

DECEMBER 2019

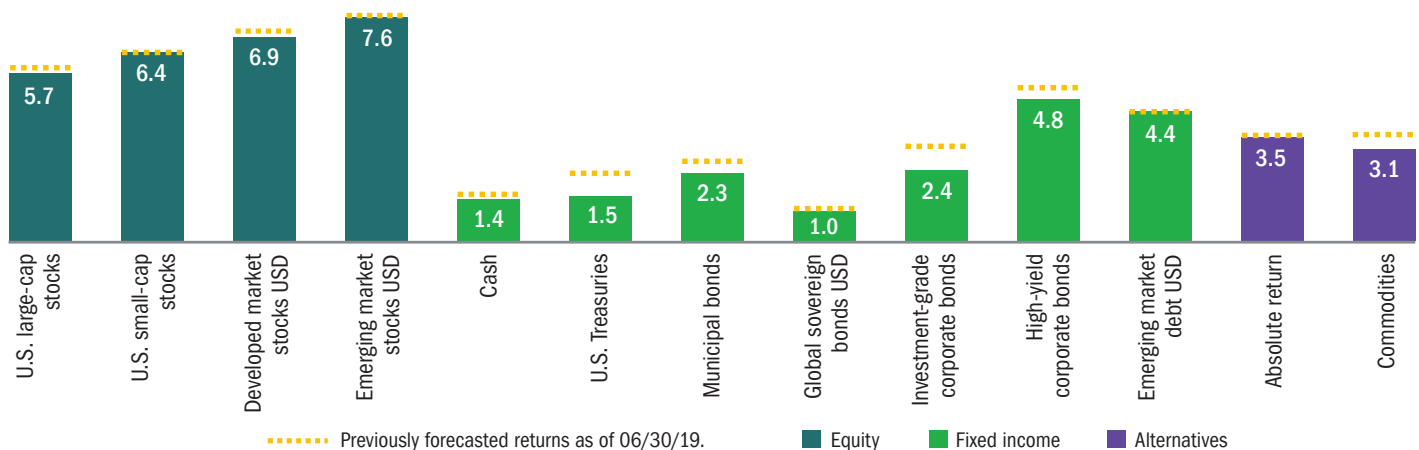
# LONG-TERM STRATEGIC OUTLOOK

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

## KEY TAKEAWAYS

- A slowing economy at or near trend levels is vulnerable to shocks.** The fiscal stimulus provided by the 2017 tax cuts is fading completely, and GDP growth is slowing to trend levels. Because of this, we think that the economy in 2020 will be more susceptible to setbacks due to a lowered ability to absorb shocks or surprises. The most common concerns are the ongoing trade war and negative credit surprises that could damage confidence and cause businesses and consumers to retrench.
- Forecasted returns have declined since our last analysis. Even before trade policy risks intensified,** financial markets were signaling caution — culminating in certain parts of the yield curve inverting. Implied returns are lower for equities and bonds because nominal growth expectations are lower, and valuations for both equities and bonds are stretched.
- Protectionist policies are still key risks.** Trade conflict and protectionism are likely to be permanent fixtures of our economy. Although tensions may abate ahead of the elections, there is no way of knowing when they might reemerge. We might see growth disruptions and higher prices for goods.

## Forecasted five-year total average returns (%)<sup>†</sup>



Source: Columbia Threadneedle Investments as of December 2019. Past performance does not guarantee future results.

**Strategic outlook:** To calculate the five-year forecast, we usually consider three scenarios and calculate a weighted average based on the likelihood of each. But recently, Federal Reserve Board Chairman Jerome Powell acknowledged that the “neutral” rate (the short-term rate of interest that neither spurs growth nor slows it down) might be lower than the Fed’s estimates. This is contrary to the optimism we saw in the financial markets post tax cuts, when many assumed that 2017 tax rate changes would result in more permanent productivity enhancements. Accordingly, we removed the third scenario of faster growth from our assessment.

### Most likely (70%): Growth slows to trend levels

Our base case assumes that U.S. growth slows to trend levels. According to the Congressional Budget Office and our own analysis, it would be in the range of 1.8%–2.0% — the supply-side estimate of growth based on demographics and productivity.

### Less likely (30%): Trade disputes and protectionism

In this scenario, we might see our slow-growth economy succumbing to disruptions and enter a recession. Theory suggests that inflation initially rises, but tariffs and subsequent recessions are eventually deflationary.

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## 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 \$469 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.

To find out more, call **800.426.3750**  
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\* In U.S. dollars as of September 30, 2019. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

**Not FDIC insured • No bank 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 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, 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 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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