



# Zevin Asset Management

## Q3 2023

### MARKET OUTLOOK

"We are navigating by the stars under cloudy skies." That was how Jerome Powell, Chairman of the U.S. Federal Reserve, recently described the central bank's task of taming inflation. We can't think of a more accurate way to describe the central bank's job, but those words don't exactly instill confidence in the single most important organization responsible for steering the largest economy in the world. What the Chairman was referring to is the long and variable lags between interest rate moves and the resulting economic response. The general rule of thumb is it takes between six months and two years for an economy to adjust to higher lending rates. It has been about 18 months since global central banks began this tightening cycle by increasing interest rates and they are likely nearing the end. But just as a ship's captain has difficulty navigating without the aid of visible stars, it's hard for central bankers to know they've adjusted interest rates enough when the final effects won't be seen for months to come. Pause too soon and central banks run the risk of letting inflation reemerge. On the other hand, lift interest rates too high and they run the risk of pushing the economy into recession.

With various inflation measures clearly in a downtrend earlier this year and economic conditions still quite robust, equity markets rallied strongly in the first half of 2023. Through mid-year, markets reflected expectations of a "soft landing" where the global economy and inflation would slow, but a recession would be avoided. Hand in hand with the soft landing would typically come a pause in monetary tightening and then interest rate cuts, conditions that equity markets love. But starting in the spring and confirmed several times through the summer, OPEC (the Organization of Petroleum Exporting Countries) announced crude oil production cuts. Oil prices shot up and led to increased uncertainty for the future path of interest rates. If higher oil prices are maintained and lead to generalized inflation, perhaps more rate hikes will follow? It's hard enough

to steer a ship without stars but even more so when oil producing nations are shooting torpedoes at you. All that is to say, increased uncertainty for the future path of monetary policy resulted in global stock markets selling off over the past quarter.

Looking forward to the rest of 2023 and into next year, we are concerned that the likelihood of a soft landing might be lower than the optimism of earlier this year. Recent stock market weakness reflects this changing trend. Leading economic indicators are softening and with oil prices around \$100 per barrel again, central banks will need to be more vigilant compared to earlier in the year when oil was trading in the \$70s. Along with higher oil prices, bond yields have pushed higher, which is also acting to create the current volatile equity market conditions. Over the next several months we expect further cooling in economic conditions. While a recession cannot be ruled out, it's unlikely to be severe. Global central bankers' messaging has been clear: interest rate increases are close to ending and they are very sensitive to economic signals indicating a pause is warranted. With all these crosscurrents in mind, we continue to invest prudently following our time-tested disciplines. We remain confident that a well-diversified, globally invested portfolio should lead to long-term prosperity.

### IMPACT UPDATE

Last quarter, Zevin Asset Management continued to share our perspective on racial equity investing, filed our first resolution of the season, and sent letters to pharma companies and their trade associations to advance health equity. In other news, we continue to defend corporate diversity, equity, and inclusion (DEI) initiatives against political headwinds and joined global efforts to protect our fragile biodiversity. You can learn about these and other initiatives and updates in our [Q3 2023 Impact Update](#).

**DISCLOSURES:** Registration with the SEC should not be construed as an endorsement or an indicator of investment skill, acumen or experience. Investments in securities are not insured, protected or guaranteed and may result in loss of income and/or principal. This communication is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Nothing in this communication is intended to be or should be construed as individualized investment advice. All content is of a general nature and solely for educational, informational and illustrative purposes. This communication may include opinions and forward-looking statements. All statements other than statements of historical fact are opinions and/or forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the beliefs and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such beliefs and expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. All expressions of opinion are subject to change. You are cautioned not to place undue reliance on these forward-looking statements. Any dated information is published as of its date only. Dated and forward-looking statements speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any dated or forward-looking statements.