



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account holdings of domestic securities totaled \$6,354.5 billion as of the most recent release on July 15, 2026, up \$10.1 billion from the prior release on July 8. The composition remained concentrated in Treasury notes and bonds, at \$3,605.8 billion, alongside \$505.9 billion in Treasury bills and \$1,940.8 billion in agency mortgage-backed securities. The manager noted that this review covers SOMA holdings only — total size, composition, and the week-over-week change — and does not extend to repo or reverse-repo operation results, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed incoming data showing an economy that remained resilient but with clear signs of moderation. Core PCE inflation stood at 2.89 percent on a twelve-month basis, still well above the Committee's 2 percent objective, and core CPI was running at 2.6 percent year over year, a pace that had not clearly cooled. Headline consumer prices had swung lower in the most recent month, but that movement reflected an energy component rather than a broad-based easing in underlying prices. The Chicago Fed National Activity Index came in at -0.1, essentially at trend, indicating that overall growth was neither accelerating nor contracting sharply.

Labor market indicators pointed to a still-solid but cooling picture. The unemployment rate was 4.2 percent, below the staff's estimated natural rate of roughly 4.39 percent, and initial jobless claims remained low at 208,000, offering no sign of rising layoffs. Job growth, however, had slowed in the most recent monthly payroll report. Available District reporting described employment as rising on balance — gains in five Districts and flat conditions in seven — with skilled labor still difficult to find. Price growth across Districts was characterized as moderate in most, robust in a couple, with elevated input costs tied to energy and tariffs. The Employment Cost Index reading and modest-to-moderate wage growth were consistent with a labor market that was firm rather than overheating.

STAFF REVIEW OF THE FINANCIAL SITUATION

Broad financial conditions remained calm. The financial stress index stood at 0.1386, a low reading that indicated no systemic strain, and the Baa corporate spread of 1.59 signaled healthy credit conditions and orderly borrowing. The VIX was moderately elevated at 18.77 but did not point to broad equity distress; where volatility had risen, it was concentrated in energy and rate markets, reflecting geopolitical developments around the Strait of Hormuz. The Treasury yield curve was positively sloped, with the 10-year/2-year spread at 0.39, offering no recession signal. The 3-month T-bill spread relative to the current policy rate was only 0.085, consistent with markets pricing no near-term rate cut and, if



anything, a mild lean toward firmer policy.

STAFF ECONOMIC OUTLOOK

The staff's outlook took as its starting point an estimated neutral rate (r^*) of about 0.604 percent in real terms. With core PCE inflation near 2.89 percent, this implied a neutral nominal rate in the vicinity of 3.5 percent — roughly the lower edge of the current 3.5 to 3.75 percent target range — suggesting that the present stance was only mildly restrictive rather than deeply so. Inflation momentum registered a positive 0.33, indicating that price pressures were building rather than fading over the projection horizon, while unemployment momentum was slightly negative at -0.05, consistent with a labor market that was not deteriorating.

Against this backdrop, the reference rules were judged reliable this meeting and pointed uniformly toward firming. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each prescribed a 25 basis point increase, while the First-Difference rule and the loss-minimizing calculation both prescribed 50 basis points. The clustering of every rule on tightening, with none prescribing a hold, implied that under a mechanical reading of conditions policy was positioned somewhat behind the accumulation of inflation pressure. The First-Difference prescription, which responds to inflation momentum without relying on the uncertain r^* estimate, carried particular weight given the elevated energy-driven upside risk that would tend to feed into input costs over coming months.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants converged in their predictive assessment on holding the target range unchanged at 3.5 to 3.75 percent, though their reasoning approached that conclusion from distinct vantage points. The member most focused on inflation emphasized that core PCE at 2.89 percent remained nearly a full point above target and that the recent decline in headline CPI reflected an energy swing rather than genuine disinflation. This member viewed the escalating conflict around the Strait of Hormuz, with Brent sharply higher over the month and oil near \$83, as a serious upside inflation risk, compounded by tariff-related input costs. Even so, this participant acknowledged that a supply-driven energy shock was not best addressed by an abrupt hike into already-stressed rate markets, and so favored holding while standing ready to support tightening should energy pass-through broaden into core prices.

