Brookfield Real Assets Monthly

KEY TAKEAWAYS

- Our CIO, Paul Horn, is closely watching rent inflation, fiscal stimulus, and similarities between 2024 and 1994, as she helps PSG's investment teams navigate an uncertain economic environment.
- While we remain defensive overall and expect global growth to slow in 2024, we are hedging our defensive positioning a bit.
- We prefer needs-based real estate over property types that could be more impacted by a slowing economy, and we favor select valuation opportunities in utilities and communications infrastructure.

INSIGHTS

SIGNALS OUR CIO IS WATCHING

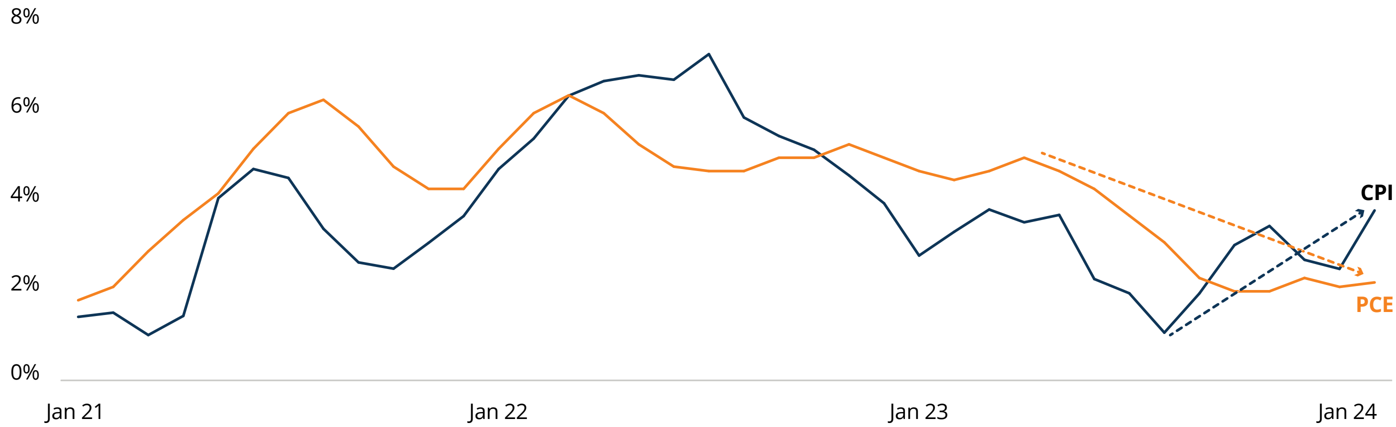
Though we have settled into a more normalized rate and inflation macro backdrop, politics, policy and geopolitical developments add uncertainty to the outlook. It's a big election year, with the Federal Reserve (Fed) widely expected to cut interest rates—the big questions being when, by how much, and whether the U.S. economy can avoid sliding into a recession. Historically, rate cuts that don't precede recessions are very good for stocks and risk assets. We recently sat down with Paula Horn, Chief Investment Officer (CIO) for Brookfield's Public Securities Group (PSG), to discuss what signals she's watching as she helps PSG's investment teams navigate their real asset strategies in today's uncertain economic environment.

Rent inflation. January's hotter-than-expected Consumer Price Index (CPI) measure of U.S. inflation sparked worries about a resurgence in recently cooling inflation and the willingness of the Fed to cut rates. The Fed has signaled that it must be confident that inflation is on track to meet its 2% inflation target before it begins cutting rates. However, according to Paula, an analysis of rent inflation shows why January's CPI print was not a harbinger of heating-up inflation—and a delayed Fed rate cut.

While the CPI's measure of rent inflation increased, CPI calculations for rental prices tend to lag more real-time price measures, Paula says. More importantly, the measure, owner's equivalent rent, or OER, is widely acknowledged to be a flawed, imprecise gauge of true rents. Real-time data are showing a dramatic slowing in rent inflation that she expects will eventually show up in the CPI measure. In addition, she says January's higher CPI shelter measure was likely month-to-month noise when viewed from a longer-term perspective, and February's shelter measure declined. Finally, she notes that shelter makes up a much smaller percentage of the components of the Personal Consumption Expenditures Index (PCE), the Fed's preferred inflation gauge, than the CPI. Notably, the six-month annualized Core PCE is now 2.5%—not at target, but very close.[1]

