

REAL ASSETS QUARTERLY | BROOKFIELD PUBLIC SECURITIES GROUP
Q1 2026

Real Assets in 2026: Valuations, Cash Flows, and Structural Growth Tailwinds



Key Takeaways

- **Macroeconomic backdrop supportive of real assets.**

Accommodative central bank policy, strong corporate earnings, and investor risk appetite via M&A and AI capex are conducive to real asset businesses.

- **Structural demand drivers are strengthening cash flow visibility.**

Power demand from digitalization, constrained real estate supply and resilient infrastructure investment have historically supported earnings growth across utilities, renewables and high-quality real estate.

- **Late in a cycle, selectivity and quality remain critical.**

We favor assets with durable cash flows, strong balance sheets and execution capability—while maintaining a defensive posture in lower-quality credit and areas where spreads inadequately compensate for risk.

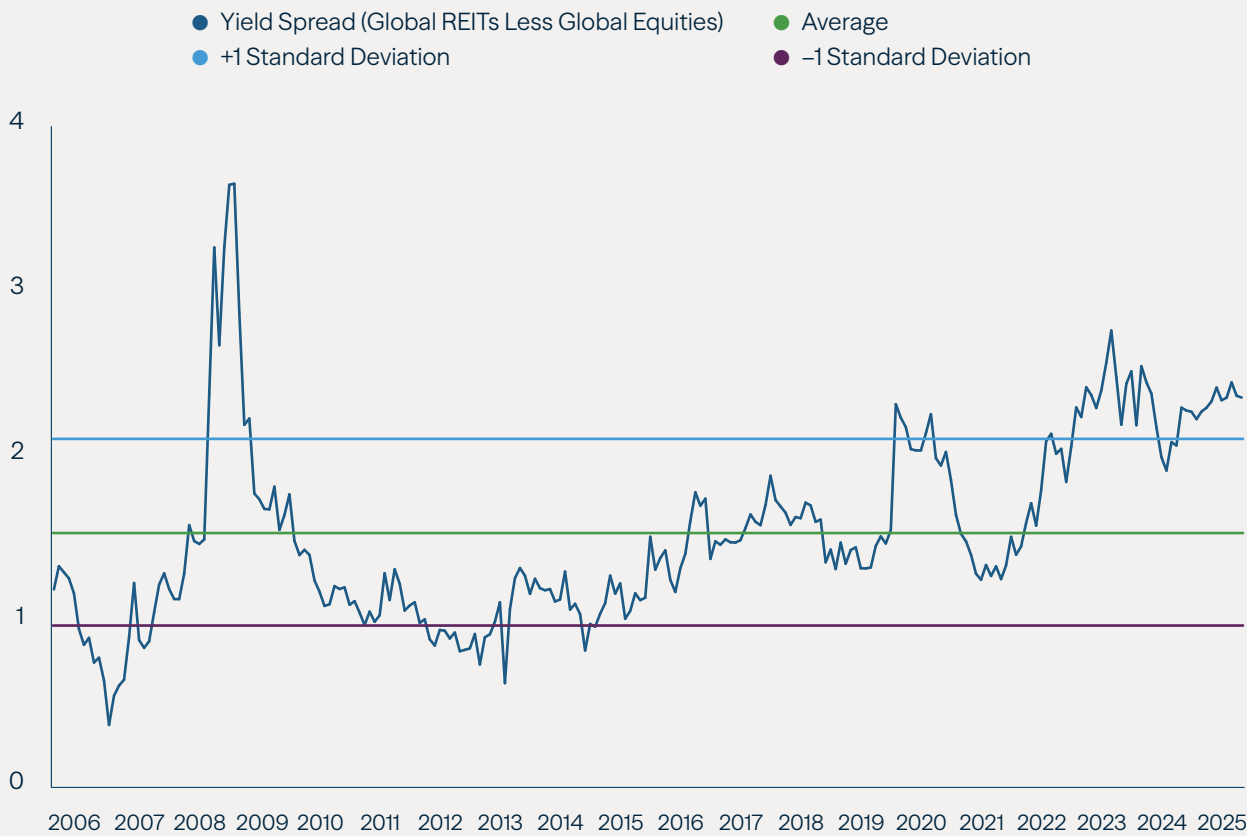
Real Estate: Attractive Valuations and Potential Catalysts to Close the Gap

