DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

The System Open Market Account held a total of $6,364.5 billion in domestic securities as of the October 14, 2026 release, the most recent available as of this meeting. Holdings comprised $3,597.9 billion in Treasury notes and bonds, $566.0 billion in Treasury bills, and $1,890.8 billion in agency mortgage-backed securities. Total holdings rose by $4.0 billion from the prior release of October 7, 2026. It should be noted that this account covers SOMA securities holdings only — total size, composition, and the week-over-week change — and does not reflect the results of repo or reverse-repo operations, for which no point-in-time-safe data source is currently available.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff reported that core PCE inflation stood at 2.59 percent on a year-over-year basis, remaining above the Committee's 2 percent objective, and that recent monthly readings had ticked up rather than eased. Headline inflation had accelerated to 3.7 percent, with the increase driven in substantial part by elevated oil prices amid the Iran war and disruption at the Strait of Hormuz. The most recent Beige Book material indicated broad-based price pressure across Districts, with three Districts citing robust price growth and four noting accelerating prices, and with input-cost pressures from energy and tariffs described as intensifying and passing through supply chains.

Labor market indicators presented a more mixed picture. Payroll gains had slowed markedly, with September employment rising only modestly, and prior months revised down. Average hourly earnings growth had cooled to 3.0 percent on a year-over-year basis. The unemployment rate was 4.2 percent, slightly below the estimated natural rate of 4.39 percent, and initial jobless claims remained low at 199,000. The Beige Book reported employment as little changed across most Districts, with several noting reductions through attrition, delayed hiring, or diminished job creation following investment in AI. The Chicago Fed National Activity Index registered -0.04, consistent with activity near trend, and the Employment Cost Index stood at 177.178.

STAFF REVIEW OF THE FINANCIAL SITUATION

The staff characterized financial conditions as broadly orderly but with pockets of fragility. The financial stress index stood at 0.1503, a low reading, and the Baa corporate spread was tight at 1.46, indicating no material distress in credit markets. The VIX was elevated but not at panic levels at 19.99, reflecting a recent equity selloff concentrated in AI and semiconductor valuations. The Treasury yield curve remained positively sloped, with a 10-year/2-year spread of +0.38 and no inversion signaling imminent recession. The 3-month Treasury bill traded roughly 20.5 basis points above the current policy rate, implying that markets anticipated some modest additional firming over the period ahead. On balance,

credit markets appeared to be absorbing recent equity-market volatility without a broad flight to safety.

STAFF ECONOMIC OUTLOOK

The staff's forward-looking assessment drew on several estimated quantities. The neutral real rate (r*) was estimated near 0.60 percent, implying that the current target range of 3.75 to 4.0 percent, with a real policy rate in the vicinity of 1.3 percent, remained mildly restrictive. Inflation momentum was estimated at a positive 0.33, pointing to continued upward pressure rather than a settled disinflation path, while unemployment momentum was roughly flat at -0.05, suggesting no near-term deterioration in the level data even as hiring flows had softened. Taken together, these figures described an economy running near trend with above-target inflation that was, on current readings, reaccelerating rather than fading.

The reference-rule outputs were notably split, underscoring the ambiguity of the conjuncture. The Taylor rule prescribed -25 basis points, reflecting the small negative unemployment gap and below-trend activity; the Balanced Approach and ELB-adjusted rules each indicated no change; and the First-Difference rule, which responds to inflation moving away from target rather than to a level estimate, prescribed +25 basis points. The staff judged the reference rules reliable under present conditions. The loss-minimizing recommendation of the optimal policy framework was +25 basis points, driven principally by the positive inflation momentum and the First-Difference reading, and broadly consistent with the prior projected path near 4.1 percent. The projection implied that, absent a clearer easing of price pressures or a sharper labor-market deterioration, the balance of forces would continue to point toward modest firming rather than accommodation.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their discussion of current conditions, participants agreed that inflation remained above the Committee's objective and, on recent readings, was moving in the wrong direction. Several noted that core PCE at 2.59 percent, headline inflation at 3.7 percent, and a core reading that had ticked up to 2.6 percent together constituted reacceleration risk rather than a disinflation story. Participants placing primary weight on price stability stressed that the Beige Book confirmed broad price pressure — with multiple Districts reporting robust or accelerating prices and intensifying input costs — and that upside risks to inflation were tangible and potentially capable of un-anchoring expectations if the Committee appeared to blink.

