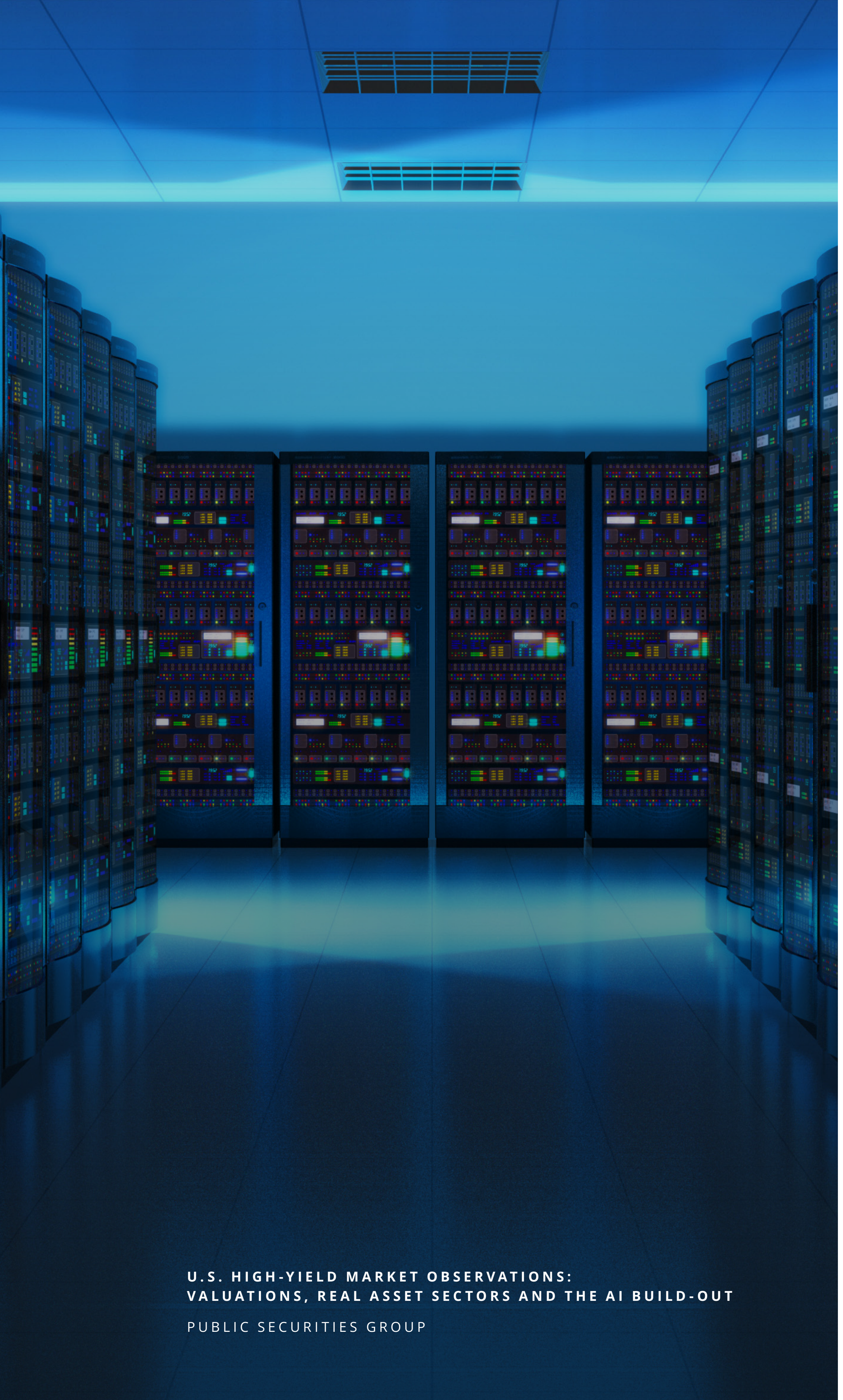
Brookfield

U.S. High-Yield Market Observations: Valuations, Real Asset Sectors and the AI Build-Out

BROOKFIELD PUBLIC SECURITIES GROUP

Key Takeaways

- High-yield credit spreads are expensive relative to historical standards, highlighting the need for an active management approach.
- We maintain a preference for "up in quality" positioning within BBB and BB segments. In general, we believe securities in the lower B and CCC segments do not offer adequate compensation for credit risk.
- In our view, the increase in power demand from AI applications has the potential to provide significant benefits to the utilities and midstream high-yield sectors.