Real estate equities have lagged broader equity indices by a significant margin over the past several years. However, we see real potential for the trend to reverse in the near term via the combination of attractive relative valuations and tailwinds that could shift sector sentiment. Some uncertainties persist (namely the degree of monetary policy accommodation and political uncertainty), but the backdrop is as constructive as it has been in years; REITs continue to offer investors liquid access to an inflecting asset class at compelling valuations.

Compelling Valuations Relative to History and Equities

Despite improving fundamentals, investors have been under-allocated to real estate; with a preference for tech-focused sectors benefiting from AI momentum. As a result, REIT valuations remain depressed relative to broader equities. Green Street Advisors recently noted that U.S. REITs are “cheaper versus the S&P 500 than at any point since the Global Financial Crisis.” Bank of America echoed this view, highlighting an “historic opportunity” as REITs trade at valuation levels last seen during the 2000 tech downturn and the GFC. Our own analysis of yield spreads (**Figure 1**) highlights the historically wide divergence in valuations between the FTSE EPRA Nareit Developed Index and the MSCI World Index.

Figure 1. Yield Spreads—Global Real Estate Less Global Equities



As of December 31, 2025. Source: Bloomberg, Brookfield Public Securities Group. Global real estate represented by the FTSE EPRA Nareit Developed Index; global equities represented by the MSCI World Index. Indexes are not managed and an investor cannot invest directly in an index.

Key Catalysts We See to Close the Valuation Gap

Catalyst

Commentary



Operating Fundamentals Supported by Supply and Demand

Supply: Elevated construction costs remain a meaningful constraint on new development. Some analysts estimate that new construction activity is down 20%–70% from peak levels in select property types. This should support rent growth for owners of existing high-quality assets.

Demand: In aggregate, steady economic growth underpins real estate. However, drivers vary across subsectors—we see leasing trends strongest in structurally advantaged sectors such as data centers, health care and high-quality retail. Industrial demand is also showing signs of stabilization as tariff uncertainty fades and onshoring initiatives gain traction.

Operating Results: Same-store net operating income (NOI) growth has accelerated steadily over the past four quarters, reflecting improving occupancies, rent growth and operating leverage across portfolios.



Improving Capital Markets, Transactions

Commercial real estate lending has become more accessible, and U.S. CMBS issuance has accelerated sharply. In October, Trepp estimated that 2025 volumes were on track to exceed the highest level since 2007. Transaction activity appears to be bottoming, with Altus Group data showing single-property transaction volumes through Q3 2025 surpassing those of 2023 and 2024.



Corporate Governance

At the same time, enhanced corporate governance—particularly in Asia—is driving greater board independence, clearer shareholder returns policies, and increased willingness to crystallize value, helping to narrow valuation discounts.



Infrastructure

As estimates for power demand continually increase as a result of digitalization trends in the global economy, some are predicting a meaningful shortfall in the energy required to maintain the pace of the data infrastructure build-out.

