UPDATE: 5-YEAR CAPITAL MARKET ASSUMPTIONS

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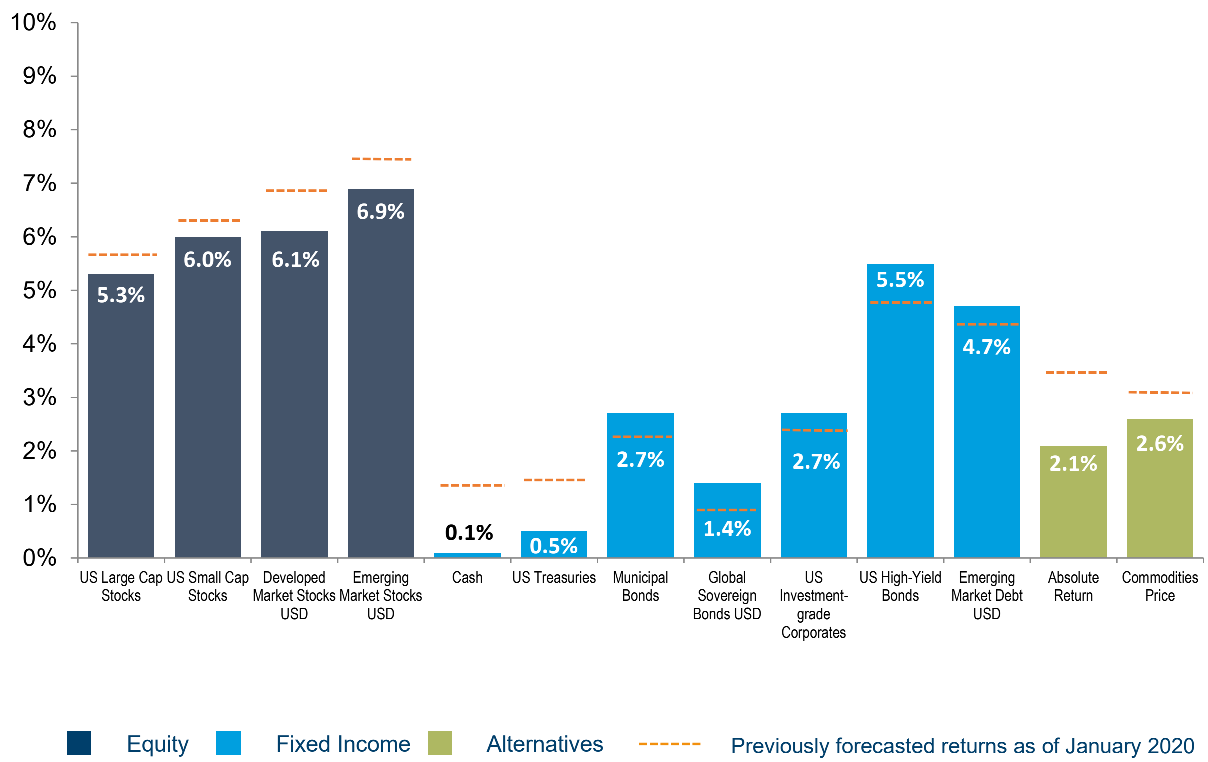
Twice a year, we conduct an extensive update of our five-year return forecasts. The purpose of this exercise is twofold. First, taking a longer term perspective helps set strategic asset allocations and design portfolios for diverse investment goals. Second, and equally important, maintaining long-term forecasts provides helpful context for responding thoughtfully to daily swings in market prices.

Forecasted five-year total average returns



Please see disclosures for asset class definitions.

Summary

- **The COVID-19 pandemic has gripped the world this year — and changed our calculus.** In 2018 and 2019, growth rates were above the productive capacity of the economy, mainly due to the fiscal policy boost from the 2017 Tax Cuts and Jobs Act. At the beginning of 2020, we expected medium-term growth to return to trend levels of about 2%. The Congressional Budget Office estimated trend growth to be somewhere around 2% as well, but it now expects that the pandemic and its long-term effects have likely reduced trend growth to 1.8% in the medium term.
- **The longest expansion on record has come to a screeching halt, and the economy has faced a blow.** We expect a large hit to growth in 2Q 2020 and a recovery to begin in the second half of the year. A lot depends on how the economy reopens, as the fear of the virus spread subsides, and how policymakers — monetary and fiscal — respond to the crisis.
- **Given the roundtrip in equity markets while the economy underwent dramatic changes, our equity forecasts for the U.S. are, by and large, unchanged.** We do expect slightly higher returns in international markets, which were lagging U.S. returns and have provided equally aggressive monetary and fiscal support to their economies. The best returns are in the credit space where spreads in some areas are still elevated, and there's explicit U.S. Federal Reserve support.

Strategic outlook

Looking ahead, our base case is that recovery is going to be slow. The economy will most likely grow well below 2% over the duration of our forecast, and inflation will stay low, well below Fed's target. If we see an accelerated production of an effective vaccine and more aggressive fiscal spending, we could see slightly higher growth — approaching closer to 2% — and higher inflation. On the other hand, if there are policy errors, such as premature Fed tightening, protectionist policies or fiscal contraction, growth could remain low for a very long time and fears of deflation could resurface.

Bar chart represents forecasted five-year total average returns as of July 2020. Dotted line represents previously forecasted returns as of January 2020. Source: Columbia Management Investment Advisers, LLC.

Past performance does not guarantee future results. It is not possible to invest in an index.

Important note: This chart is for illustrative purposes only and is not intended to represent any investment product. All of the above are forecasts based on Columbia Management Investment Advisers, LLC models and analysis. As such, there is high likelihood that actual returns and economic results will deviate from our expectations.

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: Large-cap stocks: S&P 500 Index; Small-cap stocks: Russell 2000 Index; Developed market stocks: MSCI EAFE Index; Emerging market stocks: MSCI EM Index; Cash: Citigroup U.S. Domestic 3-Month T-Bill Index; U.S. Treasuries: Bloomberg Barclays U.S. Treasury Index; Global sovereign bonds: Bloomberg Barclays Global Treasury Index (excl. U.S.); Investment-grade corporates: Bloomberg Barclays U.S. Aggregate Credit Index; High-yield bonds: Bloomberg Barclays Corporate High Yield Index; Emerging market debt: JPMorgan EMBI Global Diversified Index; Commodities: Bloomberg Commodity Index plus active management component: Municipal Bonds: Bloomberg Barclays Municipal Bond Index

Diversification does not assure a profit or protect against a loss.

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