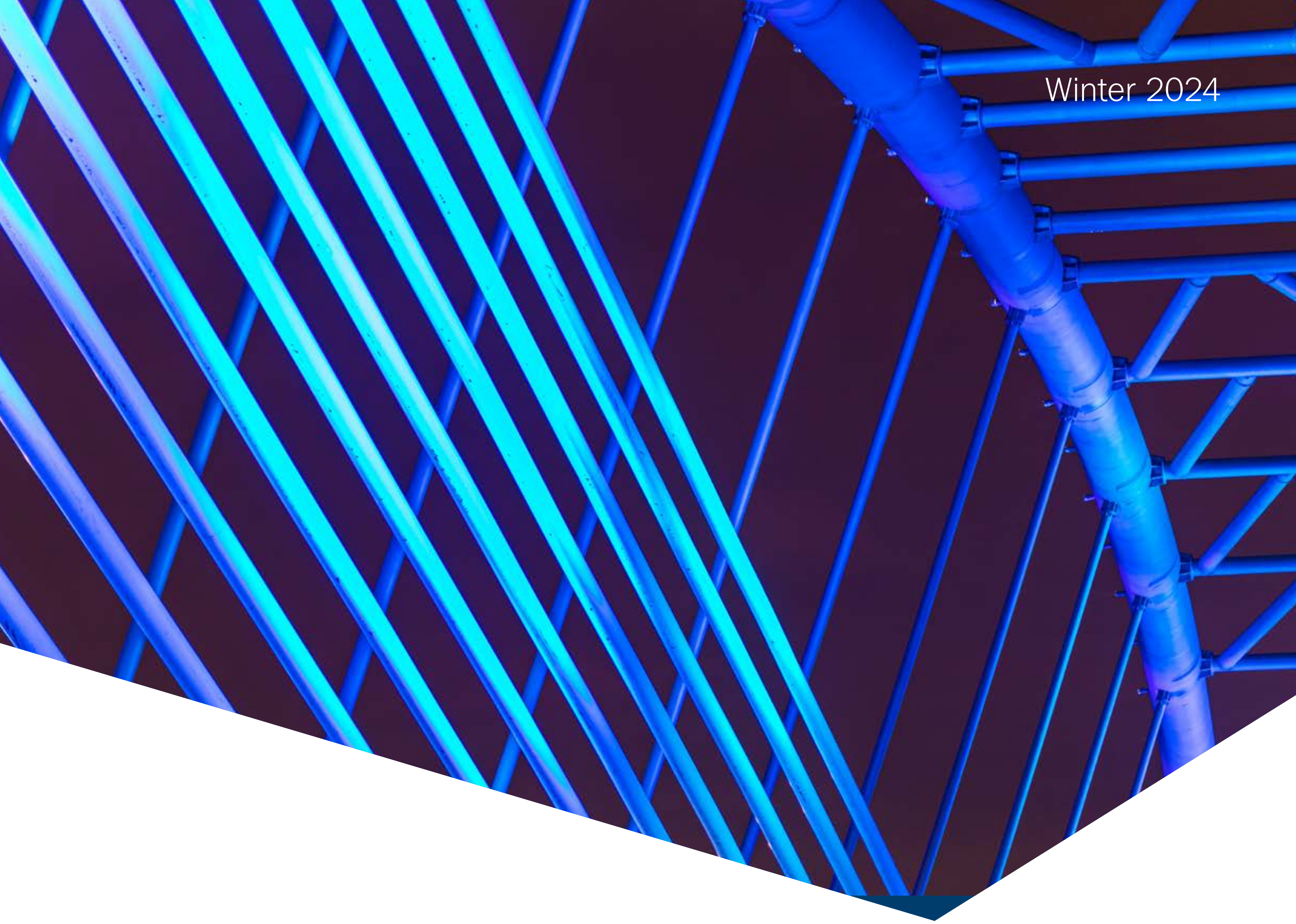

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INVESTOR NEWSLETTER

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Columbia Threadneedle Investor Newsletter is published quarterly online and features timely articles covering economic trends, investment strategies and solutions, and service changes.

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2024 CIO outlook

Balancing uncertainty and optimism

WILLIAM DAVIES
Global Chief Investment Officer

Interest rates remained higher for longer in 2023. Here's what it could mean for investments and the markets in 2024.

