



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings stood at \$6,169.5 billion as of October 22, 2025, the most recent release available as of this meeting. Composition was concentrated in Treasury notes and bonds, which totaled \$3,568.2 billion, alongside \$195.5 billion in Treasury bills and \$2,074.7 billion in agency mortgage-backed securities. Total holdings declined by \$3.4 billion relative to the prior release of October 15. It should be noted that these figures cover SOMA securities holdings only — total size, composition, and the week-over-week change — and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.32 percent on a twelve-month basis, modestly above the 2.0 percent objective. The unemployment rate was 4.3 percent, essentially equal to the estimated natural rate of 4.31 percent. Initial jobless claims remained low at 218,000, and the Chicago Fed National Activity Index registered -0.12, consistent with growth slightly below trend. The Employment Cost Index reading was 171.395, and M2 money supply stood at \$22,195.4 billion.

The most recent Beige Book characterized economic activity as having 'changed little on balance' since the prior report, with three Districts reporting slight to modest growth, five reporting no change, and four noting slight softening. Consumer spending on retail goods inched down, though auto sales were supported in some Districts by demand for electric vehicles ahead of the expiration of a federal tax credit at the end of September. Lower- and middle-income households were reported to be seeking discounts and promotions amid rising prices and elevated uncertainty, while higher-income spending on luxury travel was described as strong. Manufacturing conditions were challenged by higher tariffs and waning demand, and activity in agriculture, energy, and transportation was generally down. On labor markets, employment levels were largely stable but demand for labor was generally muted; more employers reported lowering head counts through layoffs and attrition, citing weaker demand, elevated uncertainty, and in some cases increased investment in artificial intelligence. One District report flagged downside risk to growth from a prolonged government shutdown, which was also expected to delay official data.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff reported that financial conditions remained calm and showed no signs of systemic strain. The financial stress index stood at 0.1345, a low reading, and the VIX at 18.6 was moderate. The Baa corporate spread was tight at 1.68, indicating orderly credit markets and accommodative borrowing costs. The 10-year/2-year Treasury spread was positive at 0.52, having un-inverted, which reduced the



acute recession signal that had earlier concerned some observers. The 3-month T-bill yield sat 0.325 below the current target rate, a spread the staff interpreted as consistent with markets having priced roughly one near-term 25 basis point reduction. Some Beige Book reports noted improved business lending attributable to lower interest rates, though activity in interest-rate-sensitive sectors such as residential and commercial real estate remained mixed.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on several quantitative reference points. The estimated neutral real rate (r^*) was low at 0.17, implying that with the current target range of 4.0 to 4.25 percent, policy remained modestly restrictive relative to neutral. Inflation momentum was mildly positive at 0.12 and unemployment momentum was small at 0.05, suggesting that conditions were drifting gradually rather than shifting abruptly in either direction. Taken together, these figures pointed to an economy near balance, with restrictive policy expected to continue exerting gentle downward pressure on demand and prices over the projection horizon absent a material change in incoming data.

The reference rules diverged in their prescriptions. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to a substantial reduction of 75 basis points, reflecting a policy stance judged to sit above neutral given inflation near target. The First-Difference rule, by contrast, prescribed no change, giving weight to the small measured momentum in inflation and unemployment and to the recent policy adjustment. The deterministic policy engine, with reference rules assessed as reliable, produced a loss-minimizing recommendation of 0 basis points — an outcome that balanced the aggressive rule signals against stability considerations and the low observed momentum. The projection implied by this configuration was one of gradual convergence rather than rapid adjustment, with the restrictive-but-modest current stance allowing inflation to continue drifting toward target while the labor market remained near its natural rate.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

Participants generally agreed that the labor market had softened at the margin while remaining near balance, and that inflation, though modestly above target, was not accelerating sharply. The disagreement that emerged concerned how to weigh above-target inflation against gradual labor-market cooling, and, at a second stage, whether the calm data environment argued for continuing the recent easing or for patience. Four of the five members entered the predictive discussion favoring a further 25 basis point reduction, while one favored holding.

The member most focused on inflation argued for holding, emphasizing that core PCE at 2.32 percent remained above the 2.0 percent objective and that both the prior minutes and the Beige Book flagged



tariff-driven upside risk, including reports of lower- and middle-income households facing rising prices. This participant acknowledged that labor demand was cooling but characterized the deterioration as gradual and anecdotal rather than acute, noting that unemployment essentially matched the natural rate and claims remained low. In this member's view, the absence of financial stress cut both ways: it removed any urgency to ease and meant that holding would not destabilize markets. The member conceded a hold could surprise markets that had partly priced a cut, but judged an unexpected hold defensible when inflation was above target and labor was not collapsing.

The member most attentive to employment risk favored a 25 basis point cut, weighting the Beige Book's forward-looking signals — rising layoffs, muted hiring, attrition, and a preference for temporary and part-time workers — as evidence of deterioration likely to precede the hard data, particularly with a government shutdown expected to delay official releases. This participant saw an asymmetry: with unemployment at the natural rate and labor demand clearly cooling, the cost of waiting was rising unemployment, while inflation remained contained near target. A 50 basis point move was considered but not embraced, since claims of 218,000, unemployment at the natural rate, and a CFNAI of only -0.12 did not show acute deterioration. The members focused on financial stability and on market signals converged on the same 25 basis point path for complementary reasons: calm credit markets, tight Baa spreads, an un-inverted curve, and a T-bill spread of -0.325 that appeared to price roughly one cut, such that delivering it would avoid an adverse repricing while an outsized move risked signaling hidden distress. The data-dependent member read the collective indicators as favoring continued measured easing over either a pause or an acceleration.

When the discussion turned to the framework's loss-minimizing recommendation of 0 basis points, several participants found the First-Difference rule's logic persuasive. They observed that the aggressive -75 basis point signals from the Taylor, Balanced Approach, and ELB-adjusted rules over-weighted a very small employment gap, since unemployment sat essentially at the natural rate, and that the low measured momentum — inflation at 0.12 , unemployment at 0.05 — counseled against a large move. Having already eased at the prior meeting, some judged that back-to-back reductions before confirming data risked overshooting into still-elevated inflation. The inflation-focused member endorsed the hold outright, viewing it as vindication of the caution against entrenching above-target inflation. The financial-stability and data-dependent members likewise endorsed it, emphasizing that no distress compelled action and that gradualism preserved orderly conditions.

Two members, while agreeing with the hold's cautious direction, did not fully endorse it. The employment-focused member reiterated that the Beige Book's softening leaned toward action and that a hold was acceptable only if the Committee stood ready to cut swiftly on further labor weakening;



this member's predictive preference for a cut reflected a genuine employment concern not abandoned. The market-focused member similarly held that the -0.325 T-bill spread implied markets had priced a modest cut, and that this priced-in easing favored -25 over 0, even as the member agreed there was no market stress compelling a larger or emergency move. Both framed the divergence between their predictive votes and the framework's recommendation as evidence that policy sat very near neutral, so that the marginal move mattered little.

COMMITTEE POLICY ACTIONS

In the predictive vote on the near-term policy decision, four members favored a 25 basis point reduction to a target range of 3.75 to 4.00 percent, and one member favored no change, holding at 4.0 to 4.25 percent — a tally of four to one in favor of a cut. On the deterministic framework's loss-minimizing recommendation of 0 basis points, the Committee recorded three members endorsing the recommendation as-is (the inflation-focused member, the financial-stability member, and the data-dependent member), with two members — the employment-focused member and the market-signal member — expressing partial agreement, supporting the cautious direction while preferring the modest easing implied by their predictive votes over an outright hold. No member declined the recommendation.