FOMC Meeting Minutes
Summary – October 27–28, 2026 Meeting

The following summary restates the content of the minutes of the October 27–28, 2026 meeting of the Federal Open Market Committee, with highlights.

Prepared by Philip Chao

https://www.federalreserve.gov/monetarypolicy/fomcminutes20261028.htm

- **Highlights**
  - **A hold, not a pivot -** The Committee kept the federal funds rate at 3¾ to 4 percent by a 10–2 vote. Governor Cook and President Hammack dissented in favor of a ¼ point increase. A few who voted to hold called it a close call.
  - **More hikes expected -** Almost all participants judged that further increases, broadly consistent with the September projections, would likely be appropriate. A couple said an increase of more than ¼ point could warrant consideration at the December meeting if inflation data were unfavorable.
  - **AI dominated the financial stability discussion -** Almost all participants discussed the risk that returns on AI investment disappoint. Most noted that AI-related debt had grown rapidly through complex and opaque financing structures.
  - **AI as an inflation risk -** Many participants viewed the AI buildout as a material source of inflation risk, with price pressures extending beyond industries tied directly to data center construction. A number also noted that greater scrutiny of AI returns and financing could slow AI spending and reduce inflation pressures.
  - **Uneven growth -** Activity was strong overall, led by AI-related investment, manufacturing and data center construction, while housing and other interest-sensitive sectors were weak and higher prices of necessities strained lower- and middle-income households.
  - **Low labor market dynamism -** The labor market was described as stable and close to maximum employment, but with low hiring and layoffs, a low job-finding rate and elevated long-term unemployment.
  - **The message -** The postmeeting statement says the Committee "will deliver price stability." Many participants stressed that holding rates did not reflect a weaker commitment to returning inflation to 2 percent.

- **Policymakers' Discussion of Monetary Policy**

The Case for Holding

Most participants supported maintaining the target range. Their reasons:

1. **More information.** Accumulating additional information would help determine the policy stance needed for a timely return of inflation to 2 percent, including the durability of AI-related investment demand, the evolution of financing conditions, the transmission of the September increase, and geopolitical developments.
2. **A gradual approach.** A couple noted that gradual policy firming would give businesses and households time to adjust to higher interest rates.
3. **The path, not the meeting.** Several emphasized that the policy stance should be judged by the overall path of the federal funds rate over time rather than by actions at individual meetings.
4. **Markets already aligned.** Some observed that market expectations of tightening in December and next year were broadly consistent with their own views, which reduced the risk of holding at this meeting.

The Case for a Hike

- Some participants favored a ¼ point increase, arguing that inflation remained too high with few signs of abating and that the policy stance was not sufficiently restrictive.
- A few warned that further delay risked entrenching high inflation or requiring a larger, more disruptive tightening later.
- A few noted that little additional data would arrive in coming weeks, geopolitical uncertainty was unlikely to be resolved soon, or the next inflation release was likely to be unfavorable.
- A few who favored a hike said they could have supported no change, provided markets clearly understood that further tightening was likely.

Outlook for Policy

- Almost all participants judged that further increases, broadly consistent with the September Summary of Economic Projections, would likely be appropriate under their baseline outlooks.
- A couple noted that an increase of more than 25 basis points could warrant consideration at the next meeting if incoming inflation data were unfavorable.
- A few observed that inflation could prove more persistent than anticipated, in which case a more restrictive stance could become necessary.
- Participants stressed restoring inflation to 2 percent on a sustained basis, preventing relative-price shocks from broadening, and keeping inflation expectations well anchored, amid uncertainty about the neutral rate and the interest sensitivity of AI-related demand.

Current Conditions and the Outlook

Inflation

- Participants acknowledged that inflation remained elevated. The annual revision to the national accounts lowered measured inflation for this year, though a couple emphasized that the revision did not improve the basic inflation outlook.
- Tariff effects on prices appeared to be waning, but most remarked that inflation pressures were broad based. The vast majority noted that high energy prices continued to contribute.
- Many observed that demand tied to the AI buildout was straining supply and raising prices of technology-related consumer goods; several judged that price pressures were extending beyond industries directly affected by data center construction.
- Most expected inflation to decline toward 2 percent over time as tariff, energy and AI-related pressures moderate. The vast majority saw upside risks, citing energy prices and supply constraints in refined fuel products.
- Many viewed the AI buildout as a material source of inflation risk. A majority noted that higher costs could pass through more broadly and persistently. A few observed that pressures could ease as capacity and productivity increase, and a number noted that greater scrutiny of AI returns and financing could slow AI spending and reduce inflation pressures.

Inflation Expectations

Medium- and longer-term inflation expectations remained consistent with 2 percent. A few noted that shorter-term expectations had increased, or cautioned that market-based measures, priced off the CPI, were hard to interpret given an unusual gap between CPI

and PCE inflation. Some were concerned that broad price pressures after a prolonged period above target could entrench elevated inflation in household and business expectations.

The Labor Market

Participants described labor market conditions as stable and close to maximum employment, with unemployment near its natural rate, payroll gains within estimates of breakeven, and low layoffs and claims. Many saw signs of modest tightening. Some noted unusually low dynamism: low hiring and layoffs, a low job-finding rate, elevated long-term unemployment and perceptions of weak job availability. Aggregate wage growth was viewed as consistent with 2 percent inflation, although shortages of skilled data center workers produced sizable wage premiums, and a few noted that reduced labor supply in industries reliant on immigrant workers could add to sectoral wage pressures. Risks to the labor market were seen as broadly balanced.