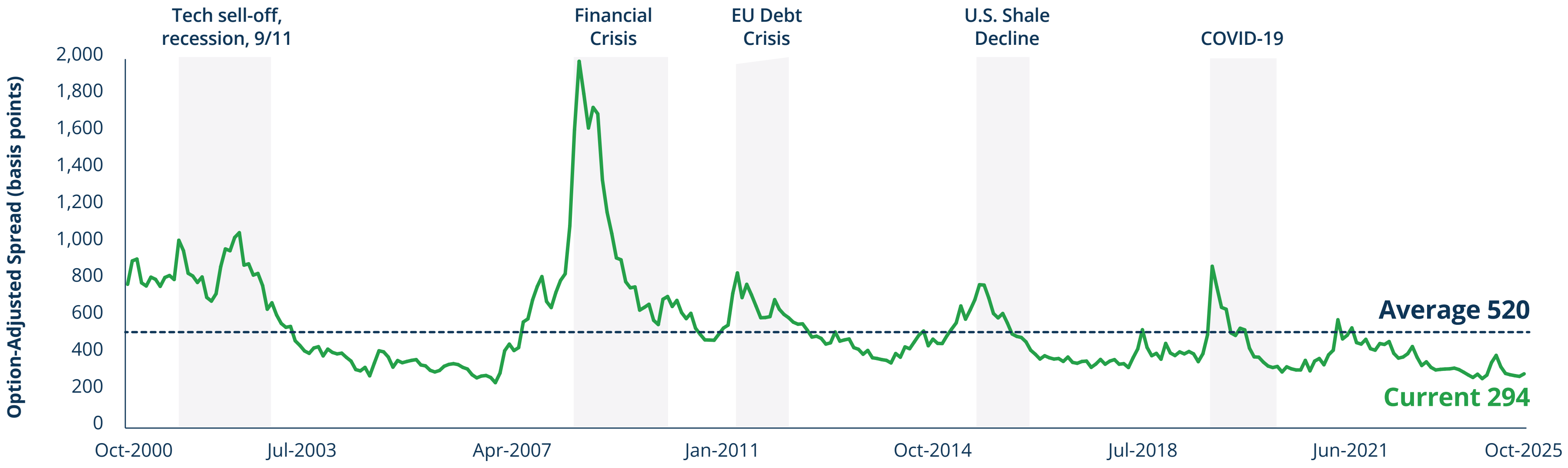
Daniel Parker and Christopher Janus, co-portfolio managers for Brookfield Public Securities Group's High Yield Strategy, share four timely observations on the U.S. high-yield market. Their insights cover current valuations, sector dynamics and the structural themes shaping credit markets today.

OBSERVATION 1

High Yield Is Priced to Perfection—Prudence Is Warranted

High-yield spreads have compressed to levels not seen since 2007. This strength reflects a favorable backdrop of high absolute yields, limited supply—driven largely by refinancing activity—and solid issuer fundamentals. However, the tightness of spreads leaves little cushion should macroeconomic conditions deteriorate. If cracks appear in growth or policy, spreads could widen meaningfully, with lower-quality portfolios particularly exposed to drawdowns and potential credit losses. That said, recent history suggests that periods of widening have often been short-lived, as investors have used volatility as a buying opportunity.

