# Zevin Asset Management

## Q4 2023

## MARKET OUTLOOK

A lot can change in a year. A year ago, investors were mourning the worst performing year for equities since 2008 and the worst year for bonds in recorded history. There were convincing arguments from notable investors about the end of a decade of easy money, low rates, and a strong global economy. Certainly, the era of low rates may be over or taking a long pause, but it's clear that we continue to wait for a much-anticipated recession, a recession we could characterize as "chatted up" based on sentiment and past precedence (an inverted yield curve, rising rates, high energy prices, and high inflation). This is reminiscent of the old joke that economists have predicted nine of the last five recessions. Talk of a certain recession has been slowly replaced with talk of the probability of an actual recession, a soft landing, or even no recession at all.

Has market optimism fully returned or is this year's double-digit stock market performance an anomaly, a fleeting relief rally unjustified by fundamental conditions? For the first time in a decade, after years of "TINA," (there is no alternative) to stocks, there is an alternative to the stock market. With healthy yields in bonds and cash products, the response has been a considerable increase in institutional demand for fixed income products as investors globally weigh how to freshly adjust their allocations between stocks and bonds. While we welcome the opportunity to invest client cash and bond allocations at yields that surpass 4% instead of zero, we still see the merits of growing assets for the long term in a diversified allocation of high-quality stocks. In addition to providing broad exposure to many attractive countries, sectors, and unique business models, equities typically deliver returns in excess of inflation.

The stock market's surprising strength in a year that started with high inflation, high interest rates, and a heightened risk of recession bears explanation. Early in the year, strong market performance was mostly due to the tech sector, specifically the so-called Magnificent 7 stocks (Apple, Amazon, Alphabet, Nvidia, Meta, Microsoft, and Tesla). After a summer pullback, these stocks have come roaring back and have driven the global equity markets by over 22%. All in all, the non-magnificent components of the global equity index were up about half of the overall benchmark return. The economic data coming in has been encouraging for the markets. Recent jobs reports have been solid, inflation now appears manageable at around 3%, and there's talk of the Fed cutting rather than continuing to raise rates. Although below pre-pandemic levels, consumer confidence has jumped recently, reversing several months of declines.

The economic uncertainty around whether we will have a recession, new positive indicators, and the stock market's surprise move demonstrate the importance of a rational, fact-based approach to investing. We all have our opinions and biases, but it's important to follow the facts, unexciting as they may be. To this end, we continue to see decent investment opportunities that we believe will yield attractive total returns over the next few years. We stay the course.

## IMPACT UPDATE

Last quarter, we filed a series of shareholder resolutions, laying the groundwork for dialogues with our portfolio companies on issues such as paying a living wage that includes benefits, employment contracts free from noncompete agreements, and responsible lobbying on climate change mitigation, and racial equity and justice. To address persistent gender, racial and ethnic gaps in pay, benefits, and living standards, we joined the Interfaith Center on Corporate Responsibility (ICCR) as a signatory of the Investor Statement in Support of a Living Wage. You can learn about these and other initiatives and updates in our **Q4 2023 Impact Update**.



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