The economic data in 2023 was better than expected: inflation fell, employment remained resilient and we didn't end up in recession — in fact, growth was impressively resilient. All of this "good news" forced the Fed and other central banks to keep rates higher for longer. Now we're seeing uncertainty around the timing of rate cuts and of the scale and timing of an economic slowdown introducing some fear into the market. Here are my thoughts as we head into 2024.

Geopolitical risks may outweigh economic risks

The slowdown we're all expecting keeps being put off, but I don't expect it to be overly severe when it occurs. And from a market perspective, the relative risks of incrementally higher or lower inflation or a milder or deeper recession are known risks.

I think the bigger risks in 2024 are geopolitical, which have more potential to throw expectations off track. This includes escalation in the Middle East and continuation of the war in Ukraine — which carry a tragic human toll — and tensions between the U.S. and China. These events introduce volatility in the short term and inflationary pressures in the long term. And these pressures affect companies directly, as finding alternative energy supplies or building new supply chains will be costly.

Another wildcard is the U.S. elections. It's hard to predict the effect, if any, it will have on the markets. And it's that very unpredictability is the problem: The markets hate uncertainty.

Opportunities amid uncertainty

Investing as we head into 2024 will involve balancing one's optimism for the global economy with the many uncertainties that we face. For bonds it means that one could consider mid- to- long-term U.S. Treasuries and investment-grade corporate bonds, which are offering solid rates of return. If you're willing to accept the risk, you could also consider high-yield bonds, where we're seeing nearly double-digit yields that are tempting. The choice is really tied to your view on the economic path from here and appetite for risk.

> "If you're willing to accept the risk, you could also consider high-yield bonds, where we're seeing nearly double-digit yields that are tempting."

If you look at stocks, I think that you need to look beyond the narrow grouping of companies that led the market in 2023. I think performance will widen from here, and areas that haven't experienced the rallies we've seen in the strongest sectors could be more attractive.

Differentiation is returning to the markets

Through COVID and its immediate aftermath, we saw central banks and fiscal policy working toward the same effect: stabilizing economies. Their tactics may have differed, but the intent was largely consistent. Through 2023, we started to see some differentiation in policy and economic outcome return, and we think that may increase as we go through 2024.

The Fed may keep rates higher for longer than the Bank of England, for example, as the U.K. economy, with its shorter term mortgage lending structure and greater overall vulnerability to higher rates, weakens sooner. Europe successfully forestalled recession in 2023 thanks in part to a mild winter, which allowed them to keep energy costs down even with the loss of Russian supply. It's possible that we'll see that again in 2024.

The point is, we're starting to see gaps open up, and we're seeing that in valuations, too. At 18x forward earnings, U.S. stocks are quite a bit more expensive than European stocks at 12x and Japanese stocks at 14x. I don't think valuation alone is the right reason to make a regional bet now, but it's another example of growing differentiation across markets, which could lead to opportunities.

Bottom line: There are opportunities ahead of a slowdown

The economy appears to be traveling on a path guided by low or even slowing growth, falling inflation and high interest rates. There are those who believe a deeper recession is possible because of lingering high interest rates, and those who expect inflation to go up because of continuing economic strengthening, an OPEC production cut or the impacts of war. Investors should prepare for that middle road between those outcomes, which I think is the most likely scenario over the next six months.

What to expect from 2023 holiday spending

The holiday selling season represents around 25% of annual retail sales and has always been an important catalyst for investors. When it comes to understanding the effects of the 2023 holiday spending, it's helpful for investors to consider how the experiences of the past two years might inform retailers' expectations, especially around supply and demand. We also need to consider how consumers are faring in a much more uncertain macroeconomic environment.

Supply and demand challenges

Back in 2021, consumer demand was strong coming out of the pandemic, but supply chain issues resulted in longer lead times for products to reach stores and inventories were depleted quickly.

In response, retailers prepared for 2022 by increasing inventory, but demand plummeted as consumers faced tougher-than-expected economic conditions, including high food and fuel inflation. As a result, retailers sat on inventory, forcing them to be very promotional, which hurt both sales and margins.

Consumers grapple with uncertainty

Fast forward to today, we find that while inventory levels are more balanced compared with the excess of 2022, the demand picture remains uncertain. Inflation has moderated, but the outlook for consumers has otherwise weakened. Despite recent improvements in real wages, many low-income consumers are still living paycheck to paycheck.

