



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account holdings of domestic securities totaled \$6,362.2 billion as of the most recent point-in-time-safe release, dated September 2, 2026. The composition consisted of \$3,600.8 billion in Treasury notes and bonds, \$548.4 billion in Treasury bills, and \$1,906.2 billion in agency mortgage-backed securities. Total holdings rose by \$6.3 billion relative to the prior release of August 26, 2026. It should be noted that this account covers SOMA securities holdings only — total size, composition, and week-over-week change — and does not encompass the results of repurchase or reverse repurchase operations, for which no confirmed point-in-time-safe data source currently exists.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reviewed indicators pointing to an economy in which the labor market remained firm while inflation continued to run well above the Committee's 2 percent objective. Core PCE inflation stood at 2.92 percent on a twelve-month basis, showing no clear downtrend. The unemployment rate was 4.1 percent, below the estimated natural rate of 4.39 percent, and initial jobless claims were low at 206,000, giving no indication of a broadening wave of layoffs. The staff noted reports of a rebound in August payroll growth following a softer summer. The Employment Cost Index reading was 177.178, and M2 money supply stood at \$23,218 billion. The Chicago Fed National Activity Index registered -0.08, consistent with activity growing at roughly its historical trend pace.

The staff drew on district-level commentary indicating moderate price increases across a majority of Districts, with elevated input pressures widespread across energy, metals, and petrochemicals, and pass-through from tariffs cited in several areas. Reports of new 50 percent tariffs on Canadian goods were flagged as a source of further upward price pressure. Employment was characterized as rising only very slightly, with several Districts reporting flat conditions and some softening in retail and hospitality demand, while wage growth was described as modest to moderate. An energy shock tied to the US-Iran conflict, which had pushed Brent crude sharply higher, was noted as a prominent supply-side risk to the inflation outlook.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were assessed as benign and orderly despite the geopolitical backdrop. The financial stress index was low at 0.1326, and the VIX stood at a calm 14.32. The Baa corporate spread over Treasuries was tight at 1.57 percentage points, indicating no meaningful credit-market distress. The 10-year/2-year Treasury yield curve spread was positively sloped at +0.41, providing no recession signal from the term structure. The 3-month Treasury bill spread sat 12.5 basis points above the current target range midpoint, consistent with market pricing that anticipated stable policy with, if anything, a



modest tightening bias rather than easing. Reports of rising global yields and some seasonal September equity softness were noted, but neither had translated into stress in the indicators the staff monitored.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on the quantitative inputs available to the policy framework. The estimated neutral real rate (r^*) was 0.604 percent, which, set against core inflation near 2.9 percent, implied that the current target range of 3.5 to 3.75 percent was only modestly restrictive. Inflation momentum was positive at +0.33, suggesting price pressures were still building rather than fading, while unemployment momentum was marginally negative at -0.05, consistent with a labor market that was stable and near full employment rather than deteriorating.

The reference rules, judged reliable this meeting, clustered clearly in a tightening direction: the Taylor rule and the First-Difference rule each pointed to 50 basis points, while the Balanced Approach and ELB-adjusted rules pointed to 75 basis points. The loss-minimizing recommendation was +50 basis points. Taken together, these projections implied that, absent a change in policy, real rates would remain insufficiently restrictive to bring inflation back toward target on the momentum then prevailing, particularly with the energy shock adding upside risk. The Committee's own last SEP median projected fed funds rate of 3.8 percent sat above the current midpoint, pointing in the same direction as the rule outputs.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants broadly agreed that inflation remained the dominant concern. Core PCE at 2.92 percent was characterized as nearly a full point above the 2 percent goal, with no clear downtrend, and several participants pointed to the energy shock from the US-Iran conflict — with Brent crude sharply higher — as a genuine supply-side pressure feeding into prices. New tariffs on Canadian goods were cited as adding further upside risk. On the other side of the mandate, participants generally judged that the labor market, while softening at the margin, was not deteriorating: unemployment at 4.1 percent sat below the estimated natural rate of 4.39 percent, payrolls had rebounded in August, and jobless claims at 206,000 were low. The member most attentive to employment risk emphasized that there was no employment emergency that would justify easing against an active supply-side inflation shock.

In the predictive round, all five participants converged on holding the target range at 3.5 to 3.75 percent. The reasoning, however, reflected genuine cross-currents. The member weighting inflation risk most heavily observed that a hike was defensible but held firm, judging that given the



supply-driven nature of the shock and prevailing uncertainty, holding while preserving hawkish resolve and optionality was prudent. The participant focused on financial stability made the strongest case against tightening at this meeting, noting that with rising global yields and some September equity weakness a hike risked tightening financial conditions abruptly amid geopolitical stress. The participant weighting market-implied pricing pointed to the 3-month T-bill sitting 12.5 basis points above the current midpoint, reading this as a signal that markets expected stability with at most a modest tightening bias, not a demand for immediate action. The data-dependent participant summarized the balance as inflation being too high to cut and the economy too stable to force a hike.

When the discussion turned to the framework's loss-minimizing recommendation of +50 basis points, the tenor shifted. Several participants acknowledged that on the literal data the case for restoring restrictiveness was strong: with r^* at 0.604 and core inflation near 2.9 percent, the current range was judged only barely restrictive, and inflation momentum at +0.33 argued that price pressures were building. The member weighting inflation risk found the Balanced Approach rule most persuasive and viewed the +50 recommendation as the correct, disciplined optimal call, describing his own predictive hold as a cautious floor rather than a vindication of the current stance. The financial-stability participant, having confirmed that the stress index at 0.1326, VIX at 14.32, and tight Baa spread of 1.57 showed no distress, concluded that his usual guardrail against tightening was simply not flashing, and endorsed +50 as a prudent middle course that would correct policy without the systemic risk a 75 basis point move might carry. The data-dependent participant likewise endorsed +50 as the most literal, consensus reading of above-target inflation and a firm labor market.

Two participants diverged. The employment-focused member declined to support the +50 recommendation, cautioning that beneath a stable surface labor demand was thinning — employment rising only very slightly, several Districts flat, and retail and hospitality demand falling — and warning that a 50 basis point move risked over-tightening into an already-decelerating hiring pace. In this member's assessment, labor was stable enough not to cut but too soft to slam with restriction. The participant weighting market pricing took a partial view: he conceded that the direction of risk was upward and that the framework's fundamentals on the energy shock, tariffs, and tight labor were real, and acknowledged that calm markets meant a hike would not itself destabilize conditions. But holding to the discipline that market pricing aggregates information — and that the T-bill spread was the cleanest forward signal, pointing to steady policy — he judged that the full 50 basis points this meeting outran what pricing supported, favoring a hold that would let incoming data clarify. Participants who supported the framework's direction noted that some viewed the divergence between the predictive hold and the +50 optimal as evidence that policy was running somewhat behind the curve given persistent, supply-fed inflation.

**COMMITTEE POLICY ACTIONS**

On the policy decision for this meeting, all five participants supported maintaining the target range for the federal funds rate at 3.5 to 3.75 percent, a unanimous predictive vote of 5 to 0. On the separate question of the framework's loss-minimizing recommendation of a 50 basis point increase, the Committee did not reach full agreement: three members endorsed the recommendation as-is (the inflation-focused member, the financial-stability member, and the data-dependent member), one member declined to support it (the employment-focused member, who judged that a move of that size risked over-tightening a softening labor market), and one member took a partial position (the market-signals member, who agreed with the upward direction of risk but judged the full 50 basis points premature relative to what market pricing supported).