JANUARY 2022

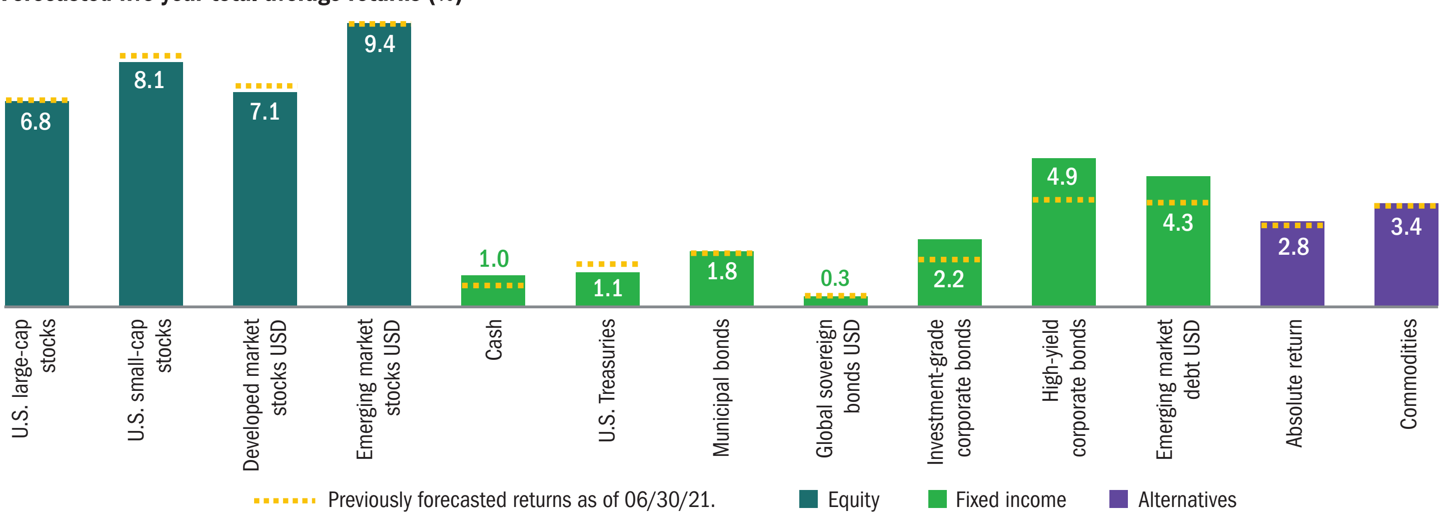
LONG-TERM STRATEGIC OUTLOOK

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

KEY TAKEAWAYS

- **We are not recovering from a typical recession.** The intentional shutdown of the economy and the massive, global synchronous fiscal and monetary support have created distortions across the economy — from shifts in consumption patterns to the labor force. This has put policymakers and central bankers in uncharted waters; it's unusual to have higher-than-expected inflation alongside a labor market that's still recovering.
- **Inflation data will get worse before it gets better.** Inflation is proving to be both more persistent and higher than the Fed (and the markets) initially anticipated. Rising costs are impacting a wider set of goods and services, and the supply distortions driving this are not likely to end quickly. While the Fed wants to see some level of inflation, timing the use of its tools to control higher prices requires a new surgical precision. If various forces keeping inflation high ease in 2022, then the Fed can implement rate hikes in a measured fashion. This is the Goldilocks scenario.
- **In 2021, we knew the Fed would stay accommodative, but we don't have that certainty in 2022.** For the markets, the flood of supportive programs introduced during the pandemic had the beneficial effect of lifting nearly all assets. As that support is withdrawn, there will be clear winners and losers. Current estimates forecast similar or higher returns across most asset classes, with the exception of U.S. small caps, developed markets and U.S. Treasuries. Return forecasts increased the most for U.S. high yield and emerging market debt.

Forecasted five-year total average returns (%)†



Source: Columbia Threadneedle Investments as of December 31, 2021. 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 five-year forecast, we consider two scenarios and calculate a weighted average based on the likelihood of each.

Most likely (70%): Goldilocks Inflation eases in 2022 and gets closer to the Fed's acceptable range, but growth is generally well above trend, supported by a strong labor market. Inflation is also above what we're used to over the last decade. There's effective handling of monetary policy with modest market turbulence.

Slightly less likely (30%): COVID continues Vaccination efforts are unable to prevent an uptick in serious disease and we see renewed restrictions on activity. 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; Anwiti Bahuguna, Senior Portfolio Manager and Head of Multi-Asset Strategy and Alex Rivas, Portfolio Manager, Global Asset Allocation. 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 $583 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, 2021. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

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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 U.S. Treasury Index), Municipal Bonds (Bloomberg Municipal Bond Index), Global sovereign bonds USD (Bloomberg Global Treasury Index (excl. U.S.), Investment-grade corporate bonds (Bloomberg U.S. Aggregate Credit Index), High-yield corporate bonds (Bloomberg 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 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 U.S. Aggregate 1-3 Years Index is an unmanaged index of publicly issued investment grade corporate, US 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 U.S. Treasury Index: Bloomberg US Treasury Index represents the US Treasury component of the US Government index. Bloomberg Global Treasury Index: Bloomberg 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 Corporate High Yield Index: The Bloomberg 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 Bloomberg 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.

Indices are unmanaged and not available for direct investment.

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