U.S. High-Yield Spreads Tighten to Levels Not Seen Since 2007



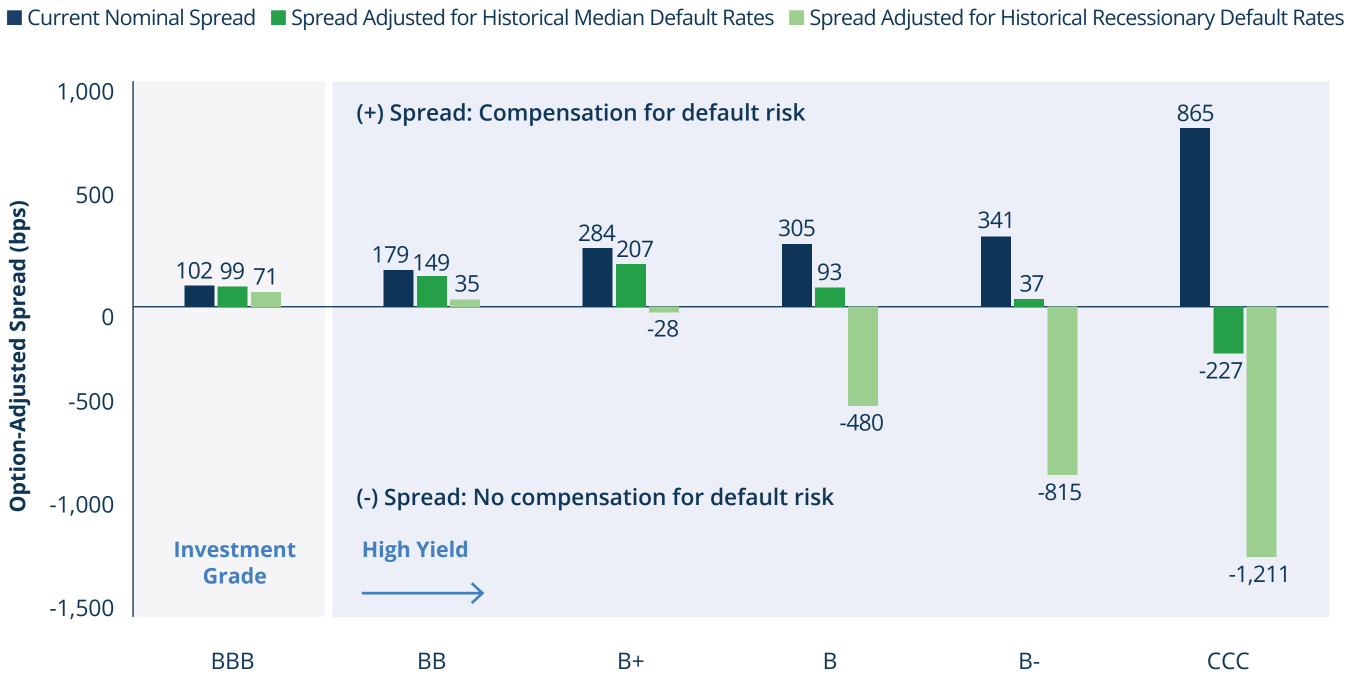
As of October 31, 2025. Source: Bank of America. U.S. high-yield market represented by the ICE BofA U.S. High Yield Index.

OBSERVATION 2

Valuation Tiering Matters

With spreads at cyclical lows, differentiation by rating tier has become increasingly important, in our view. Historical default data indicate that investors are not being adequately compensated for risk in the lower B and CCC cohorts. By contrast, the boundary between investment grade and high yield—the BBB and BB segments—offers better relative value on a loss-adjusted basis. These tiers balance yield opportunity with more durable credit profiles, making them attractive in a market where selectivity is paramount. Our current positioning favors this “up in quality” approach.

