OpenFed

POLICY STATEMENT | July 22, 2026

PREDICTED FED DECISION **HOLD**

3.50%-3.75%

OPENFED OPTIMAL RATE **+50 bps**

4.00%-4.25%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 3.5%-3.75%, but its own framework judges the optimal move to be a firming of 50 bps, a gap that quantifies how far current policy lags accelerating inflation.

STATEMENT

The most striking feature of this meeting is not what the Committee expects, but the distance between what it expects and what its own framework prescribes. On the predictive question every member landed in the same place: a hold, leaving the target range at 3.5 to 3.75 percent. The case for that hold was built on a broadly reinforcing reading of the data. Core PCE at 2.89 percent remains well above the 2 percent objective, and the energy shock stemming from the Strait of Hormuz conflict, with oil near $83 and Brent up 12.6 percent on the month, was seen as a clear upside inflation risk rather than a reason to ease. At the same time, the labor market gave no cover for a cut: unemployment at 4.2 percent sits below the estimated natural rate of 4.39 percent, initial claims are low at 208,000, and while June payrolls of +57,000 marked a genuine slowdown in hiring momentum, participants judged this a cooling rather than a contraction, corroborated by a Beige Book showing employment rising on balance.

Members weighing financial conditions reached the same conclusion from a different angle. The financial stress index at 0.1386 and a Baa spread of 1.59 pointed to calm credit markets with no emergency demanding accommodation, while the stress that did exist was concentrated in energy and rates, with oil volatility near 60 and the MOVE index elevated at 70.88, rather than in broad equity or credit markets. A VIX of 18.77 and a positively sloped 10y-2y curve of +0.39 carried no recession signal. Market-implied pricing told the same story: with the 3-month T-bill sitting only 8.5 basis points above the current midpoint, markets were pricing neither a cut nor an aggressive hike. The judgment across the Committee was that easing into a supply-side energy shock would be premature, that abruptly hiking into stressed rate markets carried its own risks, and that a hold best preserved the hawkish posture already established while the pass-through from energy is watched.

The Committee's independent policy framework reached a different, sharper conclusion. Its loss-minimizing recommendation is a firming of 50 bps, driven above all by inflation momentum of +0.33, price pressures that are building rather than fading, against an estimated r* of only 0.604 that leaves the current range barely restrictive. The reference rules were judged reliable this meeting, and they split in an instructive way: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribed +25 bps, while the first-difference rule alone pointed to +50. The first-difference logic drew particular support because it responds directly to inflation's upward momentum without over-anchoring to an uncertain r* estimate. Read against this framework, the expected hold understates the persistent inflation threat: with unemployment momentum essentially flat at -0.05 and no labor deterioration to defend, the employment mandate imposes little constraint, leaving the inflation gap to dominate. The Committee's considered optimal conclusion is therefore that policy should firm by 50 bps now.

Where genuine tension surfaced was on the magnitude of that optimal move, not its direction. Every member agreed policy should be firmer; the disagreement was whether 50 bps was the right step or an overshoot. Those favoring a more measured step noted that three of the four reference rules prescribe only +25, that markets pricing barely +8.5 bps of firming would be surprised by a jumbo move amid live geopolitical fuel uncertainty, and that soft payrolls of +57,000 counsel against a step that could turn a cooling labor market fragile. That divergence, between an expected hold and an optimal move the Committee itself splits on sizing, is the real signal of this meeting: current policy near neutral is likely lagging the rules against a 2.89 percent core, and the adjustment the framework calls for is being delayed rather than avoided.

COMMITTEE VOTE

The predictive vote to hold the target range at 3.5 to 3.75 percent was unanimous, 5-0. On the framework's 50 bps recommendation, the Committee's optimal-side deliberation split 1-4: one member endorsed the recommendation as written, and four agreed with the tightening direction but not the magnitude.

NOTES

The predictive vote was unanimous, so the substantive disagreement lies on the optimal side. Four members declined to endorse the full 50 bps: those weighting employment pointed to soft +57,000 payrolls as reason for a smaller, calibrated step; the financial-stability perspective warned that a jumbo hike could destabilize rate markets with the MOVE index at 70.88 during an energy shock; and the centrist and market-pricing views stressed that three of four reference rules prescribe only +25 and that a T-bill spread of just +8.5 bps would make +50 a market surprise. Only the inflation-focused member endorsed the full 50 bps, finding the first-difference and loss-function logic decisive against building inflation momentum.