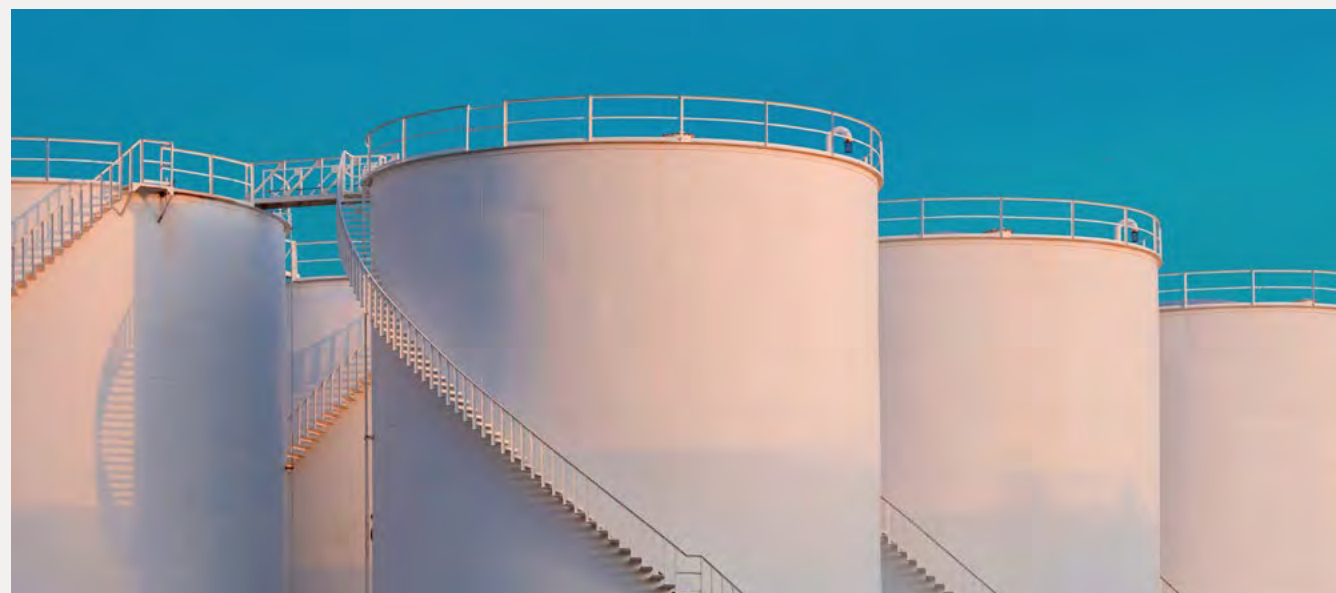
To avoid this shortfall, utilities are expected to spend trillions of dollars in capital expenditures across all means of energy production—including gas, nuclear and renewables. These capital expenditures have the ability to translate to a meaningful uptick in cash flows for utility companies.

We anticipate a long runway for growth as utilities seek to balance affordability with meeting power demand needs and strengthening the power grid. We see earnings growth and favorable relative valuations to global equities as strong tailwinds for utilities to potentially deliver attractive risk-adjusted returns. As we enter the execution phase, we’re monitoring key themes across the utilities sector in 2026.

Themes in 2026	Commentary
Valuations	Even with fundamental tailwinds strengthening, utilities remain attractively valued compared with broader equities on a forward earnings basis
Affordability	Managing rising costs without overburdening residential consumers
Bring Your Own Generation	Emerging trend in which hyperscalers and other large users of energy are required to build their own sources of power generation
Regulatory Execution	While regulations are always critical, navigating stakeholder interests across jurisdictions is increasingly important amid political and headline risks
Capital Allocation	Equity and debt issuance to meet growing capex needs

Source: Brookfield Public Securities Group Research.





Our Observations on Venezuela

While the events in Venezuela are dynamic, our initial view is that the situation is likely to impact supply over the longer term. Security guarantees, willingness to spend capital, and geopolitics will dominate timing of a rebound in Venezuelan oil production and an end to the U.S. embargo. Integrated oil companies and refiners are likely to be impacted in the near term, with refiners benefiting from a new supply tailwind. We believe Canadian heavy crude faces more long-term competitive risk than U.S. production.