BBB and BB Segments Offer Better Loss-Adjusted Relative Value



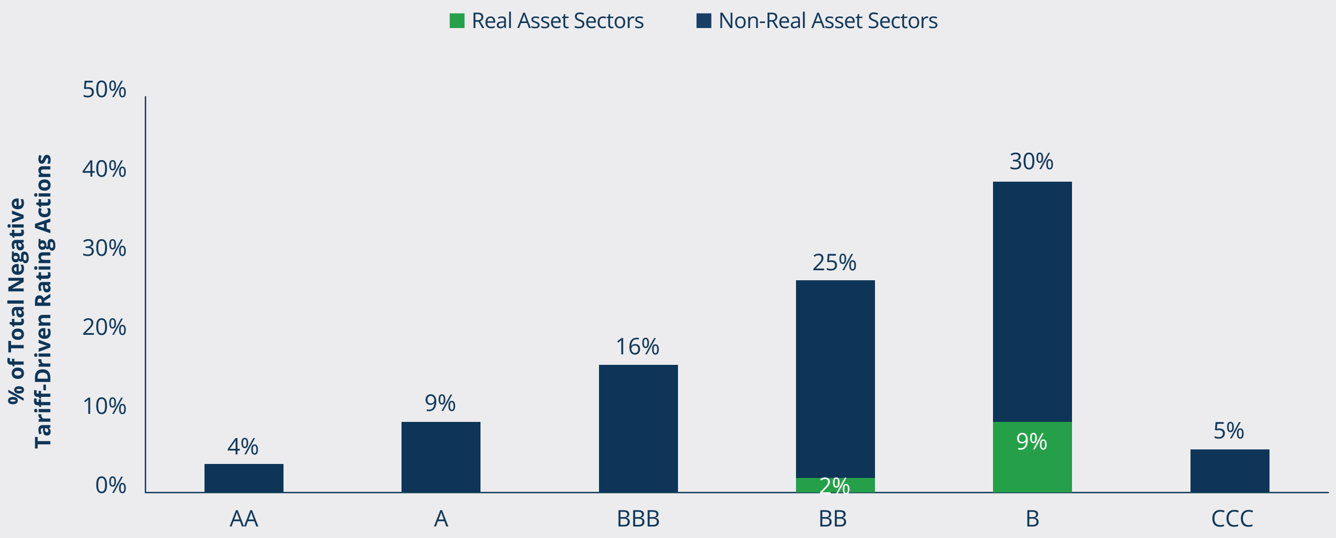
As of October 31, 2025. Source: Standard & Poor's, Bloomberg, Brookfield Public Securities Group, ICE. OAS refers to Option-Adjusted Spread. Adjustments utilize historical default data sourced from S&P and assume a 40% recovery on bond principal. Historical Median Default Rate from 1981-2024. Historical Recessionary Periods represented by two standard deviation moves in default rates based on historical 1-year default rates from 1981-2024. This Peer analysis is provided for illustrative purposes only to demonstrate historical analysis. The example shown is not representative of performance that has been or will be achieved by the strategy.

OBSERVATION 3

Real Asset Credit Sectors Show Resilience to Tariffs

Tariffs have introduced new headwinds across many industries, yet real asset sectors—such as energy, housing and utilities—have been comparatively insulated. Because these businesses do not manufacture goods for export, their revenue streams are less directly exposed to international trade disruptions. As a result, rating agency actions tied to tariffs have been concentrated in non-real asset sectors, while only a handful of real asset companies have seen negative revisions. In fact, within Brookfield Public Securities Group’s real asset universe, just seven companies have incurred negative ratings actions due to tariffs.

Negative Tariff-Driven Rating Actions Concentrated in Non-Real Asset Sectors



As of October 31, 2025. Source: S&P; Brookfield Public Securities Group. “Tariff-Driven” Rating Actions defined by S&P are public ratings in which 2025 tariff pronouncements are a primary driver of the action. Negative rating actions include: Downgrades, Negative Outlook revisions, and CreditWatch Negative placements. Brookfield classifies the following sectors as real assets: cable & satellites; chemicals; energy; gaming, lodging & leisure; housing; metals & mining; telecommunications; transportation and utilities.

