



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$6,234.5 billion as of July 23, 2025, the most recent release available under the point-in-time-safe cutoff. Holdings were composed of \$3,583.3 billion in Treasury notes and bonds, \$195.5 billion in Treasury bills, and \$2,126.9 billion in agency mortgage-backed securities. The portfolio declined by \$3.6 billion from the prior release of July 16. Staff noted that this account 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 confirmed point-in-time-safe data source currently exists; accordingly, no discussion of those operations was included in this review.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.27 percent on a twelve-month basis, remaining modestly above the Committee's 2.0 percent objective. The unemployment rate was 4.1 percent, below the estimated natural rate of 4.32 percent, and initial jobless claims were low at 221,000. The Employment Cost Index registered 169.8, and the Chicago Fed National Activity Index came in at -0.28, a reading consistent with below-trend growth. M2 money supply stood at \$22,020.8 billion. The current federal funds target range was 4.25 to 4.50 percent, above the Committee's own most recent median projected rate of 3.9 percent.

The Beige Book indicated that economic activity increased slightly from late May through early July, an improvement over the prior report in which half of Districts had reported at least slight declines. Five Districts reported slight or modest gains, five were flat, and two noted modest declines. Uncertainty remained elevated and continued to weigh on business caution. Nonauto consumer spending softened slightly in most Districts, and auto sales receded modestly after an earlier rush to buy ahead of tariffs. Employment increased very slightly overall, with hiring generally cautious and many contacts postponing major hiring and layoff decisions until uncertainty diminished. Labor availability improved for many employers, though a growing number of Districts cited shortages in the skilled trades and several noted reduced availability of foreign-born workers attributed to changes in immigration policy. Wages increased modestly, extending recent trends. Prices increased across Districts, with seven characterizing price growth as moderate. The outlook was described as neutral to slightly pessimistic.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as calm and largely non-distressed. The financial stress index stood at 0.1341, a low reading, and the VIX was subdued at 15.37, offering no indication of elevated market volatility. The Baa corporate bond spread over Treasuries was 1.73, a tight level



consistent with healthy credit access and no evident borrowing-cost strain. The 10-year/2-year Treasury yield curve spread was positive at 0.52, indicating the curve was no longer inverted and reducing the recession signal that had at times been drawn from that measure. The 3-month T-bill was 0.135 percentage point below the current policy rate, a shallow negative spread suggesting that market participants anticipated modest future easing rather than an imminent move.

STAFF ECONOMIC OUTLOOK

Staff projections drew on the forward-looking quantities available. With the estimated neutral rate (r^*) near 0.036 and the current target range of 4.25 to 4.50 percent well above the Committee's most recent median projection of 3.9 percent, the policy stance was assessed as restrictive relative to its likely longer-run resting point. Inflation momentum was estimated at a positive 0.075 and unemployment momentum at a positive 0.05 — both small in magnitude, implying that neither mandate variable was exhibiting a rapidly accelerating dynamic. Taken together, these figures point to an environment in which price pressures remain gently upward-tilted while labor-market slack builds only gradually.

The reference-rule outputs spanned a notably wide range: the Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each prescribed -75 basis points, reflecting an unemployment rate below its natural rate and inflation near target, while the First-Difference rule prescribed +25 basis points, reflecting still-positive inflation momentum and above-target prices. The engine assessed the reference rules as reliable and, weighing the level-oriented easing signals against the change-oriented tightening signal, arrived at a loss-minimizing recommendation of 0 basis points. The projection implied by these inputs is one of continued restrictiveness in the near term, with the eventual direction of policy tilted toward easing as the small positive inflation and unemployment momenta play out and tariff-related price uncertainty resolves.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive assessments, all five participants independently arrived at a hold at the current 4.25 to 4.50 percent range, though they reached that conclusion from distinct vantage points. The participant weighting inflation risk most heavily emphasized that core PCE at 2.27 percent remained above the 2.0 percent objective after a prolonged period of elevation, and that the Beige Book showed prices rising across all Districts, with seven characterizing growth as moderate. This participant judged tariff pass-through to be a live and unresolved upside risk, flagged as the primary concern at the prior meeting, and pointed to wage-side pressures from skilled-trades shortages and reduced foreign-born labor availability. In this view, easing while inflation ran above target risked unanchoring expectations, and calm financial conditions provided no offsetting case for a defensive cut.



The participant most attentive to employment risk agreed on a hold but did so with an explicit easing bias. This participant noted that unemployment at 4.1 percent remained below the 4.32 percent natural rate, that claims at 221,000 showed no stress, and that the Beige Book described employment as increasing 'very slightly' with cautious hiring and postponed decisions — softening at the margin rather than the rising unemployment or actual job losses that would compel accommodation. The below-trend Chicago Fed reading of -0.28, cautious hiring, and layoffs described as 'somewhat more common among manufacturers' were taken as warning signs to watch, but as descriptions of anticipated, gradual softening rather than deterioration already visible in the hard data. This participant added that easing into an environment carrying unanchoring risk could force a sharper reversal later that would ultimately harm employment more.

The participant focused on financial stability found no stress in the indicators that carry weight in that framework: a low stress index at 0.1341, a subdued VIX at 15.37, a tight Baa spread at 1.73, and a positively sloped curve at +0.52. With no credit widening or systemic strain, this participant saw no stability-based case to diverge from a steady stance, and cautioned that cutting into calm markets could stoke risk-taking. The data-dependent participant read both mandate gaps as small — inflation only modestly above target, unemployment near maximum employment — and concluded that aggressive moves in either direction were difficult to justify literally. The participant weighing market signals emphasized that the shallow -0.135 T-bill spread implied markets expected gradual easing ahead but had not priced a move at this meeting, and that the absence of curve inversion removed any recession-urgency signal. Across the rebuttal round, no participant was persuaded to change position; several observed that the others' arguments reinforced rather than contradicted their own reading.

Turning to the framework's loss-minimizing recommendation of 0 basis points, participants engaged directly with the sharp divergence among the reference rules. Several noted that the Taylor, Balanced Approach, and ELB-adjusted rules all prescribed -75 basis points, driven by an unemployment rate below its natural rate and by real rates that were high relative to an r^* near 0.036 — a signal that policy was clearly restrictive. The employment-focused participant found that -75 basis points signal resonant and flagged that the next move, when it comes, should be a cut, while stopping short of endorsing a cut now given unemployment momentum of only 0.05. The inflation-focused participant found the First-Difference rule's +25 basis points most consistent with an inflation-first stance, given positive inflation momentum of 0.075, but agreed that no confirmed data yet forced a hike. Participants generally characterized the level-versus-change split as an honest reflection of two-sided uncertainty rather than conviction in either direction.



The consensus that emerged was that the framework's hold appropriately reconciled these competing signals — declining to chase the deep-cut level rules while tariff pass-through and inflation momentum remained live upside risks, and declining to tighten into soft activity and cautious hiring. Participants agreed that the current range was deliberately and appropriately restrictive, that benign financial conditions removed any need to act defensively, and that holding preserved optionality to respond once tariff and hiring uncertainty resolved. A couple of participants underscored that the eventual direction was toward easing, consistent with both the shallow negative T-bill spread and the current range sitting above the 3.9 percent median projection, but that the pace implied by market pricing was gradual rather than urgent.

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 5-to-0 outcome for no change. On the deterministic policy engine's 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 partial support. The inflation-focused, employment-focused, financial-stability, data-dependent, and market-signal participants each recorded an endorsement, reflecting a clean convergence between the participants' own predictive judgment and the framework's loss-minimizing result.