Brookfield

PUBLIC SECURITIES GROUP | REAL ASSETS
MAY 2024

Brookfield Real Assets Monthly

KEY TAKEAWAYS

- Limiting factor exposure and stress testing portfolios against large historical rate moves are key for managing risk amid volatile rates, according to PSG's director of portfolio risk and analytics.
- We expect growth to slow in 2024 and believe central banks will continue to hold rates at restrictive levels to ensure that inflation does not reaccelerate. Overall, our positioning remains defensive.
- Within equities, we believe U.S. utilities appear poised for outperformance, and within debt, we see attractive risk-adjusted opportunities for select telecommunications issuers backed by high-quality infrastructure assets.

INSIGHTS

MANAGING RISK AMID VOLATILE RATES

Market interest rates have been on a wild ride over the past year, along with market expectations for a Federal Reserve pivot. After rising—and then falling—to finish 2023 flat, the benchmark 10-year Treasury yield has increased, as sticky inflation has kept Fed rates higher for longer. We recently sat down with Riley O'Neal, director of Brookfield Public Securities Group's portfolio risk and analytics team, to discuss how his team is helping PSG's investment teams manage portfolio risk in this volatile market rate environment.

Riley O'Neal
Director of PSG's Portfolio Risk and Analytics Team

Q: What are the potential portfolio risks tied to volatile market rates?

A: There are a number of reasons that rates could be moving up or down, and different factors are likely going to outperform or underperform in those various scenarios. For example, if interest rates are falling because inflation is receding but the economy is doing well, and the perception is that the Fed is able to cut rates slowly and achieve a soft landing, certain factors (such as beta, cyclical and high earnings variability) are going to do very well, like we saw in the fourth quarter of last year.

Conversely, if rates are falling because the economy is cratering, and the Fed is expected to rush to cut, factors such as higher quality, stable earnings and defensiveness are probably going to outperform.

So, the investing implications are different if you have falling rates in a risk-on versus a risk-off environment, and we try to limit our exposure to those relationships. We also try to limit exposures to other relationships, or unintended correlated positions, that may not jump out at you right away. For instance, if interest rates continue to rise, the odds are that the U.S. dollar is going to strengthen, and that likely would have an impact on emerging market positions.

Q: How do you help PSG's investment teams manage portfolio risk amid volatile market rates?

A: We try to encourage the teams to limit factor exposure as much as possible relative to their benchmark indexes and focus the majority of their risk budget in idiosyncratic or company-specific storylines. In general, if you limit your relative factor exposure, you can potentially help mitigate some of the risk of being wrong about the direction of interest rates.

In addition to our daily factor analysis and stress test reports, we constantly monitor how our current portfolios would have performed during the large interest rate moves, both up and down, we saw over the past couple years. We find this historical analysis helps us provide a more accurate prediction for how our exposures may perform during potential large rate swings. This is because the impact of a small and gradual rate move on portfolios can be much more muted than a quick 50 to 100 basis point one. This analysis has helped us highlight, and trim, potential rate exposure we may not have otherwise captured.

Q: How is this historical analysis different than what your daily portfolio stress tests capture?

