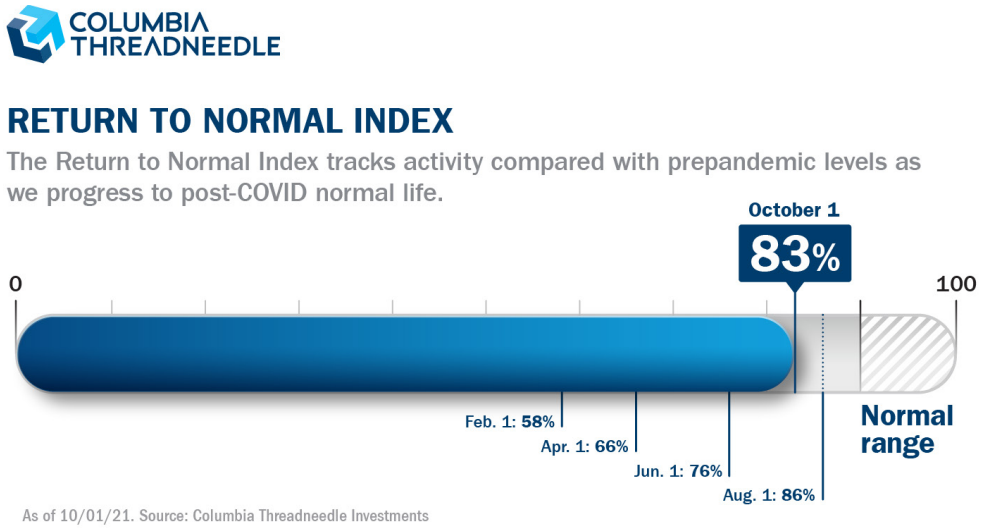
COLUMBIA THREADNEEDLE INVESTMENTS

Return to Normal Index: Updated base case and downside scenarios

October 1, 2021

Our base case scenario for a return to normal is now Q4 2021, with a downside scenario in Q1 2022.



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At the beginning of the year, we created a Return to Normal Index to measure human activity data relative to prepandemic levels as we progressed through recovery of the pandemic. The index is constructed by our data scientists and fundamental analysts and tracks activities in the U.S., including travel, returning to work and school, brick-and-mortar shopping and eating out at restaurants. The index is focused on measuring components of daily life rather than economic indicators like GDP growth, and the percentage level moves closer to 100 as daily life normalizes. Our analysts update it monthly.

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WHAT'S CHANGED:

At the outset of our Return to Normal Index, we adopted a scenario-based approach to forecasting our return to normal activity levels (i.e., a base case, an upside case and a downside case). The “known unknown” of variants such as delta was a key factor in adopting this approach, recognizing that it was unlikely for the path to recovery to be a straight line. With slowed momentum because of the delta variant, we shifted what had previously been our downside case at the outset to our base case. We now believe that activity will normalize in Q4 2021; we’ve adopted a new downside scenario that things will go “back to normal” by Q1 2022.

WHAT WE'RE WATCHING:

We’re analyzing the time people spend engaging in a broad set of activities outside their homes. The index components have implications for economic growth, but the primary objective is to monitor how close or far we are to returning to normal life.

Return to school

Return to travel

Return to entertainment

Return to workplace

Return to brick-and-mortar shopping

Our index suggests that we’re now 17% below pre-COVID activity levels — overall, it’s flat relative to last month. Brick-and-mortar activity remains below peak levels because of diminished demand for services like salons. Once again, we saw greater impacts to activity in COVID hotspots such as Texas and Florida.

WHAT COULD DRIVE CHANGE:

Virus data continues to evolve, and if we see a large uptick in hospitalizations or the proliferation of new variants that elude vaccines, a return to normal levels of activity could be further delayed. FDA approval of boosters for frontline workers, people over 65 and people at risk of contracting a severe case of COVID, as well as vaccination requirements from larger employers, may help increase the level of activity.

As a reminder, we don’t expect all levels of activity to return to their pre-COVID levels. The index could hit “normal” at a point lower than the 100 level because of prolonged changes in behavior like working from home. That’s why our normal range begins at 90%.

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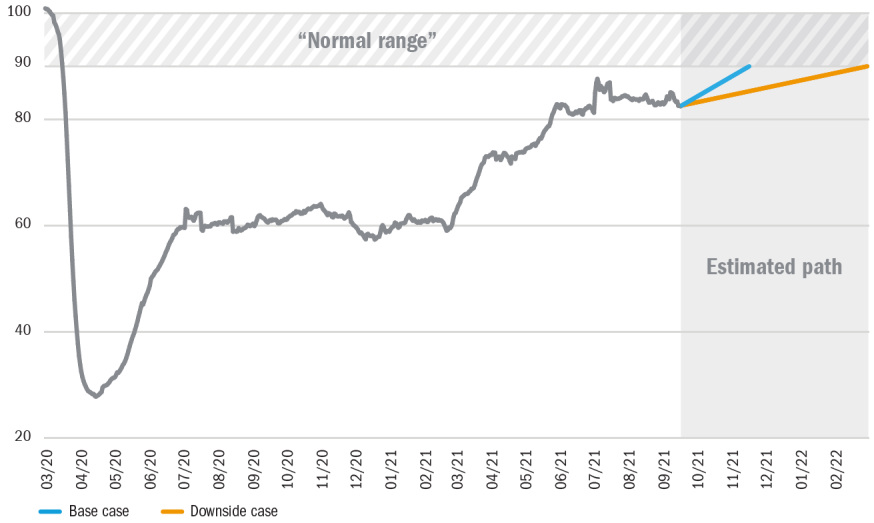
Columbia Threadneedle Return to Normal Index over time

Level as of October 1: 83%



As of 10/01/21. Source: Columbia Threadneedle Investments

"Our index continues to provide a framework as we analyze companies," says Paul DiGiacomo, Head of Equity Research. "It's a roadmap for what normal activity might look like after COVID and how long it will take to get there. The information allows us to test a company's own assumptions and make adjustments in our views, as needed."

For investors, the Columbia Threadneedle Return to Normal Index can act in the same way: it's an additional input to consider as they research their individual asset allocation and portfolio decisions.

Bottom line: Understanding where we are on the path to normal life continues to be a critical question in 2021. This data input can help inform investors' asset allocation decisions and set expectations on market activity.

Download chart

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