As we noted in last month's perspective, October's equity market loss was befitting of the month's spooky reputation. However, the lack of a clearly identifiable driver of the market slide made October's plot line more akin to a mystery thriller than a pure horror film. To some, a resolution to the mystery seemed apparent at the end of November.

The equity market rallied strongly on November 28th after Fed Chairman Jerome Powell stated that the Federal Funds rate was currently "just below the broad range of estimates of the level that would be neutral for the economy." Because this statement stood in contrast to his remark on October 3rd that current rates were "a long way from neutral," a market narrative took hold asserting that recent volatility was due to investor concern that the Fed would go too far, too fast in its quest to tighten monetary conditions.

The list of investor concerns is growing, intensifying and certainly includes evolving Fed policy and rhetoric. However, even if the data-driven path to a neutral policy rate becomes clear to the market and the Fed follows that path, it is possible volatile conditions may persist well into 2019. Our view continues to be that the primary driver of recent volatility, and the driver most likely to sustain recent volatility levels, is the deceleration of corporate earnings growth being priced into the market.

Third quarter corporate earnings reports are almost complete and year-over-year earnings growth is on track to come in at nearly 27%, which would be the eighth highest reading in the last 25 years. Consensus earnings estimates for 2019 have been trending downward and periods of low to negative earnings growth have historically had higher volatility levels than periods of high earnings growth. It is highly possible that volatility conditions are likely to persist as investors process how transitioning policies impact the earnings power of corporations and how the prospects for slower growth are valued.

As we highlighted last month, current conditions have similarities with the mid-1990's. S&P 500® Index earnings grew at annual percentage rates ranging from the high teens to the high twenties from mid-1993 to mid-1995. Meanwhile, the Fed executed monetary tightening by raising rates throughout 1994. At the time, many investors had concerns that the Fed might take rates too high. Earnings continued to expand, albeit at a decelerating rate. A productivity boom helped the economy expand as an inflating technology bubble contributed to above-average equity market returns through the second half of the 1990s. Equity market returns were attractive, but investors had to withstand elevated volatility levels in order to secure them.

History may not exactly repeat itself, but it sometimes rhymes. Investors should be prepared for ongoing volatility even if the Fed gets policy and rhetoric correct from here forward and the other sources of uncertainty are resolved. The mid-1990s demonstrated the market can continue to trend upward with elevated volatility and decelerating earnings growth, but the economic and market forces that could help propel such a trend through or beyond this potentially extended period of volatility are not yet apparent.