The cost of living, including food and fuel, remains a significant concern, and we're seeing consumer spending dedicated to "needs" (and food in particular) rather than "wants." Even higher income consumers are feeling the pinch with increased market volatility, a slowing housing market and employment uncertainty.

Coal for some retailers? Finding winners and losers

Given the more challenging spending environment, we expect to see variation across the retail landscape as a result of the 2023 holiday season.

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Big-ticket COVID-era winning categories like **consumer electronics** and **home goods** are expected to struggle due to oversaturation.

Businesses that have focused on changing trends will fare better. **Athletic wear** and **beauty products** stand out as these categories align with health and wellness trends, and innovation in these categories has kept consumers engaged.

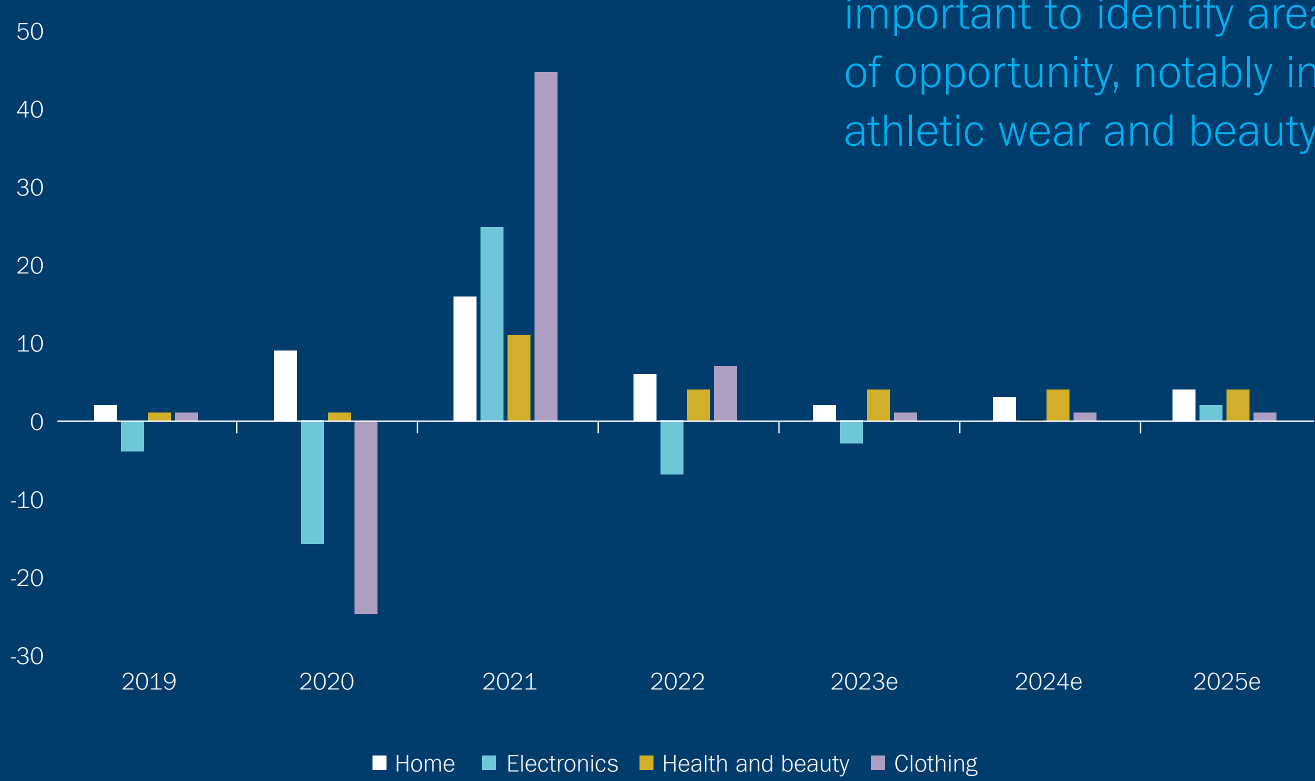
Value-focused retailers are also well-positioned; consumers are becoming increasingly budget-conscious as economic uncertainties have led shoppers to seek bargains. We're seeing **off-price retailers**, **e-commerce** and **value-focused stores** increasingly winning over customers.

In the end, we think that the success of the 2023 holiday season is going to come down to the wire for retailers. And while they are better positioned in terms of inventory, consumers are in no rush and have the upper hand in waiting for deals.

