



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The desk reported that total System Open Market Account domestic securities holdings stood at \$6,315.3 billion as of the April 22 release, up \$9.5 billion from the prior week's release on April 15. The composition remained concentrated in Treasury notes and bonds, which accounted for \$3,602.3 billion, alongside \$425.2 billion in Treasury bills and \$1,985.6 billion in agency mortgage-backed securities. It was noted that these figures cover SOMA holdings only — their total size, composition, and week-over-week change — and do not encompass repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available to the Committee.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data showing an economy expanding at a subdued but positive pace. Core PCE inflation on a twelve-month basis was 2.67 percent, remaining meaningfully above the Committee's 2 percent objective. The unemployment rate stood at 4.3 percent, just below the estimated natural rate of 4.4 percent, and initial jobless claims at 207,000 remained low. The Chicago Fed National Activity Index at -0.11 pointed to growth modestly below its historical trend, while the Employment Cost Index reading of 174.038 and M2 of \$22,667.3 billion rounded out the broader picture.

The most recent Beige Book described overall activity as increasing at a slight to modest pace in eight of the twelve Districts, with two reporting little change and two reporting slight to modest declines. The conflict in the Middle East was widely cited as a major source of uncertainty that complicated hiring, pricing, and capital-investment decisions, with many firms adopting a wait-and-see posture. On balance, employment was steady to up slightly, with labor demand described as stable, low turnover, minimal layoffs, and hiring mostly for replacement; several Districts noted greater reliance on temporary or contract workers, and some observed that AI-driven productivity gains had allowed firms to delay or reduce hiring. Consumer spending rose slightly despite harsh winter weather and higher fuel prices, though many Districts continued to report consumer financial strain, greater price sensitivity, and rising demand at food banks, even as spending among higher-income consumers held up. Housing activity softened across several Districts amid rising mortgage rates, while commercial real estate improved on strength in industrial and data-center properties. Wages generally continued to rise at a modest to moderate pace.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as broadly calm. The financial stress index stood at 0.1509, a low reading, and the VIX at 18.92 indicated moderate volatility without signs of acute market strain.



The Baa corporate spread of 1.7 percentage points was contained, consistent with healthy credit access and little evidence of borrowing-cost distress. The 10-year/2-year Treasury spread was positively sloped at 0.51, giving no recession signal from the term structure, and the 3-month T-bill spread of -0.025 relative to the current target rate suggested that money-market pricing was closely aligned with the prevailing policy stance and implied little urgency for a near-term move.

STAFF ECONOMIC OUTLOOK

Looking ahead, the staff's forward-looking assessment drew on several model-based quantities. The estimated neutral real rate (r^*) of 0.454 was low and uncertain, a feature that materially affects the gap-based reference rules. The Taylor, Balanced Approach, and ELB-adjusted rules each pointed to a 25 basis point reduction, reflecting their reliance on that low neutral-rate estimate and on inflation and output gaps assumed to be closing. The First-Difference rule, which keys off changes in conditions rather than gap levels, pointed instead toward a 25 basis point increase. With inflation momentum measured at a positive 0.05 and unemployment momentum flat at 0.0, the loss-minimizing recommendation from the framework was a 25 basis point increase, and the reference rules were judged reliable this meeting.

The projection implied by these figures is one of inflation that remains somewhat above target and only slowly receding, with upside risk from oil and tariff-related price pressures, set against a labor market that is stable rather than deteriorating. Because the gap-based rules lean heavily on an uncertain and low r^* , their easing signal is fragile; the momentum-based reading, by contrast, suggests that the current stance may be modestly accommodative relative to the inflation picture. On that basis the staff outlook favored leaning against residual inflation rather than easing, while noting that the absence of unemployment momentum leaves no clear signal of near-term labor weakening in the hard data.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their predictive discussion of the likely near-term stance, all participants converged on holding the target range at 3.50 to 3.75 percent. The unifying theme was that core PCE inflation at 2.67 percent remained well above the 2 percent objective, with near-term risks skewed to the upside from the Middle East oil spike and tariff-driven core goods pressures, while the labor market was steady rather than weak. Participants generally judged that the current range was only mildly restrictive against inflation of this level, so that holding neither eased prematurely into an upside-risk environment nor tightened into visible growth softness. The below-trend reading of the national activity index and reported consumer financial strain were cited as reasons a hike was difficult to justify at the same time.



The participant most focused on employment made the strongest case for eventual easing, weighting heavily the Beige Book's description of hiring as steady to up slightly and mostly for replacement, firms' delay of permanent hires, and reports that AI-driven productivity had enabled reduced hiring. This participant characterized the softening as structural and worth watching but conceded that unemployment at 4.3 percent, just below the 4.4 percent natural rate, and claims at 207,000 did not yet show the sharp deterioration under which a cut would be most warranted. This participant judged that cutting into a broadening upside inflation risk while employment remained near full would be premature and could ultimately force harsher tightening, and therefore supported a hold this meeting while flagging a readiness to move at the first clear sign of labor weakening.

Participants attentive to financial conditions and to market-implied pricing reinforced the case for patience. The low financial stress index, moderate VIX, contained Baa spread, and positively sloped yield curve were read as indicating no distress that would warrant preemptive easing on stability grounds. A couple of participants emphasized that the 3-month T-bill spread of roughly -0.025 relative to the current rate implied markets saw little urgency for a near-term cut, a very mild easing bias insufficient to justify action. Calm, policy-aligned money markets were taken to mean that a hold would create no financial-conditions strain and that patience was affordable.

Turning to the framework's loss-minimizing recommendation of a 25 basis point increase, participants engaged with the divergence between that call and their predictive holds. Several found the First-Difference rule's logic persuasive: it responds to positive inflation momentum without over-relying on a low and uncertain neutral rate of 0.454, whereas the Taylor, Balanced Approach, and ELB-adjusted rules — all pointing to a cut — appeared to assume gap-closing the data did not confirm. On that reading, participants observed that the gap between a hold and the recommended hike suggested the current stance was at least adequately restrictive and arguably mildly accommodative relative to the inflation picture. The participant most concerned with inflation moved furthest, judging that incremental tightening was defensible and appropriate given elevated, upside-skewed inflation and the absence of slack.

Other participants endorsed the framework's direction away from cuts but resisted its magnitude. Those weighing financial stability and market signals stressed that markets were not pricing a hike at all — the mildly negative T-bill spread pointed to steady-to-slightly-lower short rates — and cautioned that a surprise increase into calm, wait-and-see conditions risked disrupting orderly markets. The data-focused participant agreed the data clearly rejected cutting but noted that the leap from 'don't cut' to 'hike' rested on a single rule outvoted three-to-one, and that near-trend growth did not demand active tightening. The employment-focused participant went further, declining the recommendation



outright: hiking into a fragile, replacement-only labor market showing early cracks, against inflation that appeared largely supply-side rather than demand-driven, was precisely the adverse shock the prior minutes had warned against.

COMMITTEE POLICY ACTIONS

In the predictive vote on the near-term stance, all five participants supported holding the target range at 3.50 to 3.75 percent, a unanimous 5-0 outcome. On the framework's separate recommendation of a 25 basis point increase, the Committee did not reach agreement: one participant endorsed the recommendation as-is, one declined it, and the remaining three took a partial view, agreeing with the direction of leaning against inflation rather than easing but not with the magnitude or timing of an actual hike at this meeting. The participant focused on inflation endorsed the increase; the participant focused on employment declined it; and the participants attentive to financial stability, incoming data, and market signals each expressed partial support for the direction while preferring to hold.