

Summer 2020



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COVID-19: An intentional pause

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AN INTENTIONAL PAUSE

What we are experiencing now is a calculated economic shutdown, unlike other post-war recessions. But a swift policy response is helping to soften the blow.

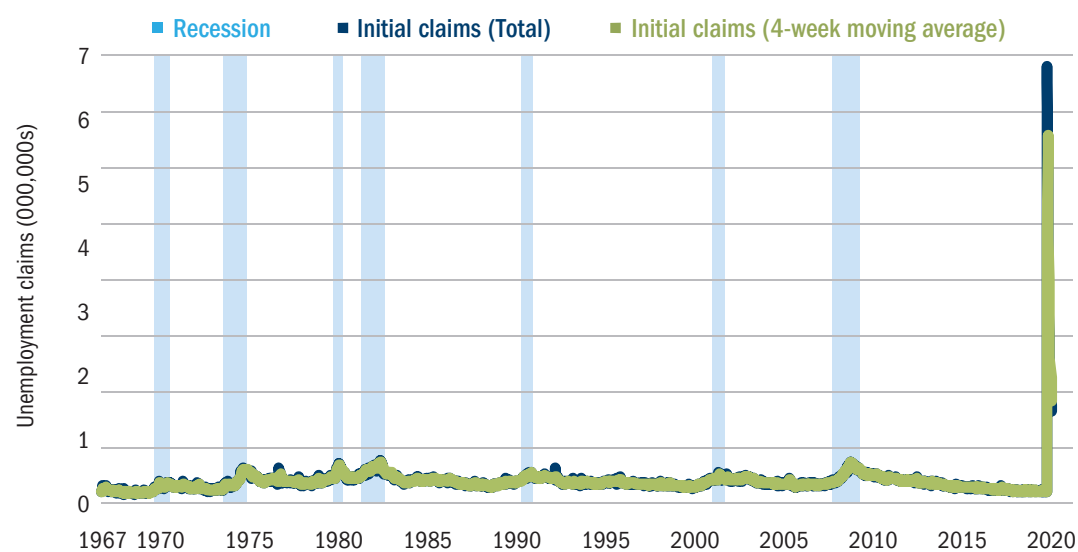


ANWITI BAHUGUNA, Ph.D.

Senior Portfolio Manager and Head of Multi-Asset Strategy

It's now all but inevitable that we will see a deep contraction in U.S. economic activity as a result of the shutdown to contain the coronavirus. As of June 25, initial jobless claims (as reported by the Department of Labor) are still elevated at nearly 1.5 million per week, after a spike to 6.8 million in April — a new record. As the economy reopens, future DOL reports are likely to show a gradual but steady decline, and it's very likely that we'll see the unemployment rate stay stubbornly high for the remainder of the year. It may remain near 9%-10% in the upcoming months.

UNEMPLOYMENT CLAIM SPIKES ARE RELIABLE INDICATORS OF RECESSIONS



Department of Labor, June 25, 2020

Predicting the unpredictable

Labor market data is the most reliable indicator that a U.S. recession is underway, and it's one of the more certain statistics we can observe in the current environment. The present situation is so novel (like the virus itself) that applying historical models to forecast what may unfold is a significant challenge. Unlike most post-WWII recessions (i.e., a result of the business cycle overheating, financial bubbles, etc.), what we're experiencing now is a calculated shutdown to dramatically slow the spread of the coronavirus. Even with the tentative reopening of the economy in phases, the threat of resurgence of the virus and lack of good treatment options (therapeutics, vaccines) make it almost impossible to predict U.S. growth in the near term. Although we can't accurately pinpoint the exact hit to growth, labor market woes do suggest a severe hit to the economy in the second quarter.

From an investment perspective, we frequently present scenarios in terms of base, bull and bear cases. Presently, our base case assumes that the U.S. economy continues its gradual but slow reopening. Areas most affected by the shutdown such as airlines, restaurants, travel and leisure and many other sectors will struggle to survive, and there will be second-order effects.