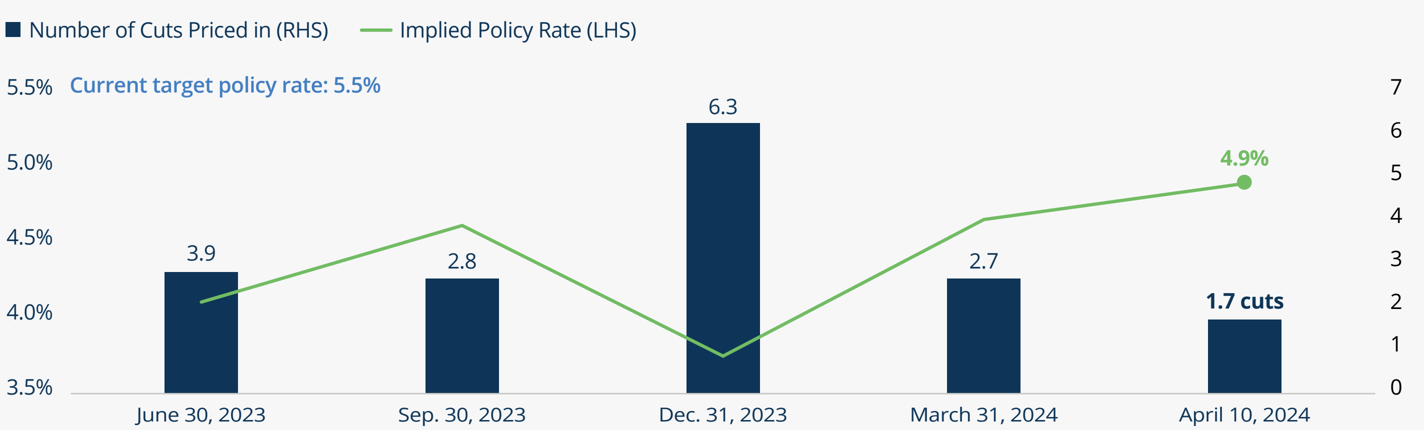
A: If rates are trading within a range, a traditional stress test model may not think certain exposures are that rate-sensitive. But as soon as the speed and magnitude of the rate moves changes, certain exposures may be much more sensitive. The way to pick that up in advance is to look at historical moves. We have a proprietary macro framework of historical analysis for our portfolios—mapping their performance when rates went up and down in both risk-on and risk-off environments. Our aim is for our portfolio value to remain constant across those scenarios, and if it isn't, then we adjust for the worst-case scenario. I sleep better at night knowing that our exposures to factors and historical scenarios are under control.

RATES HAVE BEEN ON A WILD RIDE ALONG WITH FED PIVOT EXPECTATIONS

U.S. 10-Year Treasury Yield

As of May 14, 2024. Source: Bloomberg.

Market Expectations for Fed Policy Rate at Year-End 2024



As of April 30, 2024. Source: Bloomberg.