JANUARY'S HIGHER CPI SHELTER MEASURE WAS LIKELY MONTH-TO-MONTH NOISE

3-Month Annualized Core CPI (Excluding Shelter) and Core PCE

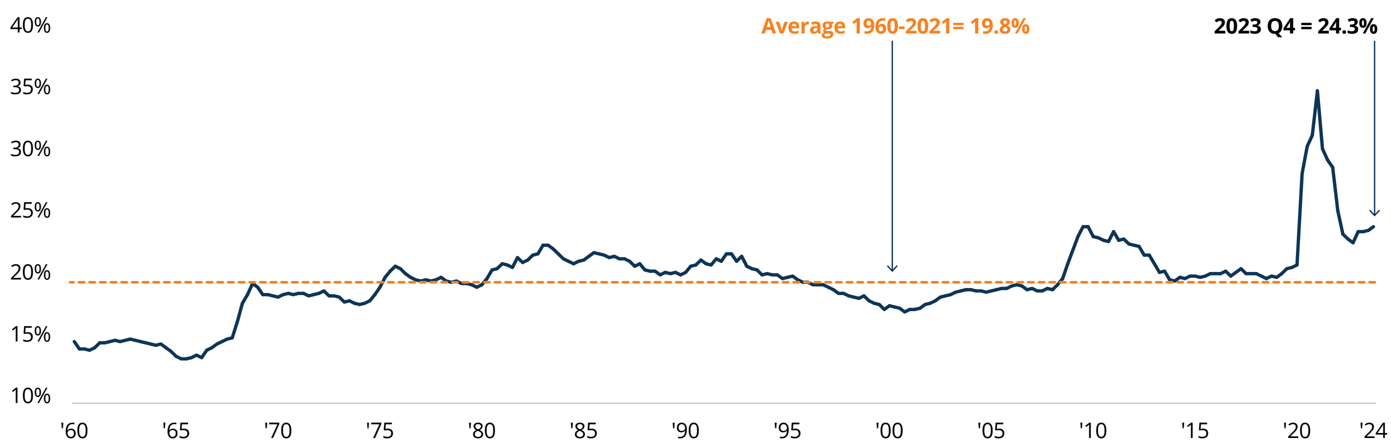


As of January 31, 2024. Source: Public Securities Group, Bureau of Economic Analysis, Federal Reserve Bank of Atlanta. Data refer to the Atlanta Fed's core sticky-price CPI excluding shelter and the U.S. PCE core deflator, both measures three-month annualized. CPI stands for Consumer Price Index, which measures the change in prices paid by consumers for goods and services. PCE refers to the Personal Consumption Expenditures Index, a measure of consumer spending on goods and services in the U.S. economy.

Fiscal stimulus. Paula attributes the U.S. economy's surprising economic resilience in 2023 at least partly to pro-cyclical U.S. fiscal policy, including stimulus designed to spur investment in infrastructure and renewable energy, student loan forgiveness and entitlement increases. She sees the contribution of fiscal stimulus and deficit spending to economic growth fading this year, although remaining at a decent enough level to delay a slowdown and help the U.S. economy avoid a recession in 2024. This is an election year, and tax cuts are coming. The same can't be said of 2025, she says.

PRO-CYCLICAL U.S. FISCAL POLICY HELPED THE U.S. ECONOMY IN 2023

Federal Spending % of GDP



As of December 31, 2024. Source: Strategas Securities, LLC. Excludes student loan forgiveness. GDP refers to gross domestic product.

1994 Redux? Did the Fed stick the soft landing? The short answer is it is still too early to claim victory. Historically, given the lagged impact of rate hikes on the economy, it often looks like a soft landing . . . until it isn't. Reputations lead strategists to throw in the towel right before the economy actually does turn. In the recent past, the only time the Fed raised rates as aggressively without throwing the economy into recession was in 1994. Similarities do exist between the two periods. Productivity gains from artificial intelligence (AI), increases in real household disposable income, and full employment with healthy corporate profits do argue for hedging a bit of defensive positioning, especially in an election year.

