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## **Dovish Fed; BOJ only Surprise; Trump vs Hillary in November**

**Friday, 10:40 a.m. EDT**

“Sell in May and Go Away” has been a popular saying in recent years for stock investors. It appears that many traders are getting a head start as stocks are taking it on the chin yesterday and so far today. Even though the calendar was chock full of data this week, the only real surprise was the BOJ’s decision to stand pat and not stimulate a lethargic Japanese economy that is sinking back into deflation. There does not mean that BOJ head Kuroda has given up. Kuroda likes to surprise markets and may be readying a much larger package in the June meeting which takes place right after a the next US FOMC meeting.

Speaking of the Fed, on a scale of 1 (hawkish) to 10 (dovish), I thought Yellen delivered a 6 on Wednesday. To be sure, the key sentence: “Global economic and financial developments continue to pose risks.” was eliminated, but the statement “ The Committee expects that economic conditions will evolve in a manner that will warrant only graduate increases in the funds rate ... which is likely to remain, for some time ... below long-term levels,” remained unchanged from the March meeting. This does not in any way preclude a chance of a June rate hike. Although the July Fed funds contract is trading at 41 bps, which indicates only a 20% chance of a June hike, that probability is biased downward due to the contract being a negative beta asset. I rate the actual chance of a June hike at 40% to 50%. We will have two labor and two inflation reports before that meeting which will be key to the decision. If the participation rate continues to rise and hold unemployment at 5.0% and monthly core inflation rates do not exceed 0.2%, it is likely the Fed will hold.

Q1 GDP growth was a miserable 0.5%, continuing the string of low Q1 readings. However, weather can’t be blamed this year and the government had made some seasonal adjustments, supposedly removing the low Q1 bias. This means that yesterday’s reading is likely to be a good estimate and it once again indicates that productivity growth is negative. Q2 is not looking that strong either, with most estimates barely 2%.

Political Update: It is almost certain to be a Clinton-Trump match-up in November. Trump is trading at 85% to get the nomination and the main reason he is not near 100%, like Hillary, is that Trump might say something real stupid between now and the convention. Hillary is now a 4 to 1 favorite in November, and I think her odds are even better. Neither candidate is anyone investors want to cheer about.

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