UPDATE: 5-YEAR CAPITAL MARKET ASSUMPTIONS

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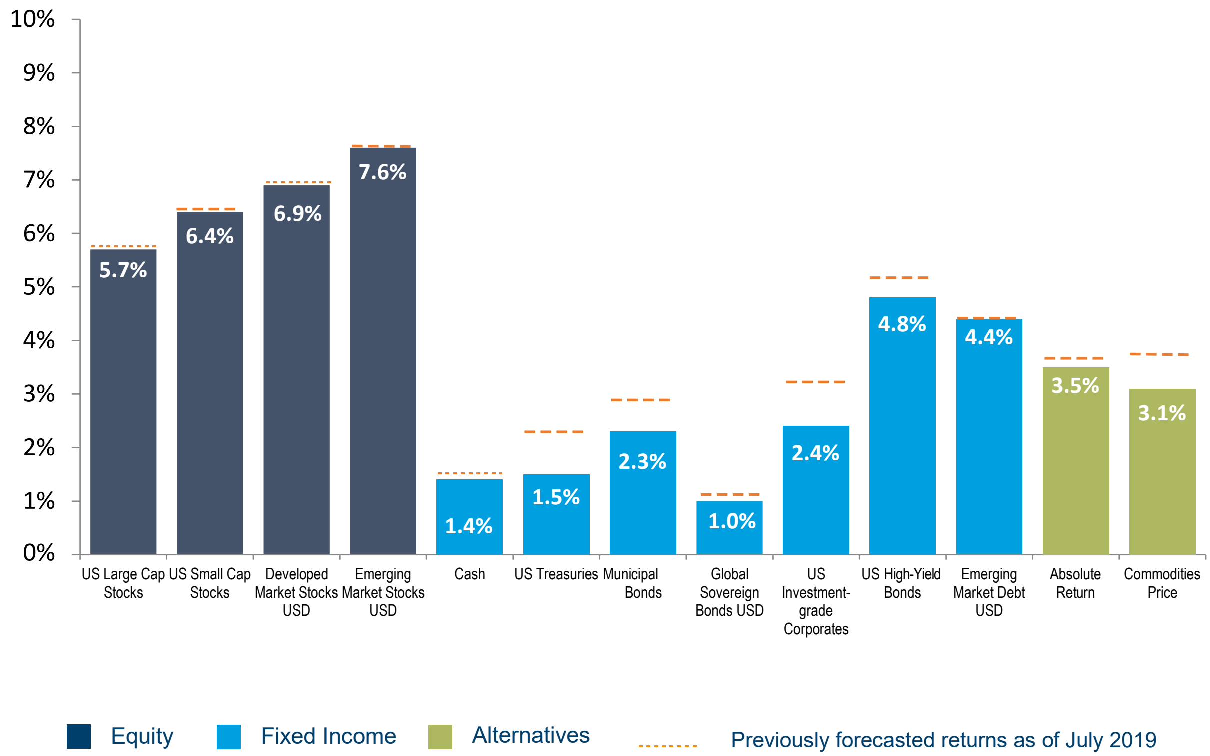
Twice a year, we conduct an extensive update of our five-year return forecasts. The purpose of this exercise is two-fold. First, taking a longer-term perspective helps set strategic asset allocations and design portfolios for diverse investment goals. Second, and equally important, maintaining long-term 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

- **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.

Strategic outlook scenarios

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.

More 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.

Bar chart represents forecasted five-year total average returns as of December 2019. Dotted line represents previously forecasted returns as of July 2019. 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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