Fixed Income

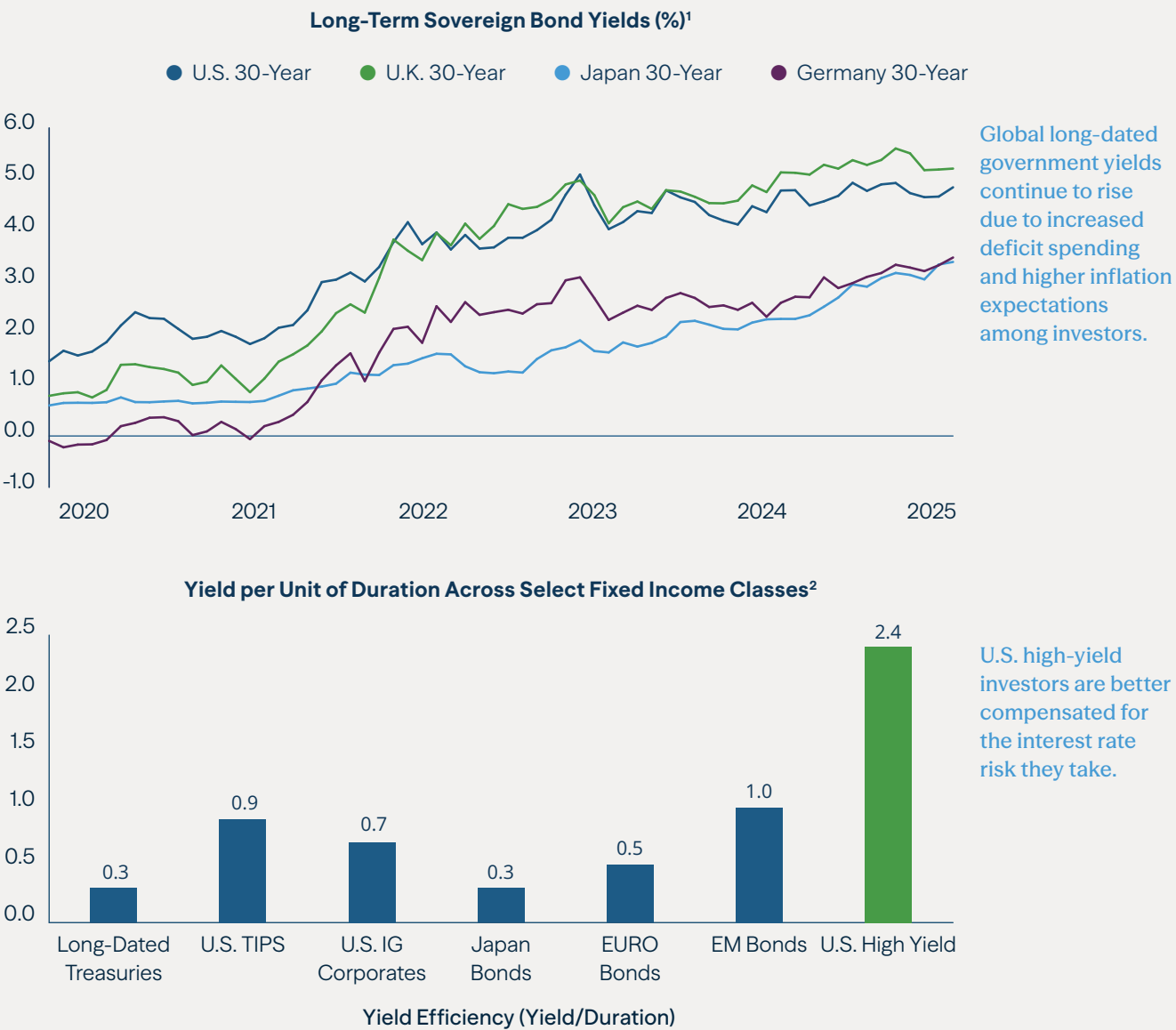
As we enter 2026, we believe the U.S. high-yield market offers institutional investors a potential opportunity to capture attractive absolute and relative yield. We expect yield to play a key role in driving returns in the year ahead, as credit spreads hover near multi-decade lows, limiting upside potential. Historically, an attractive beginning yield like today's for the high-yield asset class indicates a likelihood the total return for the year will be positive.

We also think high-yield bonds provide a more durable yield relative to other asset classes, especially when considering recent interest rate curve volatility. For instance, long-term sovereign bond yields have been on an upward trend on the back of mounting deficits and elevated inflation, which could adversely affect long-duration credits if it continues. Against this backdrop, we prefer to own high-yield bonds, which offer a shorter duration profile and more income than other fixed-income asset classes, making their yield efficiency (yield/duration) relatively attractive (**Figure 2**).