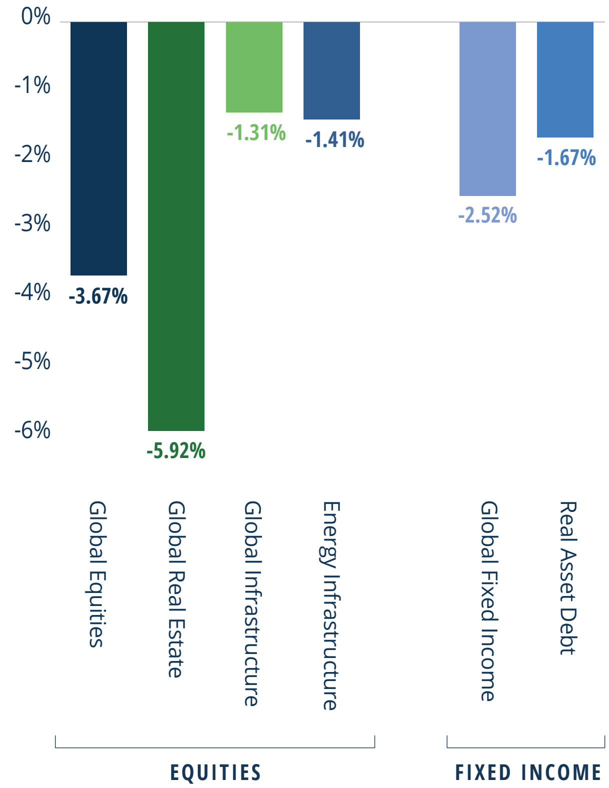
Real Assets Month in Review

REAL ASSETS

- Global equities fell in April, as economic data slowed, and sticky inflation kept Federal Reserve rates higher for longer. The MSCI World Index fell 3.67%, snapping its five-month streak of gains, with North America, Asia Pacific and Europe down 4.10%, 3.73% and 1.73%, respectively. The S&P 500 Index lost 4.08%, also breaking its five-month winning streak.
- The 10-year U.S. Treasury yield rose to 4.68%, from 4.20% at the end of March, as the odds of a June Fed rate cut fell amid a hawkish repricing of Fed pivot expectations. West Texas Intermediate Crude Oil finished the month at $81.93, down from $83.17 at the end of March, on economic growth concerns. The Bloomberg Commodity Index rose 2.69%.
- We expect growth to slow in 2024. While inflation has trended lower, we believe central banks will continue to hold rates at restrictive levels to ensure that inflation does not reaccelerate. Overall, our positioning remains defensive within our portfolio, with an underweight allocation to real asset equities and a slight overweight allocation to real asset debt. We also hold a modest exposure to commodities to enhance diversification amid geopolitical and macro uncertainty.
- Within equities, we continue to favor infrastructure over real estate due to infrastructure's potential outperformance in down markets and tighter inflation linkage. Within infrastructure, we are constructive on utilities for their defensive characteristics and current attractive valuations. We also see tailwinds for energy midstream equities, which we believe should benefit from the global push for energy security. Within real estate, lingering concerns around financing and broad negative sentiment around commercial real estate remain. However, if interest rates stabilize over the course of 2024, it may be a year of price discovery for real estate and we could see investment opportunities emerge in some property types that serve essential needs. Finally, elevated Treasury yields continue to make real asset debt attractive on an all-in yield basis; however, tight credit spreads and the potential for rising default rates have reinforced our preference for the higher-quality part of the market.

PERFORMANCE AT A GLANCE

April Total Returns



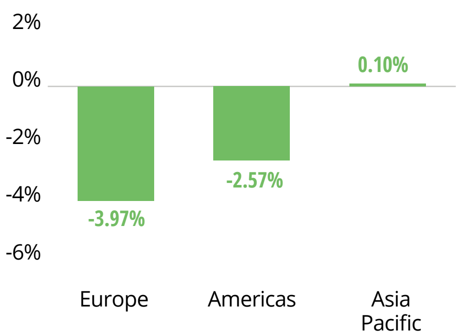
As of April 30, 2024. Sources: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

GLOBAL INFRASTRUCTURE

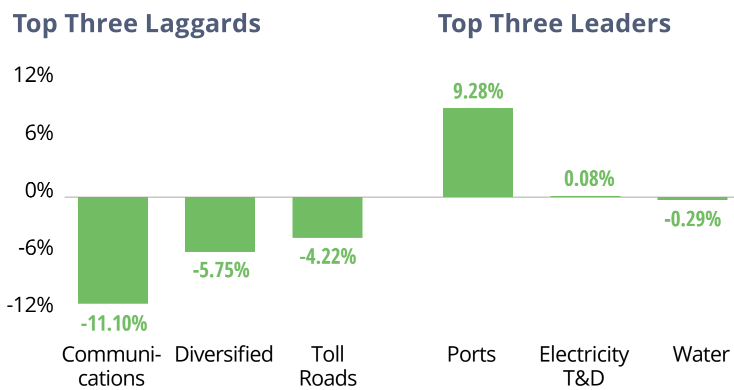
- Global infrastructure equities fell in April, with the FTSE Global Core Infrastructure 50/50 Index down 1.31%, as the 10-year U.S. Treasury yield rose. Energy equities fared slightly worse, with the Alerian Midstream Energy Index declining 1.41% during the month, as oil prices fell. Despite the monthly decline, infrastructure securities exhibited defensiveness relative to the broader market in April, as U.S. technology stocks posted meaningful declines during the period.
- Among infrastructure subsectors, communication towers fell more than 10% in April, likely a function of the uptick in 10-Year U.S. Treasury yields. Utilities were marginally positive during the month; and transports were mixed (ports advanced, while airports and toll roads declined).
- We believe listed infrastructure valuations remain compelling relative to the long-term cash flow growth outlook for these assets, with most infrastructure sectors trading near five-year lows. Among specific sectors, we think U.S. utilities appear poised for outperformance amid attractive valuations and a positive capital expenditure outlook, while we see strong mobile data demand and attractive valuations offering support to communications tower companies.

