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Stocks, Yellen in the Docket, and Rubio, Oops!

Friday 3:35 p.m. EST

The week following the employment report is usually dull, but not this last one, with global equities entering a bear market, Yellen's testimony in Congress and the New Hampshire Primary.

Today investors heaved a sigh of relief as stocks recovered from a harrowing week. The European bank meltdown set the tone, but the weakness in the Japanese stock market, driven by fears that central banks are "of out bullets," heightened pessimism around the world. I do not usually comment on sector action, but the spillover of the bank plunge from Europe to the US was woefully overdone. US banks are extremely liquid, flush with capital, and energy loans are but a tiny fraction of their assets. Despite the volatile markets, there are virtually no signs in the economic data that a recession is imminent.

Throughout the week, oil continued to be the main driver of investor sentiment as WTI Thursday actually fell a few pennies below its January 20 low before staging a huge rally late yesterday and today. Having just returned this morning from Houston, I sensed the unease in the oil capital, but the city is far more diversified than it was during the oil collapse of the 1980s and the growth in Texas outside oil is still very strong.

In Washington, Yellen's testimony did little to allay fears of those who feel that the Fed just doesn't "get it." She did say that future rate hikes were unlikely if current volatility continues or worsens, but would not admit that the December hike was a mistake. To be sure, given the strength of the economy and labor market late last year, the 25 bp hike was no unreasonable. But around the middle of December, oil prices resumed their collapse and the situation became uglier. Unless the bottom falls out of the market, the Fed won't take the rate hike back in March, but they may do so in June if the situation warrants.

Just a few hours after I wrote that the moderate Republicans had a chance to rally around Rubio, he hugely flubbed his debate performance. In some ways his gaffe was more serious than the one that sunk Rick Perry 4 years ago when he couldn't remember one of the government agencies he proposed eliminating. Repeating a memorized line after being accused of mindlessly spouting memorized lines certainly resulted in Rubio's dreadful 5th place finish in NH. There are now 3 blocks vying for the GOP nomination, each with about one-third vote: Trump, Cruz/Carson (who will soon drop out, with most support going to Cruz), and Kasich/Bush/Rubio.

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