UPDATE: 5-YEAR CAPITAL MARKET ASSUMPTIONS

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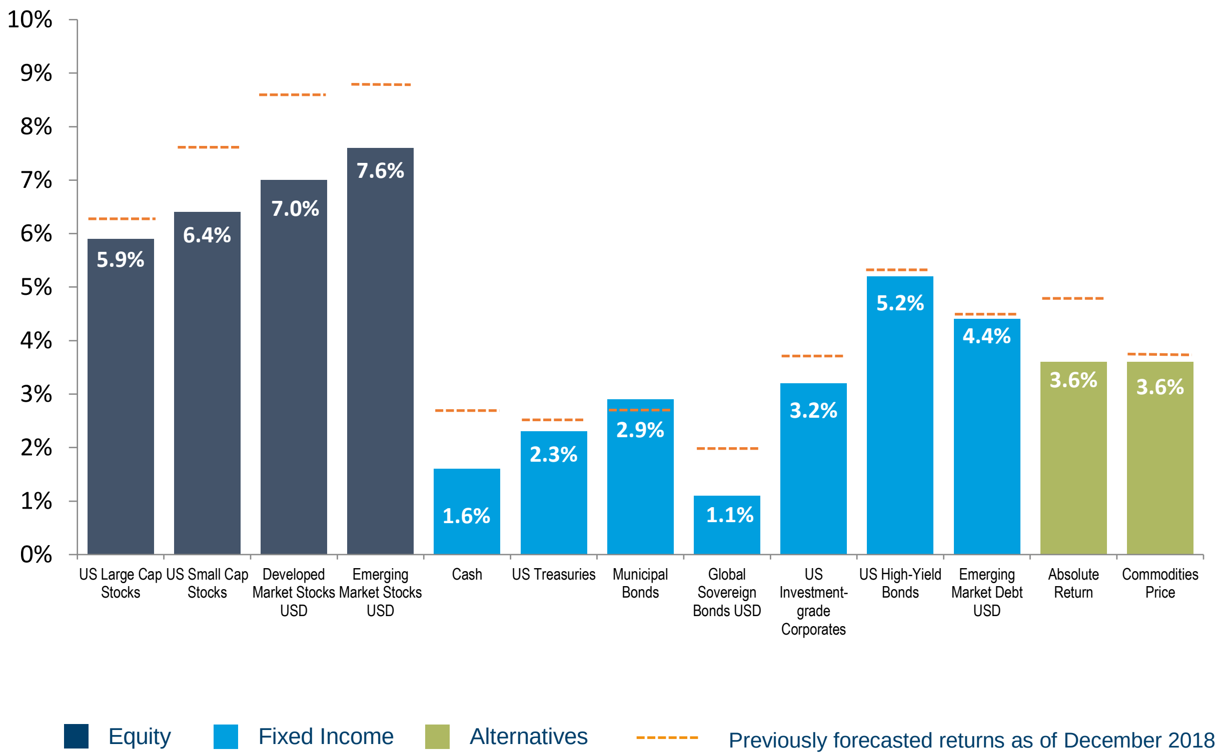
Twice a year, we conduct an extensive update of our five-year return forecasts. The purpose of this exercise is two-fold. First, taking a longer-term perspective helps set strategic asset allocations and design portfolios for diverse investment goals. Second, and equally important, maintaining long-term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

- **Over the course of 2019, downside risks to growth have increased.** Weakness in global exports, mainly affecting Chinese and European manufacturing sectors, has begun to spread to the U.S. manufacturing sector, but we believe it's premature to price in a high risk of the current expansion ending. Three-to-five-year growth expectations have come down since the beginning of the year and are now closer to trend growth (1.75%). Inflation is well below the Federal Reserve's (Fed) stated target of 2%. We expect inflation to remain at these lower levels for the near future.
- **Forecasted returns have declined since our last analysis.** Even before trade policy risks intensified in May, 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.
- **Monetary and protectionist policies are still key risks.** Against a backdrop of slowing global manufacturing data and subdued inflation, the U.S.-China trade conflict is a negative development. If growth deteriorates further and there isn't an agreement on trade, then 2-3 rate cuts won't be enough to stave off a deeper slowdown, and the Fed may have to take rates down lower. We expect lower rates for longer, and while we are not forecasting a recession in the near future, odds of a recession in the next two years have risen.

Strategic outlook: three scenarios

To calculate the five-year forecast, we consider three scenarios and calculate a weighted average based on the likelihood of each.

Most likely (50%): Fiscal fade

The boost to growth provided by 2018 fiscal policy changes is exhausted by year end. Trend growth resumes. However, with little room for error, the economy becomes susceptible to a recession if shocks occur.

Slightly less likely (45%): Trade disputes and protectionism

Positive U.S. growth is derailed by tariffs on imports. Protectionism elicits a retaliatory response from China and other key global trade partners. The Fed pauses, but damage from a stronger dollar and current rate levels begins to impact the weakening economy. Initially, there's an inflationary environment (due to tariffs) but ultimately a deflationary shock to the economy.

Least likely (5%): Business-friendly

Supply-side benefits resulting from the corporate tax cuts could improve productivity and result in higher growth than trend for a sustained period of time. The Fed is able to raise rates significantly without a recession as "neutral" rate moves up.

Bar chart represents forecasted five-year total average returns as of December 2018. Dotted line represents previously forecasted returns as of July 2018. 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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