PERFORMANCE BY GEOGRAPHY

April Total Returns



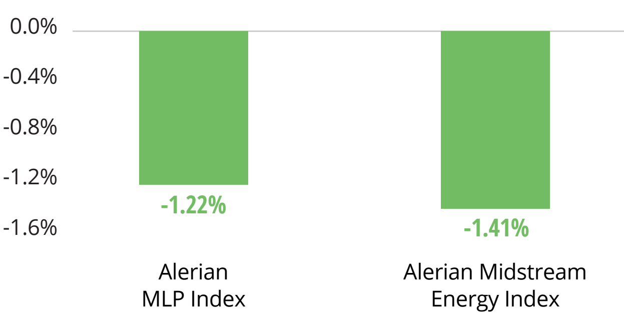
PERFORMANCE BY SECTOR



As of April 30, 2024. Source: Bloomberg. Referenced by the respective subsets of the Dow Jones Brookfield Global Infrastructure Index. Brookfield has no direct role in the day-to-day management of the Brookfield Infrastructure Index. "T&D" stands for transmission and distribution. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

MIDSTREAM PERFORMANCE

April Total Returns



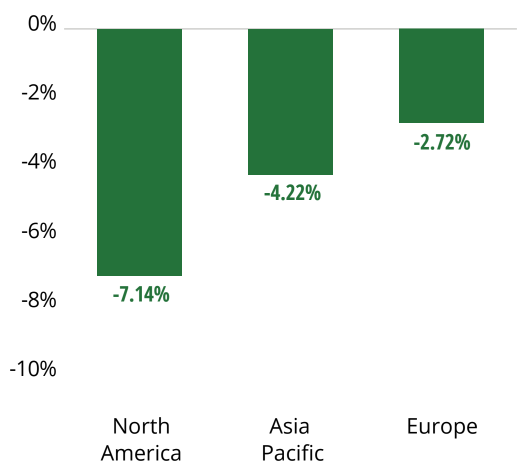
As of April 30, 2024. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

GLOBAL REAL ESTATE

- Global real estate securities declined in April, with all regions down for the month. The FTSE EPRA Nareit Developed Index fell 5.92%, underperforming the broader global market, as a rising 10-Year U.S. Treasury yield weighed on the asset class.
- Weakness within the industrial sector weighed heavily on the overall index during the period. Lower earnings guidance and commentary around softening fundamentals pushed stocks in the sector down during the period. Despite persistent headlines around growing data center demand, stocks in the sector pulled back more than 10% during the period. Conversely, only health care posted gains in April.
- We continue to believe that normalizing interest rates should provide an improving backdrop for real estate valuations, helping them to close the valuation gap with broader equities. Within North America, we see security-specific opportunities among net lease property types, based on attractive valuations and potential for external growth. Elsewhere, we see opportunities among residential and retail landlords in Continental Europe.