Figure 2. High Yield May Offer Protection Against Yield Curve Steepening

Higher coupons and shorter maturities can help protect capital against possible rate volatility



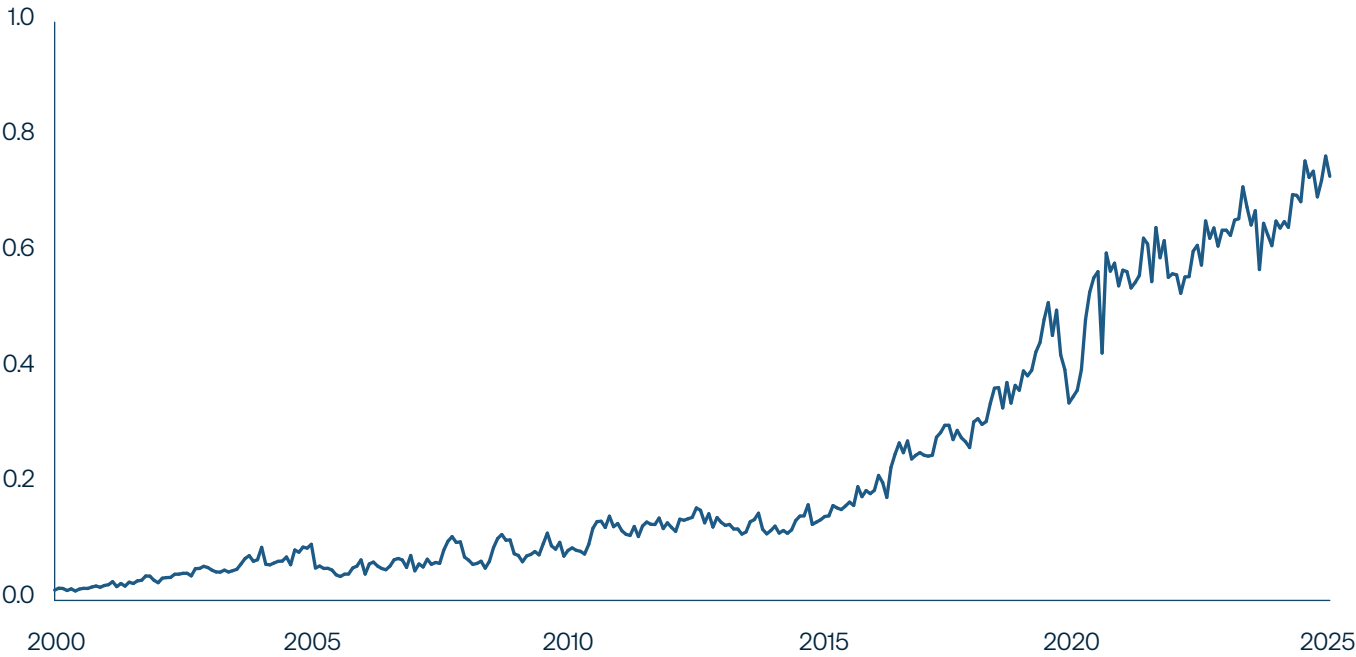
1. Source: Bloomberg. Data as of December 31, 2025.

2. Source: Bloomberg. Yield per unit of duration = current yield to worst ÷ option-adjusted duration. U.S. High Yield: Bloomberg US Corporate High Yield Index, EM Bonds: Bloomberg EM USD Aggregate Index, IG Corporate: Bloomberg US Corporate Index, U.S. TIPS: Bloomberg US TIPS Index. Long-Dated Treasuries: Bloomberg US Long Treasury Index, Japan Bonds: Bloomberg Japan Aggregate Index; EURO Bonds: Bloomberg EuroAgg Index.

