term expectations judged to be rising. From this vantage, cutting into sticky inflation amid trade-policy uncertainty risked unanchoring expectations, while a hike was difficult to justify given softening activity (the CFNAI at -0.03) and worsening District outlooks with no acute inflation surge yet realized.



One participant, weighing labor-market risk most heavily, made the strongest case for eventual easing, pointing to Beige Book signs of deterioration — more Districts reporting employment declines, hiring pauses, and scattered layoff preparation — and observing that the current range sat above the Committee's prior median projection of 3.9 percent. That participant nonetheless acknowledged the labor market 'has not yet decisively broken,' with unemployment at 4.2 percent below the natural rate and claims at 222,000 still contained, and concluded that this meeting was too early to force a cut against the Committee, while flagging a readiness to advocate easing at a subsequent meeting if labor data confirmed the anecdotal weakening. Participants attentive to financial stability and to market pricing reinforced the case for patience: with the stress index at 0.1672, the Baa spread contained at 1.88, the yield curve positively sloped, and the T-bill gap of only 17.5 basis points, there was no credit-market seizure or funding strain to justify a preemptive move, and market pricing itself appeared to anticipate gradual easing pushed to later meetings rather than an urgent step now.

When the discussion turned to the loss-minimizing framework, which recommended a 25 basis point reduction, most participants found the direction persuasive on reflection. Several observed that the divergence between their predictive hold and the framework's modest cut revealed a stance likely somewhat tighter than conditions warranted: with r^* estimated near zero, the real policy rate stood well above neutral, and negative inflation momentum weakened the case for holding restrictive on inflation grounds alone. The participant focused on labor argued that a 25 basis point step would begin realigning policy toward neutral, protect employment early against the accumulating downside the Beige Book flagged, and respect easing inflation momentum, while the financial-stability participant emphasized that gradualism was itself the prudent course — a -75 basis point move, though justified by the level rules, risked signaling crisis and spiking spreads, whereas a measured cut would cushion credit-sensitive sectors against tariff shocks without abrupt signaling.

The participant most focused on market signals noted that front-end pricing implied roughly 17.5 basis points of easing, close to a single 25 basis point step and far short of the 75 basis points the Taylor, Balanced Approach, and ELB-adjusted rules suggested; on this reading the framework's recommendation matched the aggregated market path almost exactly without overshooting. The data-dependent participant reached the same conclusion on more literal grounds, treating the three concurring reliable rules and the low neutral rate as evidence that the stance was slightly too tight, while judging tariff uncertainty a reason to take a cautious first step rather than the full swing the level rules implied.

The participant weighting inflation most heavily registered continued unease. While accepting that a negative r^* left room and that inflation momentum was easing at the margin, this participant found the



First-Difference rule's +25 basis point signal the most persuasive of the reference outputs — respecting inflation momentum without overreacting to a single soft quarter — and worried that tariff pass-through could reverse the favorable momentum. This participant characterized a 25 basis point insurance-style cut as defensible in direction but expressed reservation about its magnitude relative to holding, emphasizing that inflation risk should remain squarely in view.

COMMITTEE POLICY ACTIONS

In the predictive vote, all five participants supported maintaining the target range for the federal funds rate at 4.25 to 4.50 percent, a unanimous outcome (5 to 0). On the separate question of the loss-minimizing framework's recommendation of a 25 basis point reduction, four participants — those focused on labor-market conditions, financial stability, data-dependent balance, and market signals — endorsed the recommendation as-is, while the participant weighting inflation most heavily registered a partial position, agreeing with the direction of modest easing but not fully with its magnitude relative to holding. There were no participants declining the recommendation outright, yielding a tally of four endorse, one partial, and zero decline.