



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account's domestic securities holdings totaled \$6,340.9 billion as of June 10, 2026, comprising \$3,597.0 billion in Treasury notes and bonds, \$479.3 billion in Treasury bills, and \$1,957.2 billion in agency mortgage-backed securities. This represented an increase of \$9.9 billion from the prior release of June 3. It should be noted that these figures cover SOMA securities holdings only — 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 currently exists; accordingly, no representation is made here regarding those operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data indicating that price pressures remained elevated relative to the Committee's longer-run objective. Core PCE inflation stood at 2.78 percent on a twelve-month basis, still meaningfully above the 2.0 percent goal. Labor market indicators pointed to conditions near balance: the unemployment rate was 4.3 percent, marginally below the estimated natural rate of 4.4 percent, and initial jobless claims were low at 225,000. The Chicago Fed National Activity Index registered 0.14, consistent with growth near trend, and the Employment Cost Index reading was 175.618. M2 stood at \$22,804.5 billion. The Committee's own most recent median projection for the fed funds rate had been 3.4 percent, below the current target range of 3.5 to 3.75 percent.

The most recent Beige Book described economic activity as increasing at a slight to moderate pace in ten of the twelve Districts, with one reporting a slight decline and one no change. Consumer spending was mixed and increasingly bifurcated across income groups amid affordability pressures: higher-income households remained resilient, middle-income households were described as 'squeezing more life out of every dollar before deciding to spend it,' and low-income consumers showed greater financial strain. Reports cited increased credit card usage, fewer retail visits, and stronger demand for necessities, while auto dealers noted softer new-vehicle demand and substitution toward used and hybrid vehicles. Manufacturing activity, by contrast, rose at a modest to strong pace in nine Districts. Employment showed little to no change across eleven Districts, with one seeing modest growth; most Districts described a low-hire, low-fire environment and workers reluctant to change jobs amid uncertainty. Wage growth was generally modest to moderate and largely in line with inflation, though wage adjustments and cost-of-living increases were reported more frequently in response to fuel and other household cost pressures. Banking conditions were stable in most Districts, but rising delinquencies on residential mortgage, consumer, and agricultural loans were noted in several, and agricultural conditions were pressured by intensifying fuel and fertilizer costs.

STAFF REVIEW OF THE FINANCIAL SITUATION



Financial conditions were characterized as broadly calm and non-stressed. The financial stress index stood at 0.1482, a low reading, and the Baa corporate spread was tight at 1.53, indicating healthy corporate borrowing conditions. The 10-year/2-year Treasury spread was positively sloped at 0.42, showing no inversion and thus no acute recession signal from the curve. The VIX at 22.22 was modestly elevated but well short of crisis levels, consistent with orderly if somewhat uneasy markets. The 3-month T-bill spread over the current target rate was essentially flat at 0.015, indicating that markets were not pricing a near-term change in the policy rate.

STAFF ECONOMIC OUTLOOK

The staff outlook drew on the available forward-looking quantities. With the estimated neutral real rate (r^*) at 0.523 and core inflation near 2.78 percent, the implied neutral nominal rate stood above the midpoint of the current 3.5 to 3.75 percent range, suggesting that the prevailing stance was, on these estimates, only mildly restrictive. Inflation momentum was positive at 0.385, indicating that price pressures were still building rather than decisively cooling toward the objective. Unemployment momentum was near zero at -0.05, pointing to little near-term deterioration in labor conditions; taken together, these momentum readings implied a path in which inflation risk remained the more active pressure while the labor market held near its estimated natural rate.