While overall credit spreads remain low, we do observe increasing dispersion across credit quality. Signs of stress are emerging in lower-quality segments of the market, including CCC-rated bonds and leveraged loans, as reflected in widening spreads, higher default rates, and recent high-profile bankruptcies. Against this backdrop, we favor a defensive, quality-focused approach—emphasizing BB-rated credits and companies operating in durable sectors with strong cash flow visibility, such as midstream energy. Within midstream energy, we prefer to own the debt of integrated natural gas infrastructure companies that have strong balance sheets, economies of scale, and that stand to benefit from the increasing international demand for U.S. natural gas (**Figure 3**).

Figure 3. Growing Domestic Production and Export Capacity to International Markets Supports Fundamentals

U.S. Monthly Natural Gas Exports (Quadrillion Btu)



Source: U.S. Energy Information Agency, *December 2025 Monthly Energy Review*. Data from September 2001 to September 2025. Btu= British thermal units.



Multi-Asset Solutions

The macroeconomic environment heading into 2026 is increasingly supportive of real asset sectors, creating multiple opportunities to generate attractive risk-adjusted returns.

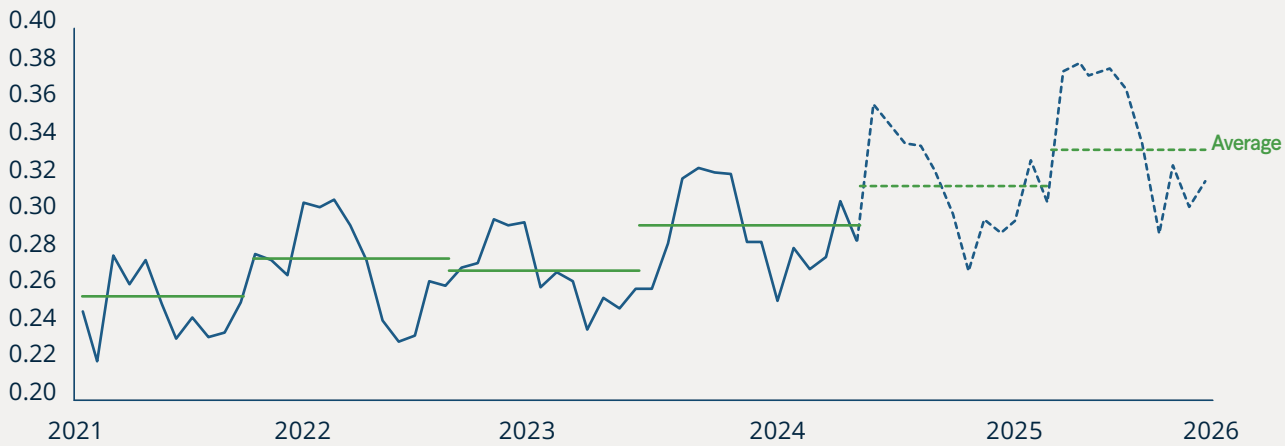
Against this backdrop, we are positioning Brookfield’s Diversified Real Assets Strategy with a selective but pro-risk bias, reflecting cooling economic growth, stabilizing inflation, and an easing interest rate environment. We maintain a modest overweight in equities, with a preference for assets that offer durable cash flow visibility and pricing power, particularly in core infrastructure. Within infrastructure, we favor integrated utilities, where incremental load growth, particularly from large customers such as data centers, can support a multiyear capex cycle and earnings growth, albeit with some uncertainty around the pace and location of new connections. Our preference is for companies that can benefit from both rising data center power demand and relatively low regulatory and political tail risk.

In addition, we maintain selective exposure to cyclical and growth-sensitive sectors, including global renewables, which are supported by strong structural tailwinds. These include robust power demand driven by AI-related investment, favorable cost curves, and faster deployment timelines compared with traditional energy sources. We expect the share of renewable energy used to meet incremental electricity demand to increase from current levels (Figure 4).