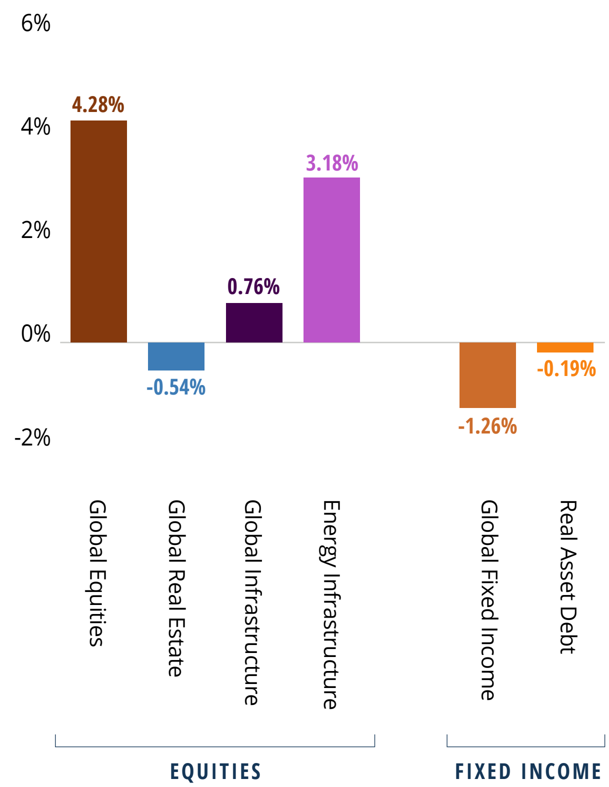
Real Assets Month in Review

REAL ASSETS

- Global equities finished February higher, as a resilient U.S. macro and earnings backdrop and continued market enthusiasm for AI drove gains. The MSCI World Index rose 4.28%, its fourth straight monthly increase, with North America, Asia Pacific and Europe up 5.17%, 2.22% and 1.57%, respectively. The S&P 500 Index gained 5.34%, also rising for a fourth month in a row.
- The 10-Year U.S. Treasury yield increased to 4.25% from 3.91% at the end of January, as inflation data contributed to a hawkish repricing of Federal Reserve pivot expectations. West Texas Intermediate Crude Oil finished the month at $78.26 per barrel, up from $75.85 at the end of January, on Middle East tensions, while the Bloomberg Commodity Index fell 1.47%.
- We expect growth to slow in 2024. While inflation has trended lower, we believe central banks will hold rates at restrictive levels to ensure that inflation doesn't reaccelerate. Overall, our positioning remains defensive within our portfolio, with an underweight to real asset equities and an overweight to real asset debt. We also hold a modest allocation to commodities to enhance diversification amid escalating geopolitical risks 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 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 expect investment opportunities to emerge in some property types that serve essential needs. Finally, elevated Treasury yields continue to make real asset debt attractive on a risk-adjusted basis, particularly the higher-quality part of the market where we believe default risks remain low.

PERFORMANCE AT A GLANCE

February Total Returns



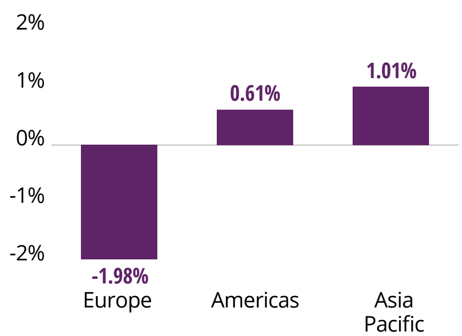
As of February 29, 2024. Sources: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

GLOBAL INFRASTRUCTURE

- Global infrastructure equities rose slightly in February, with the FTSE Global Core Infrastructure 50/50 Index up 0.76%, underperforming the broader market as the 10-Year U.S. Treasury yield rose. The Alerian Midstream Energy Index rose 3.18% during the month.
- Utilities-related sectors suffered during the month as interest rates rose, while rising oil prices helped energy-related securities outperform.
- We believe listed infrastructure appears well-positioned for attractive returns in 2024 due to current attractive entry valuations for the asset class as well as the expectation that monetary policy is likely to ease throughout 2024. Among specific sectors, we see compelling entry points for select communications tower companies poised to benefit from strong mobile data demand amid the digitization of the global economy. We also favor security-specific valuation opportunities within utilities, with a focus on dynamics around customer bill affordability, the cadence of spending on decarbonization efforts, and companies' balance sheet management, and we see a number of tailwinds supporting listed renewables and sustainable infrastructure.