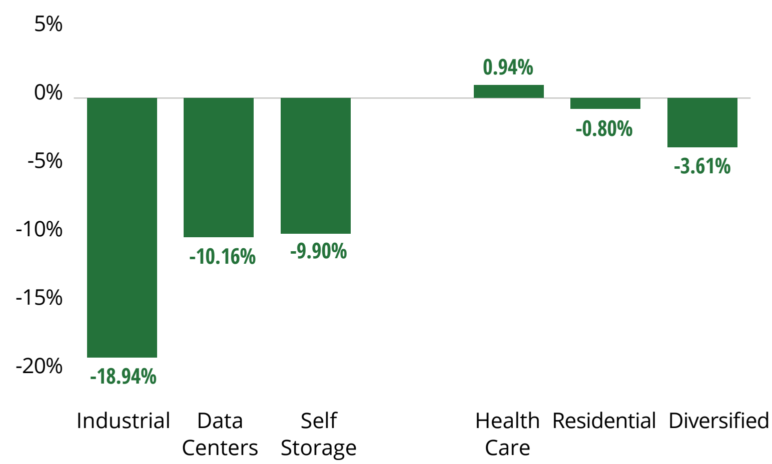
PERFORMANCE BY GEOGRAPHY

April Total Returns



PERFORMANCE BY U.S. PROPERTY TYPE

Top Three Laggards **Top Three Leaders**



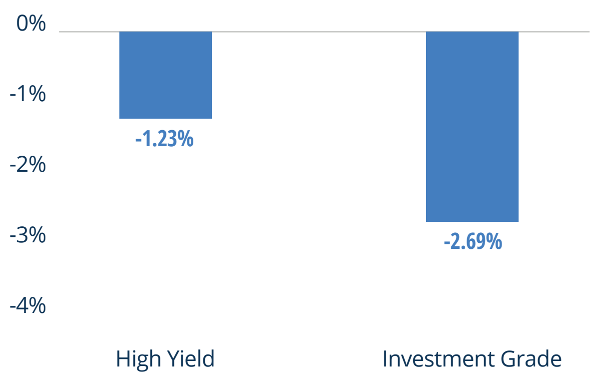
As of April 30, 2024. Source: Bloomberg. Referenced by the U.S. property types measured by the FTSE Nareit U.S. Real Estate Index Series. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

REAL ASSET DEBT

- Fixed-income markets were down in April, as U.S. Treasury rates rose significantly across the curve. Broad investment grade fell 2.33%, as measured by the ICE BofA U.S. Corporate Index, hurt by underperforming longer duration. Broad high yield lost 1.00%, as measured by the ICE BofA U.S. High Yield Index. Real asset investment grade underperformed its broader market counterpart due to its longer duration, while real asset high yield underperformed on weakness within telecommunications.
- We expect a moderate slowdown in the economy in the coming quarters, although fiscal policy will likely continue to support growth in this election year. Even in optimistic economic growth scenarios, default rates may continue to trend higher on higher interest costs and refinancing needs, and a soft-landing scenario with prolonged higher rates could continue to negatively impact floating-rate products.
- Valuations within infrastructure high yield are among the most attractive within high yield, in our view. Infrastructure high yield spreads have decoupled from broad high yield over the past 12 months, and infrastructure high yield now offers an additional approximately 1.00% of yield relative to broad high yield. Stress within the telecommunications sector has driven this difference in valuation. Telecommunications is historically a high-capex sector, and it is going through structural changes due to technological disruption. Providers are racing to replace revenue from legacy businesses such as landline and VPN with fiber, VoIP and network services. Telecommunications is the widest-trading sector in high yield. While we expect some telecommunications defaults, we believe this dislocation is presenting attractive risk-adjusted opportunities for select issuers backed by high-quality infrastructure assets. Finally, we believe real asset high yield, particularly within the BB-rated segment, is relatively attractive after adjusting for projected credit losses during a potential period of elevated default rates.

REAL ASSET DEBT PERFORMANCE

April Total Returns



As of April 30, 2024. Source: Bloomberg. Real asset high yield represented by the ICE BofA Real Asset USD High Yield Custom Index, and real asset investment grade represented by the ICE BofA Real Asset USD Investment Grade Custom Index. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

MORE PSG INSIGHTS

- Harnessing the Power Behind the Power of AI: Opportunities Across Public Real Assets
- A Better Default Outlook for Real Asset Debt
- The Potential Benefits of Allocating Across Public and Private Real Estate

SCAN TO READ MORE

Group LLC product will achieve similar results. This information is subject to change without notice. The indexes referenced in this document do not reflect any fees, expenses, sales charges or taxes. It is not possible to invest directly in an index. The index sponsors permit use of their indexes and related data on an "as is" basis, make no warranties regarding same, do not guarantee the suitability, quality, accuracy, timeliness and/or completeness of their index or any data included in, related to or derived therefrom, and assume no liability in connection with the use of the foregoing. The index sponsors have no liability for any direct, indirect, special, incidental, punitive, consequential or other damages (including loss of profits). The index sponsors do not sponsor, endorse or recommend Brookfield Public Securities Group LLC or any of its products or services. Unless otherwise noted, all indexes are total-return indexes.

