October Fed Minutes Support Additional Rate Increase(s)

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Yesterday afternoon, the release of the FOMC minutes from the October 27-28 meeting made clear that the committee's decision to leave the overnight funds target *unchanged* at 3.75% to 4.00% should not be interpreted as the end of its tightening campaign. Almost all committee members believed additional rate increases would likely be appropriate in the months ahead under their baseline outlook for inflation and employment.

Some participants were in favor of an immediate 25 basis point hike, while several committee members voting to pause indicated the decision was a close call. Several suggested that *a larger move* should be considered at the December meeting if inflation data remained unfavorable. *The overriding concern is that inflation remains too high and has become increasingly broad-based as the U.S. economy continues to show considerable momentum.* Consumer spending has remained resilient, productivity growth is strong, business investment is robust and employment growth is adequate enough to absorb new workforce entries. As a result, committee members are *less confident* that inflation will return to the Fed's +2.0% target without additional policy tightening.

The Committee's decision to hold steady last month shouldn't suggest comfort in the inflation outlook, so much as a stalling effort to better evaluate evolving economic conditions and the effect of the September rate increase.

Artificial intelligence was also a discussion topic for the committee. Many Fed officials viewed AI investment as *a material inflation risk* as the demand for power, data centers, semiconductors, technology equipment and skilled labor may be exceeding supply capacity. Policymakers also raised financial stability concerns about AI debt issuance, including unusual financing arrangements and leasing commitments, as well as risk concentration among a relatively small number of companies. Several Fed officials believe these vulnerabilities could grow more problematic if the returns on AI investment fall short of expectations.

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The bottom line is that the October pause should be considered a breather, rather than an indication that the Fed's tightening campaign is nearing a conclusion. The minutes indicate the committee remains squarely focused on the inflation battle and is increasingly willing to tighten policy further.

Bonds rallied yesterday, which was somewhat inconsistent with the hawkish minutes. The best explanation for Wednesday's drop in yields was a combination of lower oil prices, unexpectedly weak housing data, and a preference for the safe harbor of treasury securities amid a fragile equity market.

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Market Indications as of 7:43 A.M. Central Time

DOW	Down -561 to 50,198 (HIGH: 54,349)
NASDAQ	Up 102 to 24,430 (HIGH: 27,600)
S&P 500	Down -17 to 7,324 (HIGH: 7,819)
1-Yr T-bill	current yield 4.60%; opening yield 4.59%
2-Yr T-note	current yield 4.81%; opening yield 4.83%
3-Yr T-note	current yield 4.85%; opening yield 4.88%
5-Yr T-note	current yield 4.89%; opening yield 4.93%
10-Yr T-note	current yield 5.07%; opening yield 5.12%
30-Yr T-bond	current yield 5.41%; opening yield 5.46%

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