



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$6,260.2 billion as of June 11, 2025, essentially unchanged from the prior release on June 4, when the week-over-week change was recorded at \$0.0 billion. The composition remained heavily weighted toward Treasury coupon securities, with \$3,582.0 billion in Treasury notes and bonds, \$195.4 billion in Treasury bills, and \$2,148.2 billion in agency mortgage-backed securities. The desk reported no meaningful shift in either the size or the composition of the portfolio over the period. Members were reminded that these figures cover SOMA securities holdings only — total size, composition, and the change from the prior release — and do not encompass repo and reverse-repo operation results, for which no point-in-time-safe data source currently exists; discussion of open market operations was accordingly confined to what the holdings data support.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.21 percent on a twelve-month basis, modestly 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, indicating a labor market close to balance rather than distressed. Initial jobless claims were 247,000, a moderate reading. The Chicago Fed National Activity Index registered -0.25, consistent with growth somewhat below trend, and the Employment Cost Index reading was 169.8. M2 money supply was reported at \$21,862.5 billion. The current target range for the federal funds rate stood at 4.25 to 4.50 percent, against the Committee's most recent projected median of 3.9 percent.

The Beige Book material described economic activity as decreasing slightly overall, with consumer spending at retail stores and restaurants slowing modestly. Employers were reported to have paused hiring amid heightened uncertainty, with employment declining slightly and wages increasing 'just barely.' Prices increased only slightly in the current period, but contacts widely anticipated larger price increases for the summer, and several districts tied robust input-cost growth to tariffs. District reports were mixed: the New York and Philadelphia districts described modest declines in activity and, in New York's case, a 'quite pessimistic' outlook alongside strongly rising input prices; Cleveland reported flat activity with tariff-attributed cost increases; and Richmond, Atlanta, and Chicago described mild-to-slight growth with steady or slightly rising employment and moderate price growth. Capital spending plans were reported to have declined in some districts, while port and import volumes rose strongly in Richmond.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff characterized financial conditions as broadly benign. The financial stress index stood at 0.1464, a low reading indicating that markets were calm rather than tight. The VIX was 17.26, a moderate level well below values associated with acute volatility. The Baa corporate spread was 1.71, tight enough to suggest that credit markets were functioning without meaningful borrowing-cost strain. The 10-year/2-year Treasury yield curve spread was positive at 0.47, no longer inverted and therefore attenuating the recession signal that an inverted curve would carry. The 3-month T-bill spread relative to the current policy rate was slightly negative at -0.115, implying that markets leaned modestly toward eventual easing, though the small magnitude — roughly 11 basis points — suggested no imminent cut was priced for this specific meeting.

STAFF ECONOMIC OUTLOOK

The staff projection drew on the forward-looking quantities available. The estimated neutral real rate (r^*) used in the framework was near zero, at -0.032, implying that the current nominal target range of 4.25 to 4.50 percent leaves policy meaningfully above neutral in real terms and therefore restrictive against a below-trend economy. Inflation momentum was positive but modest at 0.13, and unemployment momentum was likewise small at 0.05; both point to conditions evolving gradually rather than abruptly, with price pressures still building slowly and labor-market slack accumulating only slightly.

The reference rules diverged in a manner the staff judged informative. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each implied -75 basis points, reflecting inflation near target and unemployment close to the natural rate against a near-zero r^* . The First-Difference rule, which responds to momentum and change rather than the level of the gaps, implied 0 basis points. The framework's loss-minimizing recommendation was 0 basis points, with the reference rules judged reliable. Taken together, the staff projection was that policy is only modestly above a mechanical neutral reading, that the gap between the level-based rules and the hold recommendation reflects the unresolved upside inflation risk flagged for the summer, and that the most likely near-term path is a hold now with the option to ease later should labor softening deepen or tariff pass-through prove transitory.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants generally judged that the balance of risks argued for maintaining the current target range at this meeting, and in their independent opening positions all five converged on a hold. The dominant thread running through the discussion was a two-sided tension: above-target inflation with a building summer risk on one side, and mild labor-market softening on the other. Several participants emphasized that core PCE at 2.21 percent remained above the 2.0 percent objective and that the Beige



Book explicitly flagged larger price increases expected for the summer, alongside strong tariff-induced input-cost growth reported across multiple districts. One participant, weighting inflation risk most heavily, stressed that positive inflation momentum of 0.13 argued firmly against any easing while pressures were still building, and that a cut now would risk unanchoring the very tariff pass-through the Beige Book warned of.