Figure 4. Renewables Will Play an Increasingly Important Role in U.S. Electric Power Generation

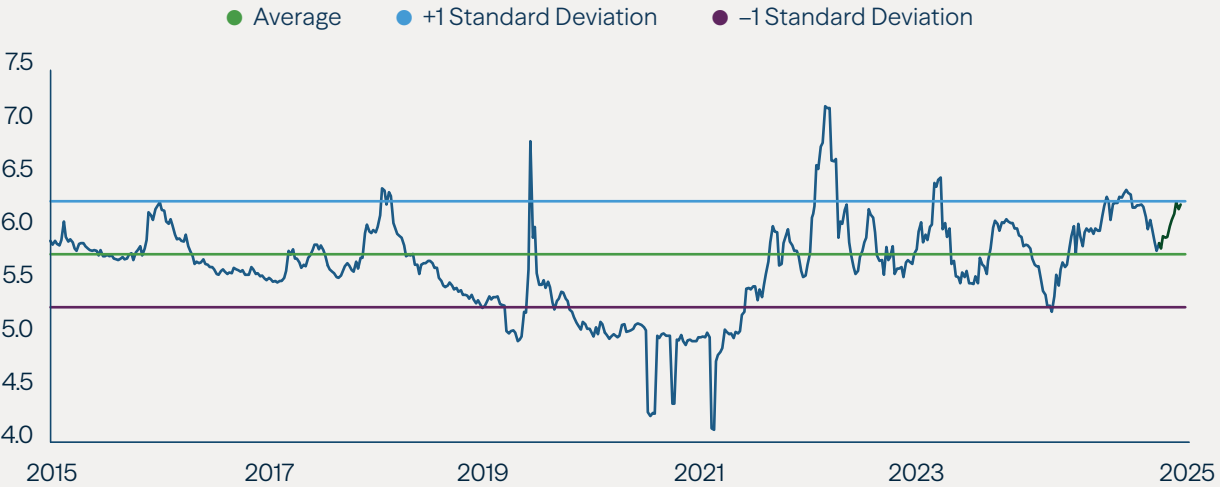
U.S. Electric Power Sector: Monthly Renewable Energy Consumption (quadrillion Btu)



Source: U.S. Energy Information Administration, Short Term Energy Outlook. Data from January 2021 through December 2026. Data from January 2025–December 2026 is forecasted. Btu= British thermal units.

Figure 5. REIT Preferred Yields Are +1 Standard Deviation Above Their Trailing 10-Year Average

REIT Preferreds–Yield to Maturity (%)

