



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$6,262.3 billion as of March 11, 2026, the most recent release available on or before the point-in-time-safe cutoff. The portfolio comprised \$3,585.7 billion in Treasury notes and bonds, \$358.8 billion in Treasury bills, and \$2,002.7 billion in agency mortgage-backed securities. This represented an increase of \$14.6 billion from the prior release dated March 4. The staff noted that these figures cover SOMA holdings only — the total size, composition, and week-over-week change of the domestic securities portfolio — and do not encompass the results of repo or reverse-repo operations, 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 2.12 percent on a twelve-month basis, marginally above the Committee's 2.0 percent objective. The unemployment rate was 4.4 percent, equal to the estimated natural rate, and initial jobless claims registered 213,000. The Chicago Fed National Activity Index at 0.18 was consistent with growth near or slightly above trend. The Employment Cost Index reading was 174.038, and M2 money supply stood at \$22,442.1 billion. The Committee's own most recent median projected federal funds rate was 3.4 percent, below the current target range of 3.5 to 3.75 percent.

The most recent Beige Book characterized overall economic activity as increasing at a slight to moderate pace in seven of the twelve Districts, with the number of Districts reporting flat or declining activity rising from four to five. Consumer spending increased slightly on balance, though two Districts reported ongoing declines and many contacts cited economic uncertainty, increased price sensitivity, and pullbacks among lower-income consumers; auto sales were mostly down amid continuing affordability issues. Manufacturing activity improved overall, with eight Districts reporting growth and several citing demand from data centers and related energy infrastructure. Residential real estate activity generally decreased slightly, with low inventories and affordability persistent constraints. On labor markets, employment levels were generally stable, with seven of twelve Districts reporting no change in hiring; contacts attributed flat or lower employment to rising nonlabor input costs, softer demand, and uncertainty, while firms exploring AI and automation generally emphasized productivity enhancement over worker replacement. Wages rose at a modest or moderate pace in most Districts, and overall economic expectations were optimistic.

STAFF REVIEW OF THE FINANCIAL SITUATION



The staff characterized financial conditions as broadly benign. The financial stress index registered 0.1459, a low reading indicating no systemic pressure. The VIX stood at 24.23, somewhat elevated but not at distressed levels. The Baa corporate spread was contained at 1.77, consistent with healthy credit availability and no acute borrowing-cost stress. The 10-year/2-year Treasury yield curve spread was positively sloped at 0.57, offering no recession signal from the term structure, while the 3-month T-bill spread against the current rate was only marginally negative at -0.025, pointing to stable funding markets and a modest market-implied lean toward easing.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the estimated neutral rate and the momentum measures underlying the reference rules. With the estimated neutral rate (r^*) at 0.383 and inflation running near 2.1 percent, the implied nominal neutral level sat well below the current target range of 3.5 to 3.75 percent, indicating that the prevailing stance was genuinely restrictive. Inflation momentum was negative at -0.21, consistent with continued gradual disinflation, while unemployment momentum was only marginally positive at 0.05, suggesting a labor market that was essentially flat with a slight tilt toward softening.

The reference rules spanned a range of prescriptions: the Taylor rule pointed to -75 basis points, the Balanced Approach rule and the ELB-adjusted rule each to -25 basis points, and the First-Difference rule to 0 basis points. The staff noted the reference rules were assessed as reliable in the current configuration. Taken together, these quantities implied that the likely path of conditions was toward a modest reduction in restrictiveness rather than aggressive action or continued holding — three of the four rules favored easing, and the loss-minimizing recommendation of the deterministic policy engine was -25 basis points, a step that would move the range toward neutral while leaving real policy above the estimated neutral level.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive positions, participants divided over whether conditions warranted an immediate move. Three participants favored holding the target range at 3.5 to 3.75 percent, and two favored a 25 basis point cut. The participant most focused on inflation risk argued that core PCE at 2.12 percent remained above the 2.0 percent objective and had not convincingly reached target, and pointed to the Beige Book's references to rising nonlabor input costs and cost expectations, along with tariff-driven core goods inflation, as live upside risks. In this participant's framework, easing while inflation sat above target and cost pressures remained active risked unanchoring expectations for little labor-market benefit, particularly with unemployment at 4.4 percent equal to the natural rate and jobless claims low at 213,000.