The participant most focused on employment made the strongest case for eventual easing, pointing to the Beige Book's account of paused hiring, slight employment declines, wages rising 'just barely,' declining capital-spending plans, and a below-trend Chicago Fed National Activity Index reading of -0.25. This participant observed that the Taylor, Balanced Approach, and ELB-adjusted rules all implied -75 basis points, which was read as confirmation that policy is meaningfully restrictive against a soft economy with r^* near zero. Even so, this participant concluded that the labor market 'has not yet broken decisively' — unemployment at 4.2 percent remained below the 4.32 percent natural rate and claims at 247,000 were moderate rather than spiking — and that cutting one week before the anticipated summer price increases materialize would risk having to reverse course. The reluctant conclusion was to hold now while signaling a clear readiness to cut soon, without waiting for inflation to reach 2.0 percent, should employment weaken further.

Participants attentive to financial stability and to market-implied signals reinforced the case for patience from a different angle. They noted that the financial stress index at 0.1464 was low, the VIX at 17.26 moderate, the Baa spread at 1.71 contained, and the 10-year/2-year curve positive at 0.47 — a configuration showing no acute distress and no recession alarm that would demand preemptive accommodation. One participant emphasized that abruptly cutting 75 basis points amid tariff uncertainty could itself destabilize inflation expectations and force disruptive reversals, framing premature easing as a stability cost and not merely an inflation cost. Another, anchoring on market pricing, observed that the slightly negative 3-month T-bill spread of -0.115 implied only about 11 basis points of easing bias — markets leaned toward eventual, gradual easing but were not pushing for a cut at this meeting, and a 75 basis point move would front-run tariff effects that markets appeared to be respecting.

In weighing the framework's reference rules, participants generally found the First-Difference rule's 0 basis point reading most persuasive for the present decision, precisely because it responds to momentum rather than to the level of the gaps. Several observed that the divergence between the -75 basis point level-based rules and the 0 basis point recommendation was itself informative: it revealed that policy is only slightly tighter than a mechanical neutral reading, and that the additional restraint functioned as deliberate insurance against the summer price increases flagged in the Beige Book. The



centrist participant characterized this gap as an insurance premium worth paying for now, given near-target inflation, near-natural unemployment, benign financial stress, and small positive momentum in both inflation and unemployment. No participant advanced a case for a rate increase, judging that softening growth and only modestly above-target inflation made tightening premature and risked overtightening into a cooling labor market.

Across the rebuttal rounds, no participant reported being moved from the hold position, though the reasoning behind that common conclusion differed by mandate. The employment-focused participant registered the most explicit dissent in emphasis, describing the hold as close and reluctant rather than comfortable, and underscoring that current policy should be understood as restrictive and time-buying rather than neutral. Others treated the convergence at hold as confirmation that the current 4.25 to 4.50 percent stance was appropriately calibrated to offsetting risks. Participants broadly agreed that the path forward hinged on whether summer data would show the tariff-driven price pressures materializing and persisting, or the labor softening deepening — and that the Committee should preserve flexibility to respond in either direction as that data clarified.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy action, all five members supported maintaining the target range for the federal funds rate at 4.25 to 4.50 percent, a unanimous 5-to-0 outcome with no member favoring a change. On the framework's loss-minimizing recommendation of 0 basis points, the Committee likewise reached full agreement: all five members endorsed the recommendation as-is, with none declining and none registering only partial agreement on magnitude or timing. The predictive vote and the optimal-side outcome therefore aligned completely, both pointing to a hold at the current range this meeting.