The multiplier effects and the likelihood that consumers will not return to normal activity immediately implies that a full recovery in economic activity may not occur until sometime next year. In our view, a quarterly sequence of gross domestic product (GDP) growth consisting of a very sharp decline for the second quarter, weakness in the third quarter, and perhaps a decent bounce in the fourth quarter will translate into -6% to -8% year-over-year GDP growth. It's also almost certain that we will see a sharp decline in year-over-year earnings. A more protracted period of economic shutdown, one that lasts longer than the next couple of months, could translate into a longer global recession — well into 2021. But if widespread testing allows

people to come back to work faster than anticipated, or if some therapeutics designed to relieve the impact of the virus are discovered, the outlook may be more optimistic.

Supporting the economy

It's easy to feel overwhelmed by these numbers, and a recession is now a certainty. Mounting a swift and substantial response, the Fed and global central bankers quickly announced measures to keep markets liquid and credit flowing. Monetary policy is fully accommodative and focused on liquidity and solvency issues. Many new programs have been introduced, aimed at making credit available to banks and other institutions. The Fed can now purchase almost any security (except high yield) and has established itself as the lender of last resort. Fiscal stimulus in the U.S., focused on reducing funding stress and stimulating growth, is on track to exceed \$2 trillion. In addition, measures to reduce regulatory oversight are being considered.

While these are encouraging actions to support the economy, economic data in the upcoming months will likely paint a bleak picture. Many of these measures are lagging indicators and may already be priced into markets, but the aggregate drumbeat of grim news could weigh on investor sentiment.

Bottom line

Ultimately, the duration and the intensity of this unprecedented economic contraction depends on the duration of the shutdown. We take some encouragement in the swift and substantial ongoing policy response from monetary and fiscal authorities to help consumers and businesses cushion the blow. As the virus-induced shutdown ends and activity begins to normalize, we expect the unemployment rate and jobless claims to edge down and the long road to recovery to begin. After a rude shock, U.S. activity will slowly return to normal levels.

Why you should care about the CARES Act



IRS Notice 2020-50 expands the definition of a qualified individual to include members of an individual's household who suffer financial loss as a result of Covid-19. Anyone who shares the individual's principle residence is part of the household.



On March 27, the more than \$2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. It builds on prior legislation intended to address the COVID-19 pandemic by providing support to businesses and individuals. One important component of the Act is the coronavirus-related distribution (CRD) from retirement accounts.

This special retirement distribution from a qualified retirement plan is only available in 2020. IRA account holders and qualified retirement plan participants can take this distribution if permitted by their employer plan. Employers who want to offer the CRD can do so at once, and they have until December 2022 to amend their plan document. Under IRS Notice 2020-50, the IRS has further clarified that the distribution can be taken if an individual or someone in the individual's household is affected by COVID-19 for health or economic reasons. In previous regulatory guidance, every financial hardship criterion was tied to the individual alone.

Prior CRD Guidance due to COVID-19	IRS Notice 2020-50 Expansion
If the individual has reduced work hours	If the individual, a spouse or a member of household has reduced work hours, a reduction in pay (or self-employment income) or a job offer that is rescinded or delayed
If the individual experiences quarantine, furlough, layoff, or inability to work due to lack of childcare	Expanded to the individual, a spouse or a member of household
Closing or reduced hours of a business owned or operated by an individual	Expanded to a business owned by an individual, a spouse or a member of household

The coronavirus-related distribution (CRD) can be up to \$100,000 in aggregate per individual. The 10% early withdrawal penalty is waived as is the required 20% withholding by qualified plans. Pretax dollars are treated as ordinary income for federal income tax purposes, but with a special provision.

A CRD withdrawal can be spread pro rata across three years for federal tax purposes. A \$30K CRD taken in 2020 can be treated as three distinct withdrawals of \$10K each for tax years 2020, 2021 and 2022.

Further, the withdrawal can be rolled over (repaid), and if placed in a traditional IRA or qualified plan at any time until December 31, 2022, it is not taxable income. Income included in a prior tax year filing can be exempted by filing an adjusted tax return.