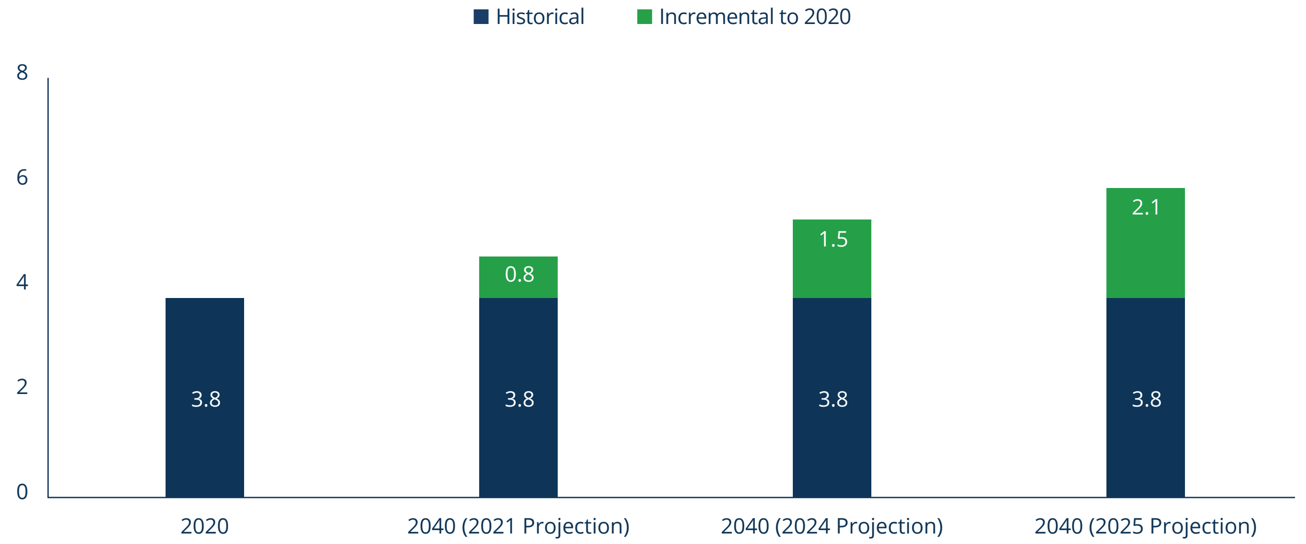
OBSERVATION 4

Infrastructure Build-Out to Benefit Utilities Sector

The AI build-out is often discussed as an equity theme, but its impact on credit markets may be equally significant. Data center expansion and broader electrification are expected to require billions in new capital expenditures, much of which will be financed through debt. We believe utilities and midstream energy are positioned to be primary beneficiaries of this secular growth trend, given their central role in providing power and infrastructure capacity. These sectors combine durable fundamentals with the added support of long-term growth drivers. Reflecting this, the utilities sector is an overweight within Brookfield Public Securities Group's High Yield Strategy.

Electrification Boom Drives Growth in U.S. Power Demand

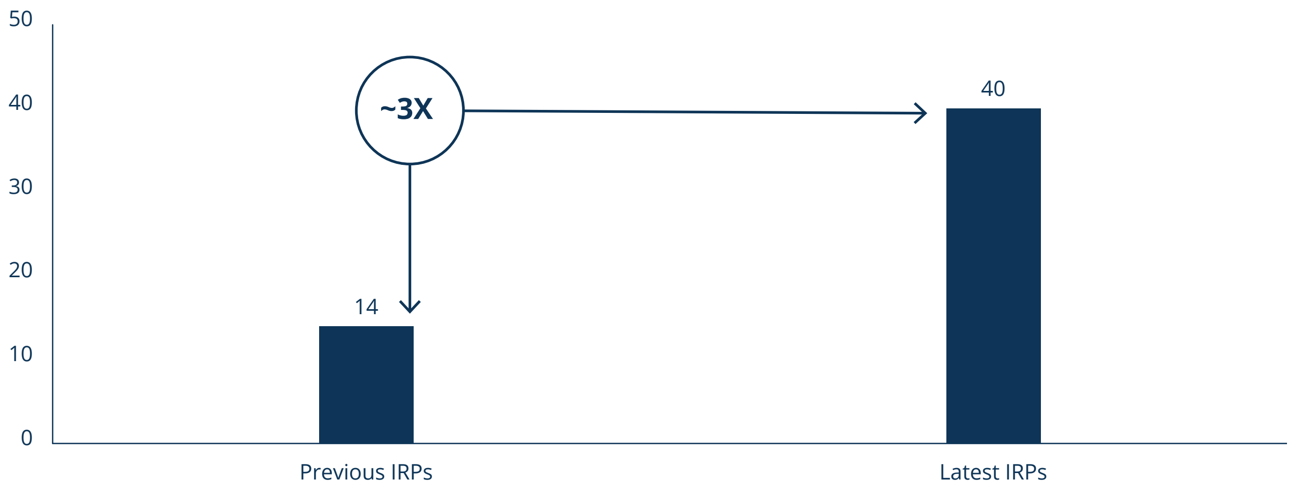
U.S. Power Demand (Thousand TWh)



Source: NextEra Energy March 2025 Investor Presentation, Historical: Energy Information Administration. Forecast: IHS Outlook and McKinsey. There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here.

Acceleration in Power Sector Demand for Natural Gas

10-Year New Natural Gas Generation Growth in IRPs (in Gigawatts)



Source: NextEra Energy. IRP = Integrated Resource Plan. Previous IRPs compares latest and previous vintage IRP demand and supply plans for 21 large load serving entities representing ~20% of U.S. load in 2025, according to NextEra Energy.

In today's high-yield market, spreads remain tight, but we believe potential opportunities persist in higher-quality tiers and in real asset sectors less vulnerable to policy shocks. The long-term growth implications of AI-driven infrastructure spending also highlight areas of potential structural upside. For investors, this environment calls for measured positioning—balancing caution on valuation with a focus on durable sectors and evolving sources of credit demand.

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