JANUARY 2023

COLUMBIA THREADNEEDLE INVESTMENTS

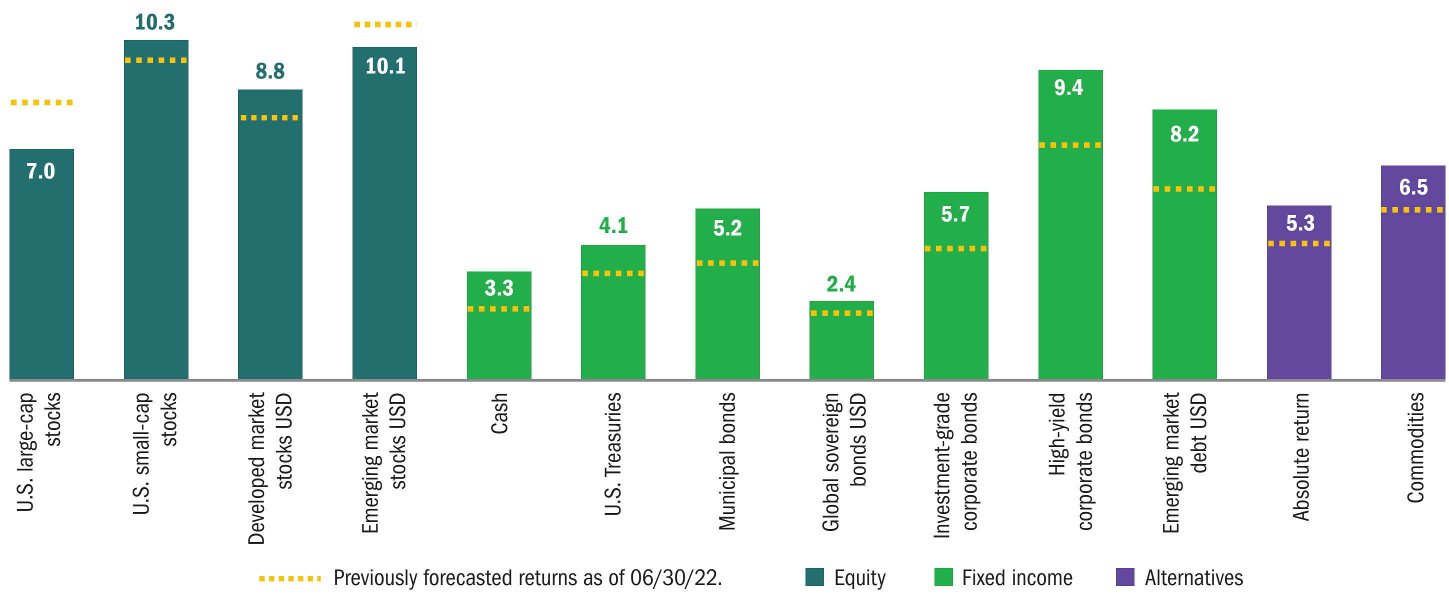
LONG-TERM STRATEGIC OUTLOOK

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

KEY TAKEAWAYS

- Although riskier segments of credit markets and equities saw sharp declines in 2022, returns are likely to improve over the medium term, driven by valuations. Return expectations for Treasuries have risen, and we expect they will once again serve as an effective hedge to equities. Higher yields and spread compression over the medium term adds to credit returns.
- Rates have risen over 4% and are likely to peak at around 5% by the middle of the next year. This has improved cash returns over the next five years substantially.
- It is worth highlighting that while nominal return expectations have gone up, real return expectations are lower because inflation has risen but should moderate over the next five years.

Forecasted five-year total average returns (%)†



Source: Columbia Threadneedle Investments as of 12/31/22. 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: We see equal odds (40/40) of either a recession or a weak period of economic growth also characterized as a “soft-landing.” We assign a smaller probability (20%) to better than consensus growth, which delays recession and implies rates higher for longer.

- Inflation appears to have peaked but remains high, driving consumer sentiment to record lows. The Fed has stepped down from aggressive 75bps hikes at each meeting to 50bps in December, but more hikes are expected in the first half of 2023. The labor market remains strong defying recession talk.
- US based companies are expected to see solid earnings growth in 2022 but multiples have contracted sharply as rates have risen and expectations for earnings in 2023 have fallen.
- We expect a volatile period ahead for asset returns, in the near term, as the market continues to digest the impact of monetary tightening.

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 650 investment professionals across 19 countries, we manage $548 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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Source: Columbia Threadneedle as of September 30, 2022. Contact us for more current data.

Not FDIC or NCUA Insured	No Financial Institution Guarantee	May Lose Value

† 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 U.S. 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.

Diversification does not assure a profit or protect against loss.

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