The CARES Act also includes the ability to borrow a higher amount from qualified plans with loan provisions. Loans are normally limited by regulation to the lesser of \$50,000 or 50% of the participant's vested account balance. For 2020, qualified plans that elect to do so can increase the maximum loan amount to the lesser of \$100,000 or 100% of the

vested account balance. And plan sponsors can elect to delay loan repayments on new and outstanding loans in 2020.

As with the CRD, changes in loan provisions are elective for qualified plans. A plan sponsor can implement either or both options before amending the plan document and has until the end of 2022 (2024 for a governmental 457(b) plan) to make the amendment.

Bottom line: Consider other resources

Investors with access to other resources should consider using them prior to withdrawing or borrowing from retirement assets. But if retirement assets are needed, the CARES Act provides a flexible distribution option and increased loan provision available only in 2020.

For additional information on the CARES Act, please view the [CARES Act FAQ](#) in the New & Noteworthy section on our homepage.

10 FACTORS THAT COULD CHANGE ECONOMIES AND MARKETS FOREVER

PAULINE GRANGE
Portfolio Manager, Global Equities

THE COVID-19 CRISIS has challenged individuals, families, companies, governments and investment markets around the world. It is an experience that could fundamentally reshape consumer and corporate behavior as well as financial markets.



1

PEAK GLOBALIZATION

In terms of both consumption and supply chains, countries will start to think more about where “stuff” comes from and will question their overreliance on certain countries. There could also be an outpouring of support for small local businesses.



2

INCREASED USE OF CREDIT CARDS

The use of credit cards instead of cash could grow as people are forced to shift from offline to online shopping and with many physical stores no longer accepting cash for hygiene purposes.



3

HEALTH AND HYGIENE

Rules and regulations will step up, particularly in China where pressure will grow for the country to regulate its food industry.



4

ADVANCE OF THE MEDICAL COMMUNITY

Rooted in the genetics community, the medical field has made significant advances toward stopping the virus and is getting quick results from clinical trials. People may be underestimating the evolution of the science and its impact.



5

ACCEPTANCE OF SMARTER WORKING

With companies forced to enable employees to work from home, remote work could become a more acceptable way of working — and that may have big implications for cloud investment.



6

APPRECIATION FOR BIG TECH

During the isolation period we've all relied heavily on technology platforms, including social media. In the longer term, tech firms will benefit from stronger user growth and rising engagement, while privacy concerns and government attacks may diminish.



7

GROWTH OF ONLINE CONSUMPTION

Whether for groceries, education or broader retail, online consumption is rising. What started out of necessity for many may perhaps become the norm.



8

ACCELERATION OF KEY TECH TRENDS

Many tech trends that started before the crisis are gaining popularity. For example, “AI factories,” which use data-driven algorithms to automate decision-making processes (rather than relying on face-to-face communication), are well suited for a remote world.



9

A BOOST FOR THE GREEN AGENDA

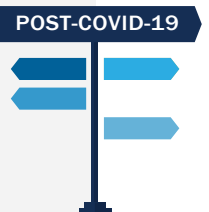
With countries seeing the benefits of cleaner air and waterways, could they seek to retain this? Boosted by fiscal stimulus, we might see a greater push of the green agenda and rising investment in renewable energy and electric vehicle infrastructure, for example.



10

THE RISE OF MORAL CAPITALISM

Might companies have a fundamental reset and look more toward their purpose, that is, their impact on the environment, customer, community, employees and the supply chain? And will corporate scrutiny accelerate in a post-COVID-19 world?



Rescue your summer vacation



Ideas to create a memorable summer staycation

In this time of uncertainty, maybe you've canceled summer vacation plans for a trip to a far-off destination. But that doesn't mean you can't take that time to have fun and make memories closer to home.

Here are ideas to help you create a successful staycation.



Go bike camping

Plan an overnight bike trip with some lightweight camping gear and enjoy the outdoors.

Rent an exotic car for the day

Look for listings in your area and find the car of your dreams to take for a scenic drive.

