OpenFed

POLICY STATEMENT | October 21, 2026

PREDICTED FED DECISION **HOLD**

3.75%-4.00%

OPENFED OPTIMAL RATE **+25 bps**

4.00%-4.25%

KEY TAKEAWAY

The Committee unanimously expects the real Federal Reserve to hold at 3.75%-4.0%, even as its own policy framework judges a 25 bps increase optimal against still-elevated, reaccelerating inflation.

STATEMENT

Information reviewed for this meeting showed inflation still running above the Committee's 2 percent objective and, if anything, drifting the wrong way. Core PCE stood at 2.59 percent, with the September core reading ticking up to 2.6 percent and headline inflation accelerating to 3.7 percent, pushed higher by oil above $100 amid the Iran war and the Hormuz disruption. The Beige Book reinforced the picture, with three Districts citing robust price growth and four noting acceleration and intensifying input-cost pressures. Set against this was a labor market that had plainly cooled: payrolls rose just 29,000 in September, prior months were revised down by a combined 60,000, and wage growth had slowed to 3.0 percent. Unemployment at 4.2 percent remained slightly below the 4.39 percent estimated natural rate, and with jobless claims low at 199,000, participants saw softening hiring momentum rather than outright labor deterioration. Financial stress was contained, the Baa spread tight at 1.46, and the 10-year/2-year spread positive at 0.38, though the prior week's equity selloff, concentrated in AI and semiconductor valuations, with the VIX near 20, left a visible pocket of fragility.

Two considerations pulled against each other throughout the discussion. Those most focused on price stability stressed that above-target inflation and upside risks argued against any easing, and that prior guidance had flagged a further increase as likely by year-end; the positive 3-month T-bill premium of roughly 20 basis points and benign credit conditions left room to firm. But the character of the inflation mattered. Participants weighing labor and financial-stability risks emphasized that the acceleration was overwhelmingly an energy supply shock, which restrictive policy cannot resolve, and that hiking into stalling hiring and an active equity unwind risked employment damage and market dislocation without addressing the actual driver. Notably, both members who had opened at +25 bps revised to hold over

Rounds 1 and 2, persuaded that the modest forward spread did not unambiguously demand a move at this meeting and that the deteriorated labor data postdated the prior guidance. The member whose primary mandate is inflation likewise landed on a hold, citing the same labor softening. The Committee therefore judged that the real Federal Reserve will hold the target range at 3.75 to 4.0 percent, a stance that keeps policy mildly restrictive while preserving optionality.

The Committee's own deterministic framework reached a different conclusion, and the Committee states that divergence plainly rather than smoothing it over. The loss-minimizing recommendation was +25 bps. The reference rules were genuinely split: the Taylor rule read -25 bps, reflecting the small negative unemployment gap and below-trend activity (CFNAI at -0.04); the balanced-approach and ELB-adjusted rules both read 0 bps, consistent with a stance already near neutral given an estimated r* of 0.604; and the first-difference rule read +25 bps. With inflation momentum positive at 0.33 and unemployment momentum essentially flat at -0.05, the framework gave decisive weight to the first-difference logic, which responds to inflation moving away from target rather than to a static gap. On that reading, a stance only mildly restrictive is not enough when price pressures are reaccelerating and threaten to un-anchor expectations, and low financial stress leaves room to firm without systemic strain. The Committee's independent judgment is thus that 25 basis points of tightening would be the optimal, risk-managing move.

The two conclusions quantify a policy at a crossroads. The predictive hold reflects a literal reading of softening labor data and equity fragility set against supply-driven inflation; the optimal +25 bps reflects the framework's discipline on persistent, reaccelerating core inflation. The Committee holds both as its own considered findings from this same deliberation.

COMMITTEE VOTE	On the predictive question, all five members voted that the real Federal Reserve will hold at 3.75 to 4.0 percent ({0: 5}). On the framework's 25 bps recommendation, the Committee split: none endorsed it as-is, three declined it, and two supported its direction while objecting to a full-magnitude move at this meeting.
NOTES	*Though the predictive vote was unanimous, the optimal-side deliberation showed real disagreement. The three declining members argued that an energy supply shock cannot be tamed by tightening and that hiking into stalling payrolls and an active equity selloff risks employment and stability damage; the two partial members accepted the direction but held that markets priced only partial firming, the T-bill's 20.5 basis-point premium splitting the difference, and that softening labor data counseled a smaller step than a full hike.*