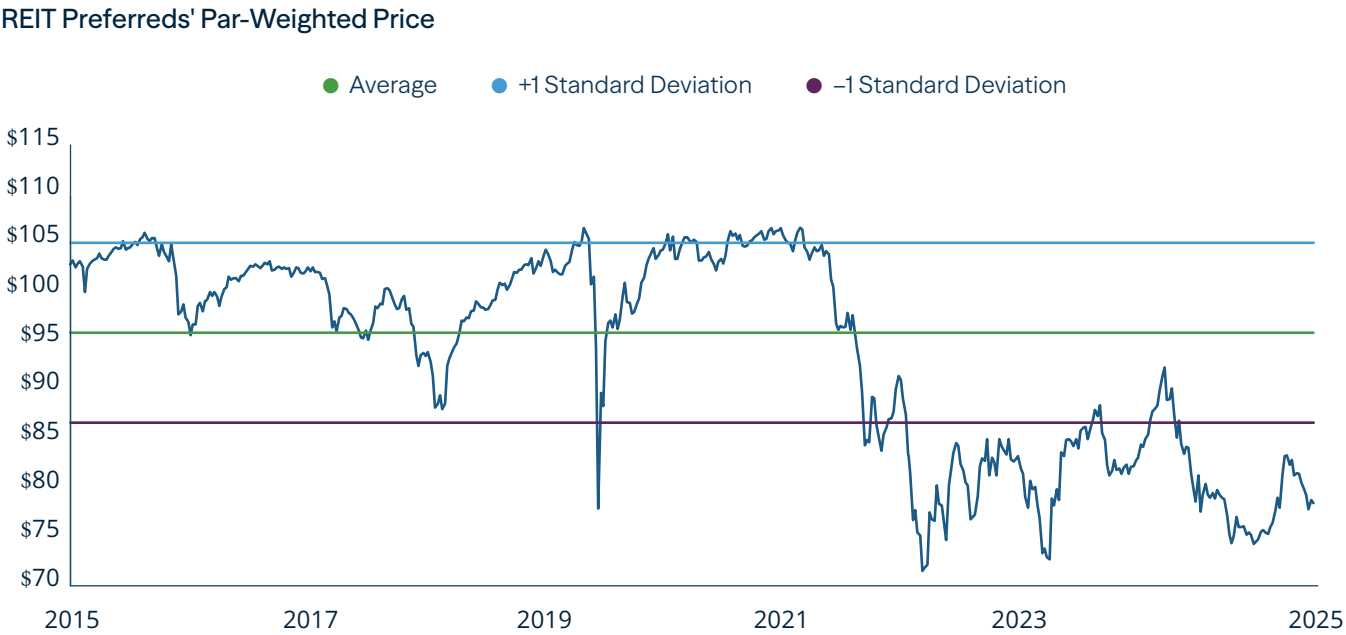


Source: Brookfield, Bloomberg. Data from December 31, 2015–December 31, 2025.

Despite an improved outlook from prior years, we remain net underweight real estate, as the recovery will likely be uneven and the broader asset class continues to face headwinds from elevated financing costs. Within our real estate exposure, we view industrial as a defensive lever given its mission-critical role in supply chains, resilient occupancy and cash flow visibility, and a built-in earnings tailwind as leases reprice over time with a lag to market rents. We also see compelling long-term upside in structurally supported segments—most notably data centers and digital infrastructure, where AI-driven compute growth is increasing the premium on scalable power access, and senior housing, which benefits from clear demographic tailwinds alongside constrained new supply.

In an environment where policy rates are likely to ease over time, we also see an attractive opportunity to express select real estate views through the capital structure—seeking high carry and improved downside protection while retaining exposure to stabilization and potential repricing as fundamentals normalize. REIT preferreds, in particular, offer high absolute yields and discounted prices; if rates decline and real estate cash flows stabilize, this part of the capital structure can benefit from both carry and price normalization, providing a meaningful cushion in a slower-growth backdrop.

Figure 6. REIT Preferreds Trade at a Steep Discount, Offering Price Appreciation Potential



Source: Brookfield, Bloomberg. Data cover the trailing 10-year period ending December 31, 2025.



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The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. 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 (AMNA) and on a total- return basis (AMNAX).

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

The Bloomberg Magnificent 7 Total Return Index is an equal-dollar- weighted equity benchmark consisting of a fixed basket of seven widely traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by the Bloomberg Industry Classification System (BICS).

The Dow Jones Brookfield Global Infrastructure Index comprises infrastructure companies with at least 70% of their annual cash flows derived from owning and operating infrastructure assets. Brookfield has no direct role in the day-to-day management of any Brookfield-branded indexes.

The FTSE EPRA Nareit Developed Real Estate 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 ICE BofA Preferred Stock REITs 7% Constrained Index is a subset of the BofA Fixed-Rate Preferred Securities Index including all real estate investment trust-issued preferred securities. The ICE BofA Fixed-Rate Preferred Securities Index tracks the performance of fixed-rate U.S.-dollar-denominated preferred securities issued in the U.S. domestic market. The ICE BofA Real Asset USD High Yield and Corporate 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/Gas 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 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/Gas 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 High Yield Custom Index is a custom index that tracks the performance of sectors of 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/Gas T&D, Telecommunications, Transportation, Utilities, Agriculture, Timber, Basic Materials, Energy Exploration & Production, Metals & Mining, Real Estate, Real Estate Ownership & Development and REITs.

The MSCI U.S. REIT Index is a free-float-adjusted market-capitalization-weighted index that is comprised of equity real estate investment trusts (REITs). With 153 constituents (large-, mid- and small-cap), it represents about 99% of the U.S. REIT universe.

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 NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) is a capitalization-weighted, gross-of-fee, time-weighted return index with an inception date of December 31, 1977.

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

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