The Economy

Activity continued to expand at a strong pace, supported by resilient household spending and robust business investment. Elevated household net worth and strong corporate earnings were cited as supports. Growth remained uneven: AI-related investment, manufacturing and data center construction were particularly strong, while housing and other interest-sensitive sectors were weak. A few noted that higher prices of necessities were straining lower- and middle-income budgets, and that higher energy and borrowing costs were leading some firms to reconsider production and expansion plans. A couple noted strain in agriculture from higher diesel and other input costs.

Financial Conditions

Several participants viewed overall financial conditions as supportive of growth. A majority, however, noted tightening since September: higher mortgage rates, wider credit spreads for higher-risk and AI-related borrowers, and reduced issuance by lower-rated firms. Many pointed to lower AI-related equity valuations amid reassessment of returns and financing risks, and judged that greater market discipline over highly leveraged projects could temper investment demand.

AI, Productivity and Potential Output

Some participants judged that stronger productivity from AI would allow output to expand without tightening the labor market. A number emphasized considerable uncertainty about the timing, size and distribution of AI-related productivity gains. Several noted the risk that the AI investment surge could be excessive and produce lower-than-expected returns, and a couple noted that it could be crowding out other types of investment.

- ## Financial Stability

Staff Assessment

Staff judged that current vulnerabilities could amplify shocks somewhat more than usual. Elevated asset valuations and hedge fund leverage were the most salient vulnerabilities, while strong bank and household balance sheets provided an important buffer. Staff highlighted the rapid growth of debt tied to the AI buildout and noted that off-balance-sheet leasing commitments and circular financing among AI-related firms could amplify losses if returns disappoint. In very severe scenarios, forced selling by hedge funds, bond mutual funds and target date funds could impair market functioning.

Participants' Views

- **AI returns** - Almost all participants discussed a scenario in which AI investment returns disappoint; many commented on the consequences of an AI-related asset price revaluation.
- **Opaque financing** - Most observed that AI-related debt had grown rapidly through complex and opaque structures. A few noted that exposures were becoming concentrated among a small number of firms.
- **Banks** - The banking sector was judged well capitalized under severe scenarios, but several cautioned that vulnerabilities can emerge rapidly and that supervisory data may not capture indirect exposures through nonbanks, including credit lines to private credit funds.
- **Leverage** - Most highlighted hedge fund leverage or limited dealer capacity as amplification channels; several pointed to banks' prime brokerage exposures.
- **Fiscal** - Some raised concerns about interactions among government indebtedness, rising long-term yields and financial stability, given diminished fiscal policy space. Some also highlighted cyber risk.
- **Tools** - A few favored strong bank capital, including the countercyclical capital buffer, and ready access to the discount window. Several stressed that monetary policy is not the appropriate tool to address financial stability risks directly.

Financial Markets

- **Treasuries** - Yields rose until early October on strong data, then retraced as uncertainty about AI revenue and the pace of the data center buildout, along with French sovereign debt concerns, revived demand for Treasuries. Market functioning remained orderly.
- **Rate expectations** - Futures assigned high probability to a ¼ point hike by year-end and two more by summer 2027. The Desk survey median expected hikes in December and March 2027, followed by a cut early in 2028. The median longer-run federal funds rate estimate rose to about 3.4 percent.
- **Equities and credit** - AI infrastructure stocks led gains early, then sentiment deteriorated after two leading AI firms reported revenue growth below expectations and a hyperscaler announced capital spending requiring more financing than anticipated. Bank stocks fell sharply. Credit spreads widened, especially for high-yield bonds financing data center construction.
- **International** - French sovereign yields rose sharply; the French–German 10-year spread reached levels not seen since 2011. The dollar strengthened as U.S. yields rose relative to other advanced economies.

Staff Review of the Economy

- Total PCE inflation was estimated at 3.6 percent and core PCE at 3.1 percent over the 12 months through September, attributed to earlier tariffs, energy prices and AI-related pressure on consumer goods prices.
- The unemployment rate edged up to 4.2 percent in September. Payroll gains averaged about 50,000 per month over three months. Average hourly earnings rose 3 percent over 12 months.
- Real GDP growth picked up in the third quarter, with strong consumer spending and business investment. Imports of high-tech products continued to boom.
- Staff expect inflation to step down sharply next year as energy prices decelerate, reaching about 2 percent in 2028. Risks to inflation are skewed to the upside, including the risk that longer-run expectations become unanchored after five years of elevated inflation.

- **Fed Funds Rates**
  The Committee voted 10–2 to maintain the target range for the federal funds rate at 3-3/4 to 4 percent. Lisa D. Cook and Beth M. Hammack dissented, preferring a ¼ percentage point increase. (In September, the Committee voted unanimously to raise the range by ¼ point to 3-3/4 to 4 percent.) The interest rate on reserve balances remains 3.90 percent. The next meeting is December 8–9, 2026.

- **Balance Sheet**
  The Committee is continuing its policy of maintaining ample reserves in the banking system. The Desk kept reserve management purchases at zero for the current period.