Zevin Asset Management

Q2 2023

MARKET OUTLOOK

It's been more than three years since the pandemic began, and thankfully the worst is behind us, but the global economy is still dealing with the ramifications of COVID. Debates remain on whether a recession is upon us or not and how deep it could be, while economic data continues to be mostly positive. Last quarter, we wrote about one of the negative implications of the fast tightening of monetary policies by the Fed which contributed to the failure of a few banks which were especially vulnerable. This created some social and market anxiety about the safety of deposits and potential systemic contagion, that have now stabilized, as we thought they might.

In addition to the ongoing narrative about stubborn inflation and the risk of a potential recession to quell it, the past quarter was dominated by the debt ceiling saga and the proliferation of generative Artificial Intelligence (AI) applications. Fierce debates about raising the debt ceiling have taken place a few times over the years. However, this time the political gridlock brought back memories of 2011 when the US debt was downgraded by rating agencies. While this was a low probability event, we monitored this carefully while sticking to our long-term investment approach, and as expected eventually cooler political heads prevailed, which provided relief to financial markets.

The bigger influence on the market this quarter was from AI, when one semiconductor company immersed in the technology announced an outlook for significant growth beyond expectations, implying the demand for AI applications is accelerating. The market then rallied, spearheaded by just a few public stocks with exposure to the theme. We are witnessing rising AI investments over the past few years now starting to come to fruition. We see positive aspects of AI as an enabling technology that could lead to improved standards of living for many parts of society, while we are cautiously awaiting to see how the world will take appropriate measures and regulations to limit negative ramifications from the technology. We remain diligent in assessing the pace of AI technology trends and the current and future investment opportunities it offers.

With many crosscurrents we discussed now in place, we enter the third quarter with a rising domestic stock market driven by a narrow handful of stocks. While we do expect some stock market cooling at some point, a recession feels less imminent, and we would not be surprised by the possibility of buoyant markets in the short term. As always, we remain focused on major trends that impact financial markets and companies, and we will continue to balance risk and reward in the allocation of client portfolios with an eye on longer term returns.

IMPACT UPDATE

This quarter, our shareholder resolutions went to a vote at some of our largest holdings—AbbVie, UPS, and Alphabet—but faced mixed results as a result of anti-ESG pressure on the traditional investment forms. We also released our perspective on what leading practice in investing with a racial equity lens looks like and challenged Vanguard's withdrawal from the asset manager initiative to reach net zero emissions. Notably, Sonia Kowal, President, and Marcela Pinilla, Director of Sustainable Investing, received board appointments to the Investment Adviser Association and the New York Foundation, respectively. You can learn about these and other initiatives and updates in our **Q2 Impact Update**.

2 Oliver Street, Suite 806, Boston, MA 02109 • www.zevin.com • invest@zevin.com • 617.742.6666