COLUMBIA THREADNEEDLE INVESTMENTS

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DECEMBER 2018

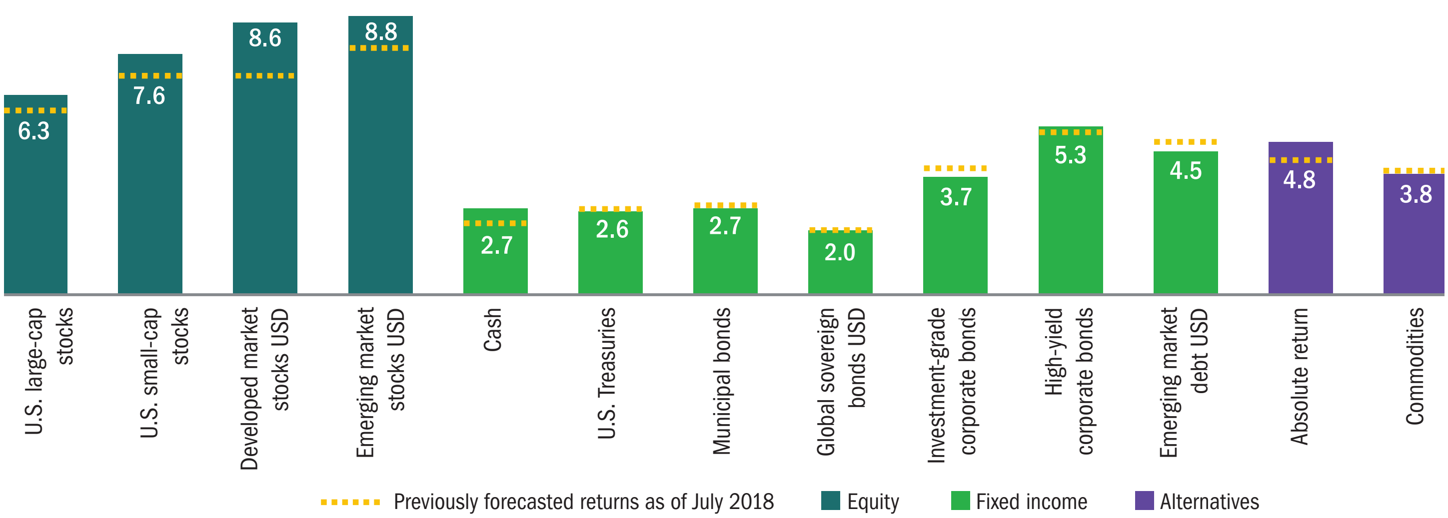
LONG-TERM STRATEGIC OUTLOOK

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

KEY TAKEAWAYS

- **Our three scenarios result in lower expectations for economic growth.** We were previously forecasting a business-friendly boost to growth. But now our most likely scenario is one where the benefits of fiscal policy begin to fade toward the end of 2019 or early 2020, and growth returns closer to long-term trend levels.
- **Forecasted equity returns have risen since our last forecast.** After some big market moves and volatility, valuations have become more favorable since our mid-year forecast that brought up total return forecasts for equity. **Expected fixed-income returns could shift during the 5-year forecasted window.** We expect returns in fixed income to remain weak in the earlier part of the forecasted period and then improve once the Fed stops raising interest rates.
- **Monetary and protectionist policies are key risks.** A gradual rise in interest rates would accommodate our positive five-year forecasted returns. But, if the Fed continues to raise rates in the face of trade-related concerns, it will likely be detrimental to equities and risk-sensitive fixed income. Trade discussions are uncertain, and we believe that they continue to be a difficult-to-predict source of risk.

Forecasted five-year total average returns (%)



Source: Columbia Threadneedle Investments as of December 2018. Past performance does not guarantee future results.

Three possible 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%): Return to trend. In this scenario the boost from tax cuts and fiscal stimulus fades away, monetary policy normalization continues and the U.S. fails to overcome demographic challenges and low productivity. These forces lower the level of economic growth in the U.S. back to trending levels.

Less likely (40%): Trade derails growth. In this scenario economic growth is derailed by uncertainty regarding trade conversations and difficult-to-forecast tariffs.

Least likely (10%): Business-friendly stimulus persists. In this scenario, the benefits of corporate tax cuts could improve productivity and increase the level of U.S. economic growth for a sustained period of time.

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 of the Global Asset Allocation Team. 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 5-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 450 investment professionals across 18 countries, we manage $485 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.

*In U.S. dollars as of September 30, 2018. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

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 (Citigroup 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 (Citigroup 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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