



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that total System Open Market Account domestic securities holdings stood at \$6,131.2 billion as of December 3, 2025. Holdings consisted of \$3,555.7 billion in Treasury notes and bonds, \$195.5 billion in Treasury bills, and \$2,045.8 billion in agency mortgage-backed securities. Relative to the prior release of November 26, total holdings edged down by \$2.7 billion. Members were reminded that these figures capture 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; the discussion of open market operations was accordingly confined to the securities portfolio.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that inflation had continued to move toward the Committee's objective, with core PCE prices rising 2.02 percent over the prior twelve months, essentially at the 2.0 percent target. Labor market data pointed to gradual loosening: the unemployment rate stood at 4.4 percent, modestly above the estimated natural rate of 4.31 percent, while initial jobless claims remained low at 216,000. The Employment Cost Index registered 171.395. The Chicago Fed National Activity Index came in at -0.12, consistent with growth running slightly below trend. M2 was reported at \$22,298.1 billion.

The Beige Book described economic activity as little changed across most of the twelve Districts, with two Districts noting a modest decline and one reporting modest growth. Consumer spending declined further overall, though higher-end retail held up, and some retailers cited a negative effect from the government shutdown; auto dealers saw declines in EV sales after the federal tax credit expired. Manufacturing activity increased somewhat in most Districts, though tariffs and tariff uncertainty remained a headwind. On labor markets, employment declined slightly, with about half of Districts noting weaker demand; more Districts reported limiting headcount through hiring freezes, replacement-only hiring, and attrition than through layoffs, and several employers adjusted hours worked rather than staffing. A few firms noted that artificial intelligence had replaced entry-level positions or curbed new hiring. Employers generally found it easier to hire, with pockets of difficulty for certain skilled positions and where fewer immigrant workers were available. Wages grew at a modest pace, with more moderate pressure in manufacturing, construction, and health care. Community organizations reported increased demand for food assistance, tied in part to SNAP disruptions during the shutdown.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff characterized financial conditions as calm. The financial stress index stood at 0.1427, a low reading, and the VIX was subdued at 16.08. The Baa corporate spread was 1.76, a moderate and contained level with no sign of credit-market strain. The 10-year/2-year Treasury spread was positive at 0.57, providing no acute recession signal from the term structure. The 3-month Treasury bill yield sat 0.195 below the current policy rate, a configuration consistent with markets anticipating modestly lower rates ahead. The current target range for the federal funds rate was 3.75 to 4.00 percent, above the Committee's own last median projection of 3.6 percent.

STAFF ECONOMIC OUTLOOK

The staff projection took as its anchor an estimated neutral rate (r^*) of 0.21, which implied that the current target range of 3.75 to 4.00 percent remained modestly restrictive rather than sharply so. Measured inflation momentum was low at 0.025, indicating no meaningful upward acceleration in prices at present, while unemployment momentum registered 0.1, pointing to a gradual rather than abrupt loosening of the labor market. Taken together, these quantities suggested a trajectory in which restriction could be eased incrementally without the policy rate overshooting toward accommodation, given how low the estimated neutral rate sits.

The reference rules were judged reliable under current conditions. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to -75 basis points, reflecting the combination of inflation near target and unemployment above the natural rate. The First-Difference rule, which weighs recent momentum rather than the level of the gaps, indicated no change. The deterministic optimal policy engine, minimizing the loss function across these inputs, recommended -25 basis points — a path between the aggressive level rules and the static first-difference result. The projection thus implied continued but measured removal of restriction, with the low momentum readings and benign stress backdrop arguing against front-loading a larger move.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion, participants began from a shared reading that inflation had converged to the Committee's objective, with core PCE at 2.02 percent removing much of the price-stability obstacle that had dominated earlier meetings. Four of the five participants judged a 25 basis point reduction to be the appropriate step, moving the target range to 3.50 to 3.75 percent. One participant, weighting inflation risk most heavily, favored holding the current range. That participant acknowledged that a single reading at target did not settle the question of durable anchoring, noting that prior minutes had flagged tariff pass-through and persistence in core nonhousing services as live upside risks, and argued that the October reduction had already addressed the rising downside employment risks. In this view, the calm in financial markets cut against urgency: with the stress index low and credit spreads



contained, there was no crisis compelling a further cut, and patience to confirm inflation remained at target was warranted.