The member weighting employment risk most heavily arrived at the same hold from a different premise. This participant identified the slowdown in the June payrolls report as the one genuine concern in the labor data, but concluded that unemployment below the natural rate and low jobless claims described a cooling rather than a contraction. With no rising unemployment to defend against,



this member judged that the threshold for a cut had not been met, and that easing into an active supply-side inflation shock could risk unanchoring expectations. The member focused on financial stability reinforced this view, noting that the stress that existed was concentrated in energy and rate markets — with oil volatility near 60 and the MOVE index elevated — rather than in broad credit or equity markets. From this stability standpoint, neither a cut nor a hike was compelling: there was no credit emergency to justify accommodation, and a tightening move risked jolting rate markets already pricing geopolitical uncertainty. The centrist and the member reading market signals both found the incoming data and market pricing consistent with a hold — with the 3-month T-bill spread at only 0.085 pricing no near-term cut and a positively sloped curve giving no recession signal — and neither was persuaded to revise by the other members' arguments.

When the discussion turned to the framework's loss-minimizing recommendation of 50 basis points, the character of the deliberation shifted. Participants generally recognized that with r^* estimated at 0.604 and inflation momentum positive at 0.33, current policy was likely only mildly restrictive — a reading several described as leaving the stance behind the accumulating inflation pressure. The inflation-focused member endorsed the 50 basis point recommendation outright, finding the First-Difference and loss-function logic most persuasive precisely because it responded to building momentum without over-relying on an uncertain neutral-rate estimate, and observing that benign credit conditions meant tightening would not crack policy transmission.

The remaining four participants agreed with the direction of firming but resisted the full magnitude. The member attentive to employment accepted that the labor market currently gave no employment fire to fight, and could support tightening in principle to preempt entrenched inflation, but judged a 50 basis point step too large given that the soft edge in payroll growth was worth protecting; this member preferred a smaller, calibrated move. The financial-stability member framed the concern in terms of the plumbing: with the T-bill spread only 8.5 basis points above the midpoint, markets were not pricing a jumbo move, and a 50 basis point step amid live geopolitical fuel uncertainty risked destabilizing rate markets, whereas 25 basis points would firm policy without straining transmission. The centrist made the point most explicitly in terms of the rules themselves — three of the four reference rules prescribed 25 basis points and only one prescribed 50 — and concluded that the more literal consensus reading of the rules, together with market pricing, leaned toward the smaller step. The member reading market signals reached the same place: the direction toward tightening was right, but 50 basis points overshot what pricing supported, and a 25 basis point step would firm against inflation momentum while respecting the modest firming markets already anticipated.



Across both the predictive and framework-oriented rounds, participants generally characterized the current range as roughly neutral rather than meaningfully restrictive, and none offered a disinflation or labor-softening case that would argue for easing. The recurring tension was between the mechanical case for firming, driven by elevated and accelerating core inflation against a labor market showing no slack, and the caution warranted by an energy-driven supply shock whose persistence was uncertain and by a desire not to surprise markets or destabilize rate conditions.

COMMITTEE POLICY ACTIONS

In the predictive round, all five participants supported maintaining the target range for the federal funds rate at 3.5 to 3.75 percent, a unanimous 5-0 outcome. On the deterministic framework's recommendation of a 50 basis point increase, the Committee did not reach full agreement: one member — the participant most focused on inflation — endorsed the recommendation as-is, while the other four members registered a partial position, agreeing with the direction of firming but not with the 50 basis point magnitude, generally preferring a smaller 25 basis point step. No member declined the direction of the recommendation outright.