Against this, a recurring theme was the supply-side character of much of the inflation impulse. A number of participants emphasized that the acceleration was heavily energy-driven, with elevated oil

prices amid the Iran war and the Hormuz disruption, and that restrictive policy could not resolve a supply shock of this kind — it could only add restraint elsewhere in the economy. The participant most focused on employment argued this point most forcefully, observing that payroll gains had slowed sharply, with downward revisions to prior months and a slowing in wage growth to 3.0 percent signaling clearly fading hiring momentum, with the Beige Book citing attrition, delayed hiring, and AI-related staffing reductions across several Districts. This participant held that hiking into a stalling labor market with supply-driven inflation would be a policy error, and treated any further tightening as a firm red line, while acknowledging that unemployment at 4.2 percent, still slightly below the 4.39 percent natural rate, and low claims at 199,000 meant the level data did not yet decisively demand a cut.

The participant attentive to financial stability judged that credit markets showed no systemic distress — the stress index was low at 0.1503 and the Baa spread tight at 1.46 — but flagged the recent equity selloff, with the Nasdaq down about 4.5 percent on AI and semiconductor valuation concerns, as a genuine pocket of fragility. In this view, adding tightening pressure into an active equity unwind risked destabilizing financial conditions without addressing the underlying energy shock, while easing would risk appearing as a panic response that could stoke inflation expectations; a hold therefore preserved optionality on both fronts. Participants reading market signals most closely noted that the 3-month bill premium of roughly 20.5 basis points implied markets expected only partial, not full, additional firming, and that this could as easily reflect a move later in the year as one at the present meeting; the positive yield curve and benign spreads argued against any urgency to act.

The discussion then turned to the framework's loss-minimizing recommendation of +25 basis points. Here participants engaged directly with the tension between the inflation math and the softening real data. Those drawn to the First-Difference rule argued it best captured positive inflation momentum of 0.33 without requiring a precise neutral-rate estimate, and that with r* near 0.60 the stance was only mildly restrictive — leaving room to firm, in their view, without market dislocation given orderly credit conditions. Others, however, found the labor evidence decisive against adding restraint, noting that the Taylor rule's -25 reading and the near-flat CFNAI of -0.04 pointed to an economy near or slightly below trend rather than overheating, and that two of the four reference rules counseled no change. The participant focused on financial stability declined to endorse a hike into equity-market stress, judging the current range already adequately restrictive, while the participant most attentive to markets favored the direction of firming but not its full magnitude, reasoning that markets were pricing less than a complete move.

By the close of deliberation, participants had converged on holding the target range unchanged as the risk-managing compromise: inflation above target and positive momentum argued against easing,

while the clear softening in hiring flows, the supply-side nature of the price shock, and equity-market fragility argued against further tightening. Participants who weighted inflation most heavily characterized a hold as a cautious preservation of resolve that would allow the Committee to observe whether labor weakness deepened or price pressures broadened beyond energy.

COMMITTEE POLICY ACTIONS

In the predictive deliberation, all five members supported holding the target range at 3.75 to 4.0 percent, a unanimous 5-to-0 outcome. On the deterministic framework's recommendation of a 25 basis point increase, the Committee did not reach agreement: no member endorsed the recommendation as-is, three members declined it — the participants focused on the labor market, on financial stability, and on data-dependent balance — and two members, those focused on inflation risk and on market signals, took a partial stance, agreeing with the direction of firming but not with the magnitude or timing of an immediate full move. The recorded tally on the framework recommendation was thus zero endorse, three decline, and two partial.