Go to a drive-in movie

Experience a throwback in time, gather the essential movie snacks and spend the evening watching a good movie in the comfort of your car.

Get moving

Go online and find an at-home workout you've always wanted to try. Aerobic or flexibility exercise can be a good place to start.

Take a virtual museum tour

Museums around the world like Louvre Museum, Smithsonian National Museum of Natural History and The Vatican Museum, to name a few, offer some great virtual tours online.

Play on the water

Check out a lake or stream in your area for some boating or fishing. Float on an inner tube, rent a boat for the day, try paddleboarding or go big on a houseboat for the week.

Learn a new language

Prepare now and become a local when you take that trip of a lifetime overseas. Regardless of your skills, you'll only find the travel easier and get more out of it.

Rent a camper or an RV

If you want to go beyond a day trip, find a place to go, make some reservations and hit the road.

Take an e-scooter tour

Check out a city or other destination in a whole new way and with a sense of adventure.

Create your activity

Review your bucket list — maybe you can find a local activity that checks off one of those boxes.

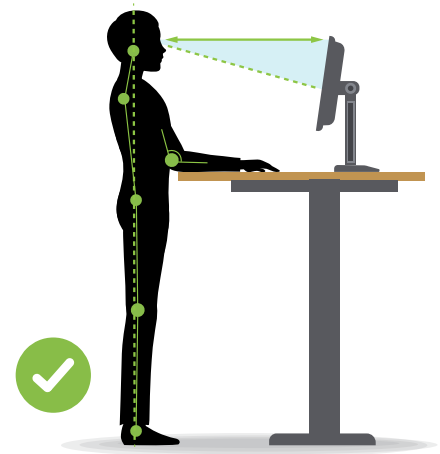
4 simple ways to make working from home more comfortable

1 Support your feet, legs and back.

Use a chair that has seat cushioning and a backrest to support your back. If you need more lower back support, use a small pillow or a rolled towel.



If your feet are not flat on the floor when sitting, find a box or stack reams of paper to use as a footrest.



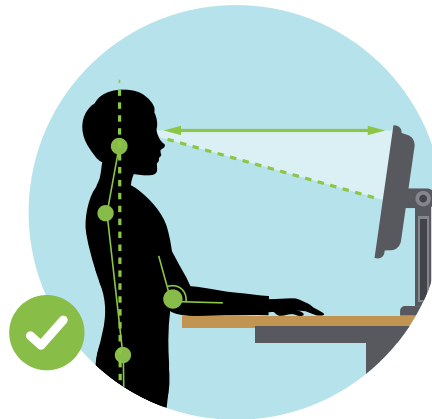
When standing (like at a counter), wear supportive and cushioned shoes.

2 Keep your head upright and look forward.

A laptop alone is not an ideal setup. Use an external keyboard, mouse and external monitor if you have one.



If you don't have a separate external monitor, raise the top of the laptop screen to eye level using books, reams of paper, sturdy boxes, etc.



Place your screen at an arm's length.

If you're using multiple screens, center them in front of you, with the one used most often directly in front of you.

The same principles apply to tablets or phones; position to keep your head upright and avoid slumping or bending the head down.

Use earbuds, headphones or speaker phone for calls to avoid cradling the phone.

3 Keep your wrists straight, shoulders relaxed and elbows at your side.

Wrists should be in a comfortable, straight position.

Keep all items (phone, paper, pen) within an easy arm's reach.

If your chair is height-adjustable, you may need to raise it to help keep your wrists straight. But make sure to keep your feet firmly supported, which may mean you need a taller footrest.

4 Keep moving.

Take frequent standing and movement breaks (every 30 minutes for 2-3 minutes). Set a timer to help you remember.



If standing, frequently shift your weight. Rise up and down on your toes, do squats, move your arms, stretch your wrists and neck and take walking breaks around your home.

Movement is key to avoiding discomfort from stationary postures.

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* In U.S. dollars as of March 31, 2020. Source: Ameriprise Q1 Earnings Release. Contact us for more current data.

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