



Zevin Asset Management

Q1 2024

MARKET OUTLOOK

Incredibly, we're now four years removed from the start of the COVID-19 pandemic, which ushered in a period chock-full of uncertainty. We witnessed the uncertainty personally, a lived experience that will never be fully conveyed in future generative AI searches. But we also saw it expressed in the global stock market. Sharp stock market moves, whether up or down, typically result from significant surprises — an unexpected event, technological innovation, or profit impact that companies or investors did not foresee. Perhaps we can define a sharp reaction as a stock market that is up or down by more than 5% in a calendar quarter — an annualized move of more than 21%. Over the past four years, 81% of quarters have seen a move in the All Country World Index (ACWI) global stock index of greater than 5%, including this past quarter. How does that compare with prior years? In the dozen years immediately preceding the pandemic, only 56% of quarters had moves of more than 5% in either direction. The start of the 2020s has certainly been far from boring.

Until recently, the volatile stock behavior this decade was mostly attributable to the uncertainties posed by the pandemic: shutdowns, stimulus, vaccine development, monetary policy, and inflationary pressures. Now it feels like we're getting back to a more typical investment climate. Investors continue to closely monitor the path to interest rate cuts, but a bigger piece of the positive surprise impacting stock markets in the past two quarters has been the promise of a monumental technological revolution spurred by greater productivity from generative artificial intelligence (Gen AI) and its broad adoption in the years ahead. Time will tell if the positive surprises from this new dynamic can persist and offset other challenges to financial markets. For the time being, however, having a new source of surprise for investment returns is an encouraging development. On the topic of Gen AI, while we recognize the grand potential for it to transform some work processes and allow for medical and technological breakthroughs, we also recognize the accompanying ills. Stay tuned as we continue to challenge public companies in our advocacy work

to embrace this innovation responsibly and to prudently consider worker ramifications as well as civil rights and privacy concerns.

While the latest quarter still featured stock market strength fueled by the "Magnificent 7" group of stocks, there was some rebellion in the ranks. Only four of the seven stocks were able to outperform the ACWI global stock index this quarter. Some of the waning enthusiasm resulted from greater uncertainty over how some of these companies will benefit from Gen AI. We are seeing an attractive opportunity in both semiconductors as well as other technology-fueled stocks which will reap the benefits of this tech revolution. We have already purchased a few in client portfolios, and we are researching others. Like all technological waves there will be winners and losers. We are keen to mitigate the obsolescence risk for some companies, while also investing in future opportunities. Despite the strong rebound in stocks over the past year, we imagine a fairly benign investment climate in the coming quarters, as a still resilient global economy and expectations for lower lending rates offer investors comfort. We further believe that diversification remains increasingly important at this juncture of the investment cycle.

IMPACT UPDATE

Last quarter, investors grappled with the Securities and Exchange Commission's lukewarm response to climate disclosure by corporations and the persistent misalignment between corporate values and lobbying efforts. Despite these challenges, we stand firm and continue our efforts to drive social and environmental progress. We are also encouraged after successfully engaging Danaher to agree to set greenhouse gas emissions-reduction targets, including in its supply chain. Looking forward, we await the results of our public policy engagements and our proposals on equitable wages and lobbying. Additionally, we plan to address environmental impacts and social risks posed by large cloud service providers and deployment of AI through two peer-led initiatives. Please read our [Q1 2024 Impact Update](#) to learn more.

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