For investors it will be important to identify areas of opportunity, notably in athletic wear and beauty. The prevailing theme appears to be value, as consumers seek affordability and bargains in an uncertain economic landscape. Retailers and investors remain defensive in their positioning, as it is difficult to identify a catalyst for accelerating demand heading into 2024.

Holiday retail outlook: Post-pandemic boost fading

Annual sales growth (%)



For investors it will be important to identify areas of opportunity, notably in athletic wear and beauty.

Source: U.S. Census Bureau, Columbia Threadneedle Investments estimates as of September 2023.

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Positioning for a Fed pause

Our analyst reviews rate expectations going into 2024 and the Fed's next steps as we transition to a pause.

EDWARD AL-HUSSAINY

Edward Al-Hussainy, Senior Currency and Rates Analyst, Head of Emerging Market Fixed Income Research

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Leaving your job: Options for retirement accounts

Checklist

Your financial advisor can help you review your plan documents, determine the amount you may be eligible to receive and evaluate your options. Before you meet with your financial advisor, you may want to gather some important information and documents:

- **The most recent statements from your 401(k), profit sharing or other retirement accounts at work**
- **A copy of your plan's fee disclosure**
- **Any plan documents you have in hard copy, such as the SPD (your human resources department can provide a copy if it is not available on your benefits website)**
- **A copy of your rollover tax notice from your employer**
- **The telephone number of your company's benefits administrator so you and your financial advisor can confirm information and clarify any points that may be unclear**
- **Information on other IRAs or retirement accounts you may have — such as a 401(k) plan at a previous employer — to evaluate consolidating all your retirement investments**
- **The contact information for your tax advisor so that he or she can address any tax-related questions**

During working years, investors will reach many decision points that affect their ability to effectively save for retirement. One of the most critical retirement decision points occurs when investors become eligible to withdraw their benefits from employer-sponsored retirement plans.

Plan document provisions will dictate withdrawal options. The typical options are to distribute the balance, leave the balance in the plan, roll it over to a new employer's plan (if permitted) or complete an IRA rollover or Roth conversion. A distribution decision should only be made after considering several factors, including, but not limited to, available investment options, fees and expenses, services, potential taxes and penalties, creditor protection, required minimum distributions (RMDs) and the tax treatment of employer stock.

Q: What are the benefits and disadvantages of the different options?

A: Taking a distribution and keeping it provides immediate access to the money, but recipients will need to include the distribution in their taxable income for the year. Employers will withhold 20% of the amount for federal tax purposes, and there may be an additional early withdrawal tax for recipients unless they qualify for an exception (e.g., separating from employment after attaining age 55).

Choosing to leave a balance in the employer's plan, or to roll it over to a new employer's plan, will avoid tax penalties. Further, individuals may be able to take advantage of plan features such as the availability of plan loans and broader protection of plan assets from creditors. However, investment options may be more limited than in an IRA, and it may be difficult to manage assets held in multiple plans.

An IRA rollover allows owners to avoid the immediate and early withdrawal taxes that arise upon a distribution, continue to defer taxes on any potential gains on these retirement savings and explore more investment options than employer plans allow. Consolidating accounts could also help by making it easier to monitor investors' total financial situations. However, unlike an employer plan, there are no loan options from IRAs, and distributions taken from an IRA before attaining age 59½ could be subject to an early withdrawal penalty tax unless an exception applies. Further, depending on state laws, assets in an IRA may not be subject to the same level of protection from creditors as plan assets. Before conducting a rollover, it is important to compare the fees, expenses and investment options within the current plan to those within the IRA. In some cases, these costs may be higher in the IRA.

A Roth conversion — either to a Roth IRA or to a Roth account within a workplace retirement plan (if allowed) — requires individuals to include any converted pretax assets in their taxable income for the year. Any earnings in the Roth IRA or designated Roth account would be tax-deferred, and withdrawals may be free from taxes and early withdrawal fees, provided certain conditions are met.

If the distribution includes amounts from an after-tax account, there is an option to complete a tax-free Roth IRA conversion by directing the plan administrator to roll the pretax assets to a traditional IRA and convert the after-tax assets to a Roth IRA.

Q: How should an investor determine withdrawal options?

A: The withdrawal options available in plans should be included in the summary plan description (SPD) or plan document. Your financial advisor may also be able to help obtain plan withdrawal information. Also, if all or a portion of a plan balance is eligible for distribution, and potentially a rollover, employers will provide a special rollover tax notice that explains options and the tax and withholding implications. It may be helpful to review this notice with your tax professional and financial advisor.