The reference rules, judged reliable at this meeting, reinforced that reading. The Balanced Approach, First-Difference, and ELB-adjusted rules each pointed to a 50 basis point increase, while the Taylor rule indicated a more modest 25 basis points; the deterministic optimal policy engine recommended 50 basis points. The clustering of three of four rules toward firmer policy implied that, absent a change in the inflation trajectory or a clear turn in labor data, mechanical prescriptions would continue to call for a tighter stance than the current range, with the projected direction of conditions weighted toward persistent above-target inflation rather than emerging slack.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their assessment of current conditions, participants converged in their predictive judgment on holding the target range at 3.5 to 3.75 percent, though they arrived there from distinct starting points. Several participants emphasized that core PCE at 2.78 percent remained well above the 2.0 percent objective and that Beige Book reports of tariff, energy, and fertilizer cost pass-through, alongside more frequent wage adjustments, kept upside inflation risk elevated. One participant focused on inflation risk argued that the current range was only modestly restrictive against such inflation, that low jobless claims and unemployment near the natural rate revealed no labor distress, and that easing prematurely would risk unanchoring inflation expectations before a return to target.



A participant weighting employment risk most heavily read the Beige Book differently, stressing that employment showed little to no change across eleven Districts, that the low-hire, low-fire environment and reluctance of workers to change jobs signaled genuine fragility, and that prior minutes had flagged employment risks tilted to the downside. This participant's preference was for a 25 basis point cut to get ahead of labor weakening, but conceded that unemployment at 4.3 percent sat below the 4.4 percent natural rate, that claims at 225,000 remained contained, and that still-elevated inflation constrained how aggressively easing could be pursued. The participant judged that this specific meeting did not yet meet the threshold for action and preferred to await evidence of rising unemployment or claims before easing.

The participant most attentive to financial stability observed that headline indicators — the stress index at 0.1482, a tight Baa spread of 1.53, a positively sloped curve, and a VIX not in crisis territory — signaled orderly conditions, while the rising mortgage, consumer, and agricultural loan delinquencies noted in several Districts represented a credit-stress seed beneath calm indices. This participant characterized that stress as localized rather than systemic, with banking conditions stable in most Districts, and saw no acute trigger for a preemptive move; holding was judged to preserve optionality to respond should the delinquency trend spread. A data-focused participant and a participant emphasizing market signals both noted that the flat 3-month T-bill spread indicated markets were not pricing a June move, that the prior median projection of 3.4 percent implied eventual but deferred easing, and that the data had not shifted materially since the prior hold.

When the discussion turned to the deterministic framework's recommendation of a 50 basis point increase, participants engaged seriously with the case that current policy was too accommodative for the conditions at hand. Several found the Balanced Approach rule's logic persuasive — inflation above target and unemployment below the natural rate together arguing for firmer policy — and noted that three of four reliable reference rules clustered at 50 basis points, that r^* near 0.523 with inflation near 2.78 percent implied a neutral nominal rate above the current midpoint, and that benign financial conditions left room to tighten without fracturing markets. The financial-stability participant added that persistent above-target inflation was itself a slow-burn threat to credit quality and that front-loading while spreads were calm could avert a sharper adjustment later.

On magnitude, however, most participants drew back from the full 50 basis points. Participants pointed to the slight-to-moderate pace of growth, bifurcated consumer spending, and rising delinquencies as documented signs of fragile aggregate demand into which a large single step risked overtightening; the Taylor rule's 25 basis points was repeatedly cited as capturing the inflation gap without overshooting. The participant weighting employment risk declined the framework's direction outright, arguing that a



50 basis point move into a fragile consumer and stalled hiring risked tipping labor demand sharply lower and that the delinquencies others read as a stability seed looked to this participant like genuine aggregate demand weakness. The participant emphasizing market signals noted that while conditions could absorb a hike, a full 50 basis point move against flat market pricing risked a disorderly repricing, and that a smaller, well-signaled step would reassert the inflation mandate without fighting the entire market-implied path at once.

COMMITTEE POLICY ACTIONS

In the predictive vote on the policy decision for this meeting, all five participants supported holding the target range at 3.5 to 3.75 percent, a unanimous 5-0 outcome with no dissents. On the deterministic framework's recommendation of a 50 basis point increase, the Committee did not endorse the recommendation as stated: no participant endorsed it in full, one participant — the member weighting employment risk most heavily — declined it outright, and the remaining four participants (the inflation-focused member, the financial-stability member, the data-dependent member, and the market-signal member) took a partial stance, agreeing with the direction toward firmer policy but not with the 50 basis point magnitude, generally favoring the more measured step implied by the Taylor rule.