INDEX DEFINITIONS

The Alerian Midstream Energy Index is a broad-based, capped, float-adjusted, capitalization-weighted index of North American energy infrastructure companies.

The Alerian MLP Index is the leading gauge of energy infrastructure master limited partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The Bloomberg Commodity Index is a broadly diversified index that tracks the commodities markets through commodity futures contracts.

The Bloomberg Global Aggregate Index tracks the performance of investment-grade public debt issued in the major domestic and eurobond markets, including global bonds.

The Dow Jones Brookfield Global Infrastructure Composite Index is calculated and maintained by S&P Dow Jones Indexes and comprises infrastructure companies with at least 70 of their annual cash flows derived from owning and operating infrastructure assets, including MLPs. Data presented in this report reflect performance and characteristics of the index and not those of a Brookfield fund or composite. Brookfield is not involved in the management of the Dow Jones Brookfield Global Infrastructure Composite Index.

The Dow Jones Brookfield Global Infrastructure Index is calculated and maintained by S&P Dow Jones Indices and comprises infrastructure companies with at least 70 of their annual cash flows derived from owning and operating infrastructure assets, excluding master limited partnerships, or MLPs. Brookfield has no direct role in the day-to-day management of any Brookfield-branded indexes.

The FTSE EPRA Nareit Developed Index is an unmanaged market-capitalization-weighted total-return index that consists of publicly traded equity REITs and listed property companies from developed markets.

The FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure subsectors. The constituent weights are adjusted as part of the semi-annual review according to three broad industry sectors: 50% utilities; 30% transportation, including capping of 7.5% for railroads/railways; and a 20% mix of other sectors, including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

The FTSE Nareit U.S. Real Estate Index Series tracks the performance of the U.S. REIT industry at both an industrywide level and on a sector-by-sector basis.

The ICE BofA Real Asset USD Corporate and High Yield Custom Index is a custom index blend of sectors of the ICE BofA U.S. High Yield Index (70) and the ICE BofA U.S. Corporate Index (30) that correspond to equity sectors in Brookfield's real asset universe. Such real asset-related sectors include Cable, Infrastructure Services, Oil and Gas Transmission & Distribution (T&D), Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs. The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA Real Asset USD High Yield Custom Index is a custom index that tracks the performance of sectors of the ICE BofA U.S. High Yield Index that correspond to equity sectors in Brookfield's real asset universe. Such real asset-related sectors include Cable, Infrastructure Services, Oil and Gas Transmission & Distribution (T&D), Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs.

The ICE BofA Real Asset USD Investment Grade Custom Index is a custom index that tracks the performance of sectors of the ICE BofA U.S. Corporate Index that correspond to equity sectors in Brookfield's real asset universe. Such real asset-related sectors include Cable, Infrastructure Services, Oil and Gas Transmission & Distribution (T&D), Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs.

The MSCI World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

The S&P 500 Index is an equity index of 500 widely held large-capitalization U.S. companies.

The 10-Year U.S. Treasury Note is a debt obligation issued by the United States government that matures in 10 years and pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

West Texas Intermediate crude oil is a crude oil stream produced in Texas and southern Oklahoma that serves as a reference, or "marker," for pricing a number of other crude streams, and it is traded in the domestic spot market at Cushing, Oklahoma.

CONTACT US

brookfield.com | publicsecurities.enquiries@brookfield.com

ID-1528