Q: Should other retirement assets be consolidated?

A: Consolidating retirement assets from multiple plans may make it easier for both investors and financial advisors to take a more holistic approach to retirement savings and income planning, including looking at guaranteed lifetime income options and ensuring your beneficiaries have a broad range of withdrawal options. Consider the benefits and disadvantages described above as you think about consolidation.

Discover a potential tax benefit of SMAs

SMAs can help improve after-tax outcomes.

Separately managed accounts (SMAs) are custom investment portfolios designed and managed by a professional money manager like us. Like mutual funds and ETFs, SMAs own a variety of investments. However, SMAs have two important distinctions that can impact tax planning:

Number of investors. SMAs are specific to each investor and aren't affected by others' investment decisions.

Investment ownership. Clients directly own all assets in SMAs and can buy and sell assets at the tax lot level.

These distinct features pave the way for tax-reduction strategies not available to mutual fund or ETF investors. Tax-loss harvesting is the most commonly used tax-reduction strategy, but SMAs also allow for tax-efficient charitable giving.

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save more on taxes: How to gift appreciated securities from SMAs

Investor

Makes a donation to their favorite charity, donating appreciated securities from their SMA instead of cash

Avoids paying taxes on the appreciated securities while simultaneously lowering the unrealized gains in their investment portfolio

See the tax benefit that a high-income investor can get when they donate appreciated stock — instead of cash — to a charity.[1]

Donate stock		Sell stock and donate cash
$50,000 (includes $25,000 gain)	Current value of stock to be donated	$50,000 (includes $25,000 gain)
$0	Capital gains and net investment income tax paid on $25,000 realized gain (23.8%) when the stock is sold for cash	$5,950
$50,000	Net amount after taxes	$44,050
$18,500	Tax savings from charitable contribution deduction	$16,299
$5,950	Savings from untaxed capital gains	$0
$24,450	**Total tax benefit**	$16,299

In the end, we think that the success of the holiday season (and the year) is going to come down to the wire for retailers. And while retailers are better positioned in terms of inventory, consumers are in no rush and have the upper hand in waiting for deals. For investors, it will be important to identify areas of opportunity, notably in athletic wear and beauty. The prevailing theme appears to be value, as consumers seek affordability and bargains in an uncertain economic landscape. Retailers and investors remain defensive in their positioning, as it is difficult to identify a catalyst for accelerating demand heading into 2024.

Examples are shown for illustrative purposes only; tax benefit results are not guaranteed.

[1] The tax benefits shown assume a 20% tax rate on capital gains plus a 3.8% net investment income tax and assume a 37% tax rate for the charitable contribution deduction. The tax benefits shown do not reflect state income taxes or the alternative minimum tax (AMT). The client's actual tax rates and circumstances may differ from the rates and assumptions used here, and the reported tax benefits may be less than shown.

The ability to utilize various tax management techniques may be curtailed or eliminated in the future by tax legislation or regulation. The benefit of tax-managed investing to an individual investor is dependent on the tax liability of an investor.

ETFS and mutual funds are pooled vehicles. There are material differences between these products and a separately managed account, including investment strategies, investment minimums, fees and expenses, risks, liquidity, customization, reporting and disclosure, investor eligibility, and regulatory structure. An investor should evaluate these factors to determine the type of investment most appropriate for their individual situation.

Investing smarter for the world you want

Columbia Threadneedle Investments offers investment solutions to make a difference in your world, and the wider world. Millions of people rely on the firm to manage their money and invest for their future; together they entrust the firm with $587 billion.* Columbia Threadneedle is globally connected with a team of over 650 investment professionals providing diverse expertise, spanning almost every asset class and market. The firm is intense about research, believing that original independent research makes investment decisions smarter.

Columbia Threadneedle has a responsible ethos as investment decisions today help define the future we all seek. Every day the firm looks for opportunities to improve how it invests and what clients experience; a focus on continuous improvement means that Columbia Threadneedle never stands still. Whatever world you want, Columbia Threadneedle's purpose is to help you achieve it.

To find out more, call **800.426.3750**
or visit **columbiathreadneedle.com**.

COLUMBIA THREADNEEDLE INVESTMENTS

* Source: Columbia Threadneedle Investments as of September 30, 2023.

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