The participant weighting employment risk most heavily reached the opposite conclusion, judging that inflation at essentially target was no longer the binding constraint and that labor slack risks were building beneath a stable headline unemployment figure. This participant emphasized that only seven of twelve Districts reported no change in hiring, that job gains were low, and that firms cited uncertainty and automation as reasons for caution — early softening that warranted preemptive support. The current range was seen as restrictive relative to the Committee's own most recent median projection of 3.4 percent, and the slightly negative T-bill spread was read as confirmation that markets leaned toward easing. A participant focused on market signals reached the same 25 basis point conclusion by a different route, reading the -0.025 T-bill spread and the sub-range projection as pointing to a single measured cut, while noting that the positively sloped yield curve at 0.57 argued against anything larger.

Participants attentive to financial stability and to a literal, data-dependent reading counseled patience in the predictive round. The stability-focused participant observed that the financial stress index at 0.1459 was low, the Baa spread contained at 1.77, and funding markets stable, and judged that elevated equity volatility alone — the VIX at 24.23 — did not, absent any credit dislocation, justify a policy move. The data-dependent participant noted that both mandate legs sat near target, that CFNAI at 0.18 indicated above-trend growth, and that the Beige Book softening was a watch item rather than an emergency; while acknowledging the current range implied a mild easing bias ahead, this participant did not see data that compelled immediate action. On rebuttal, no participant was moved from the predictive stance, and the final predictive vote stood at three for holding and two for a cut.

When participants subsequently reasoned through the framework's loss-minimizing recommendation of -25 basis points, the discussion converged notably. Several participants observed that with r^* estimated at 0.383 and inflation near 2.1 percent, the real policy rate sat well above neutral, confirming that the current stance was genuinely restrictive; a 25 basis point cut would move toward neutral while still leaving policy on the restrictive side. Participants across perspectives found the Balanced Approach rule most persuasive, judging that with both mandate legs near goal only a modest recalibration was warranted, and generally rejected the Taylor rule's -75 basis points as too aggressive given the absence of a recession signal and the calm state of credit markets. Negative inflation momentum at -0.21 was cited as support for beginning a measured easing, and the barely positive unemployment momentum of 0.05 as evidence the labor market was at best flat.

The participant most focused on inflation, while continuing to view the First-Difference rule's 0 basis points as most consistent with a cautious instinct, accepted the -25 basis point step as a controlled, confirmation-dependent move rather than the opening of an open easing cycle, insisting that any easing remain gradual. The employment-focused participant read the labor softness as reinforcing the



case for insurance, and the stability-focused participant judged that contained spreads and low stress made measured easing low-risk, with elevated VIX arguing for prudence but not for holding. The data-dependent and market-signal participants each concluded that the small, consistent divergence between the predictive hold and the framework's cut reflected a stance only modestly too tight, best addressed by a single 25 basis point step aligned with the mildly negative T-bill spread and the sub-range projection.

COMMITTEE POLICY ACTIONS

In the final predictive vote, three participants favored maintaining the target range at 3.5 to 3.75 percent and two favored a 25 basis point reduction, yielding a predictive outcome of no change. On the deterministic policy engine's loss-minimizing recommendation of -25 basis points, however, the Committee was unanimous: all five participants endorsed the recommendation as-is, with none declining and none registering only partial agreement. Participants who had favored holding in the predictive round reconciled that stance with their endorsement by characterizing their predictive caution as reflecting patience pending clearer confirmation of sustained disinflation, while agreeing that on the fundamentals policy was modestly more restrictive than conditions warranted and that a measured 25 basis point move toward neutral was the defensible optimal step.