

JANUARY 2021

LONG-TERM STRATEGIC OUTLOOK

A five-year returns forecast for major asset classes — updated twice a year to help you set strategic portfolio allocations

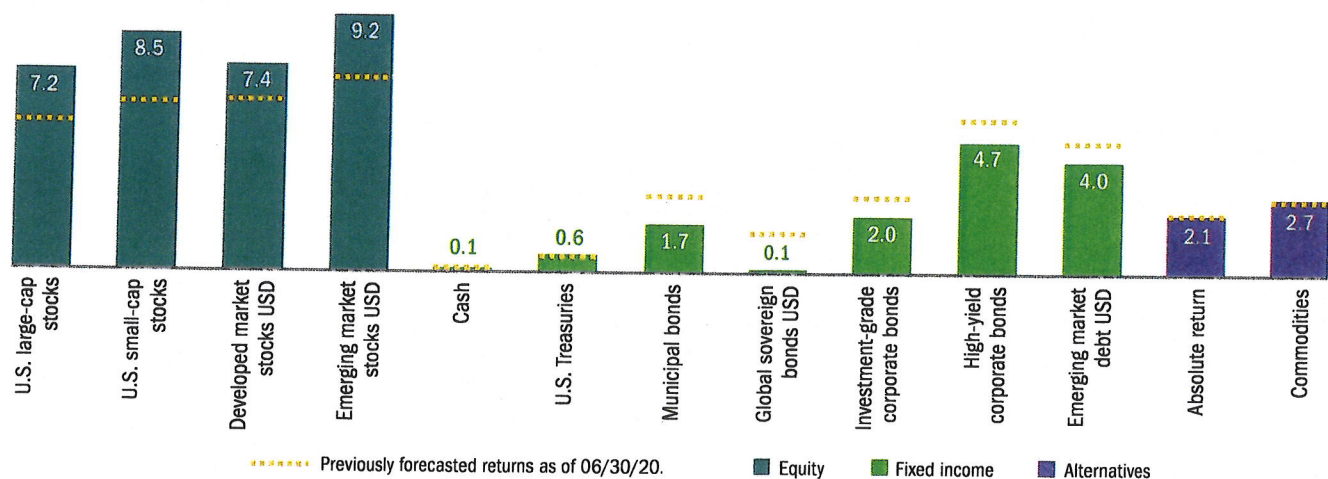
KEY TAKEAWAYS

■ **We expect economic growth to return to trend levels over the next five years and a recovery from the virus in the near term.** If the vaccine rollout is successful this year, growth will likely be well above trend, as governments are following reflationary fiscal policies and central bankers are deploying expansionary monetary policies. At the same time, there's a pent-up demand for many services.

■ Inflation is likely to approach central bank targets sometime in the next five years, but not until the economy experiences lower levels of unemployment and labor market slack is eliminated. **U.S. central bankers are focused on staying accommodative until broad employment measures approach historic lows.**

■ **In anticipation of a recovery from a 2020 recession, we have higher estimates for equity returns over the medium term.** Credit spreads have returned to precrisis levels and returns in fixed income are likely to be driven by bond yields. Monetary policy is likely to stay accommodative for the duration of our projections — return on cash is near zero and safe assets, such as treasuries or global sovereign bonds, are also likely to have very low returns.

Forecasted five-year total average returns (%)†



Source: Columbia Threadneedle Investments as of December 31, 2020. Past performance does not guarantee future results. Variation versus previously forecasted return is skewed by pandemic-driven volatility prevalent at the time of the last forecast.

Strategic outlook: To calculate the 5-year forecast, we considered two economic scenarios and calculated a weighted average based on the likelihood of each.

Base case (80%): There's a successful vaccine dissemination and a return to normalcy by the end of 2021. Growth eventually returns to trend and inflation slowly rises to just under 2% next year, approaching the Fed's target over the next few years.

Second scenario (20%): There's a lack of an effective vaccine, the virus returns and/or there's an inadequate policy response. In this case, after some growth in 2021, we could see weakness developing over the medium term. But we believe there's a low probability for this scenario.

About the authors

The long-term strategic outlook is created by Joshua Kutin, Head of Asset Allocation, North America and Anwiti Bahuguna, Senior Portfolio Manager and Head of Multi-Asset Strategy. This team is a dedicated group of investment professionals who manage asset allocation portfolios. The team evaluates economic conditions, market opportunities and risks across the global landscape to arrive at a five-year market forecast and determine asset allocation views.

About Columbia Threadneedle Investments

Columbia Threadneedle Investments is a leading global asset manager that provides a broad range of investment strategies for individual and institutional clients. With over 450 investment professionals across 17 countries, we manage \$498 billion* across asset classes. Our global investment team debates and challenges their best ideas to make better decisions, leading to better outcomes for you and your clients.

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* In U.S. dollars as of September 30, 2020. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

Not Federally Insured	No Financial Institution Guarantee	May Lose Value
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[†] Equity forecasts are based on three components: expected dividend payments, expected earnings growth and change in valuation levels (price-to-earnings ratios). Expected earnings growth is driven by expected economic growth, input cost changes and pricing power. Fixed-income forecasts are based on the shape of the yield curve, direction of interest rates, increase/decrease in yield spreads and timing of those changes. The major asset classes are based on the following indices: U.S. large-cap stocks (S&P 500 Index), U.S. small-cap stocks (Russell 2000 Index), Developed market stocks USD (MSCI EAFE Index), Emerging market stocks USD (MSCI EM Index), Cash (FTSE U.S. Domestic 3-Month T-Bill Index), U.S. Treasuries (Bloomberg Barclays U.S. Treasury Index), Municipal Bonds (Bloomberg Barclays Municipal Bond Index), Global sovereign bonds USD (Bloomberg Barclays Global Treasury Index (excl. U.S.)), Investment-grade corporate bonds (Bloomberg Barclays U.S. Aggregate Credit Index), High-yield corporate bonds (Bloomberg Barclays Corporate High Yield Index), Emerging market debt USD (JPMorgan EMBI Global Diversified Index), Absolute return (FTSE U.S. Domestic 3-Month T-Bill Index), Commodities (Bloomberg Commodity Index).

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI Europe, Australasia, Far East (EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australasia and the Far East. The Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. The Bloomberg Barclays U.S. Aggregate 1-3 Years Index is an unmanaged index of publicly issued investment grade corporate, U.S. Treasury and government agency securities with remaining maturities of one to three years. Unlike mutual funds, indices are not managed and do not incur fees or expenses. It is not possible to invest directly in an index. The JPMorgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity. FTSE U.S. Domestic 3-Month T-Bill Index: FTSE 3-Month Treasury Bill Index is an unmanaged index that tracks short-term U.S. government debt instruments. Bloomberg Barclays U.S. Treasury Index: Barclays US Treasury Index represents the US Treasury component of the US Government index. Bloomberg Barclays Global Treasury Index: Barclays Global Treasury Index tracks fixed-rate local currency government debt of investment grade countries. The index represents the Treasury sector of the Global Aggregate Index and currently contains issues from 37 countries denominated in 23 currencies. The three major components of this index are the US Treasury Index, the Pan-European Treasury Index, and the Asian-Pacific Treasury Index, in addition to Canadian, Chilean, Mexican, and South-African government bonds. Bloomberg Barclays Corporate High Yield Index: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. The Bloomberg Commodity Index Total Return (formerly DJ UBS Commodity Index), is a broadly diversified index composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). It is not possible to invest directly in an index.

Indexes are unmanaged and not available for direct investment.

Diversification does not assure a profit or protect against loss.

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