The participants favoring a cut grounded their case in the softening evident across the labor data and the Beige Book. Several emphasized that unemployment at 4.4 percent now exceeded the 4.31 percent natural rate, that employment had declined slightly with about half of Districts reporting weaker demand, and that hiring freezes, rising layoff announcements, and AI displacement of entry-level roles all pointed to genuine loosening. One participant, focused on employment risk, recalled that the prior meeting had warned demand weakness could push unemployment sharply higher and judged that this risk persisted; the same participant weighed but set aside a larger 50 basis point move, reasoning that modest wage growth showed no wage-price spiral and that low stress readings and low jobless claims indicated softening without collapse. A participant attentive to financial stability observed that the 3-month bill trading 0.195 below the current rate meant a hold could itself tighten conditions relative to what markets had priced — a modest stability concern — while cautioning that an outsized cut could signal alarm. The participant most attentive to market signals read the same negative bill spread and the positively sloped curve as pricing roughly one 25 basis point move, neither a hold nor a jolt.

Turning to the optimal-framework discussion, participants examined the reference-rule outputs and the loss-minimizing recommendation of -25 basis points. Several noted the striking divergence between the -75 basis point signals from the Taylor, Balanced Approach, and ELB-adjusted rules and the 0 basis point reading from the First-Difference rule. The inflation-focused participant distrusted the aggressive rules as overweighting the employment gap in a way that risked reigniting the tariff-driven and services inflation flagged earlier, and found the First-Difference logic of restraint congenial, though conceding it understated the real labor softening. The employment-focused participant took the -75 signals seriously as a reflection of genuine slack and of how far the current range sat above neutral given an estimated r^* of just 0.21, but judged that inflation persistence and tariff pass-through counseled against a 75 basis point jolt that could unanchor expectations.

A recurring theme was that the low neutral-rate estimate meant the current stance was only modestly restrictive, so that a measured step brought policy closer to the last median projection of 3.6 percent without overshooting into accommodation. The centrist participant found the First-Difference rule persuasive as a brake, arguing that mild momentum readings — 0.025 for inflation and 0.1 for unemployment — favored gradualism, and characterized -25 basis points as threading the aggressive level rules and the cautious momentum rule. The stability-focused and market-focused participants each judged that -25 basis points validated market pricing smoothly and preserved orderly conditions, whereas a -75 basis point move risked widening spreads and unsettling calm markets. Across the



rebuttal round, participants reported that colleagues' arguments largely reinforced rather than reversed their views; the market-pricing case in particular was cited by more than one participant as confirming the magnitude.

By the close of discussion, participants generally agreed that a 25 basis point reduction was proportionate: meaningful support for a softening but not collapsing labor market, consistent with inflation at target, aligned with market expectations, and respectful of the lingering upside inflation risks that argued against a faster pace. Several stressed continued attentiveness to tariff pass-through and a readiness to pause if inflation momentum turned upward, while the employment-focused participant noted readiness to accelerate should the labor market weaken further.

COMMITTEE POLICY ACTIONS

In the predictive vote, the Committee favored a reduction of 25 basis points in the target range for the federal funds rate, to 3.50 to 3.75 percent, by a tally of four to one; the dissenting participant preferred to hold the range at 3.75 to 4.00 percent to confirm that inflation remained durably at target. On the deterministic framework's recommendation of -25 basis points, all five participants endorsed the recommendation as-is, with none declining and none registering only partial agreement — a unanimous endorsement of the loss-minimizing step, notwithstanding the split in the predictive vote.