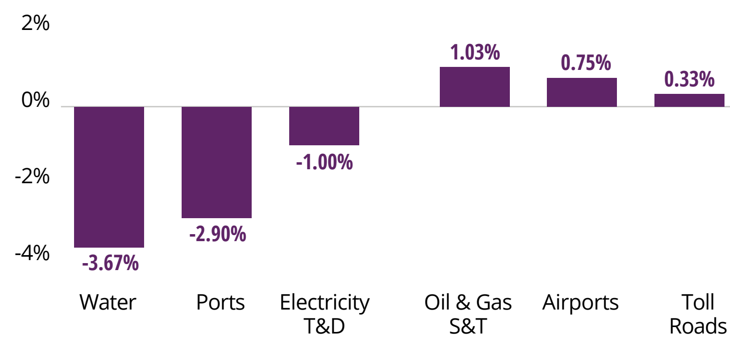
PERFORMANCE BY GEOGRAPHY

February Total Returns



PERFORMANCE BY SECTOR

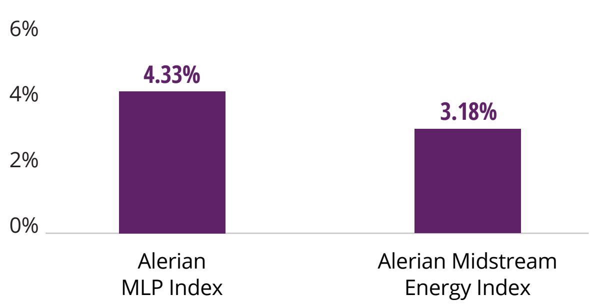
Top Three Laggards **Top Three Leaders**



As of February 29, 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, and "S&T" for storage and transportation. 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

February Total Returns



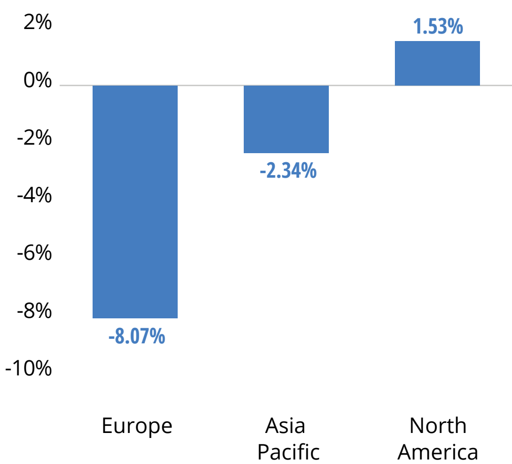
As of February 29, 2024. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

GLOBAL REAL ESTATE

- Global real estate securities fell in February, lagging the broader market. The FTSE EPRA Nareit Developed Index lost 0.54%, largely driven by an increasing 10-Year U.S. Treasury yield. Among regions, both Europe and Asia Pacific fell, while North America was a standout outperformer, rising 1.53%, boosted by the U.S.
- Most U.S. property types experienced slightly positive returns in February, despite rising interest rates. Hotels and data centers were the top-performing sectors, while diversified, mixed-use and self-storage property types underperformed.
- We continue to see strong fundamentals across most property types and believe that normalizing interest rates should provide an improving backdrop for valuations. However, we prefer needs-based real estate over property types that could be more impacted by a slowing economy. Within North America, we see security-specific opportunities in net lease and communications sectors. Elsewhere, we favor diversified landlords in Australia with meaningful industrial portfolios, and we and are starting to see more opportunities across Continental Europe.

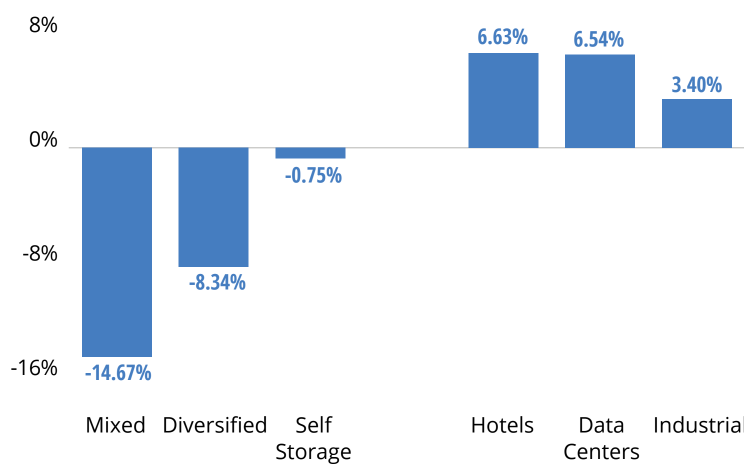
PERFORMANCE BY GEOGRAPHY

February Total Returns



PERFORMANCE BY U.S. PROPERTY TYPE

Top Three Laggards **Top Three Leaders**



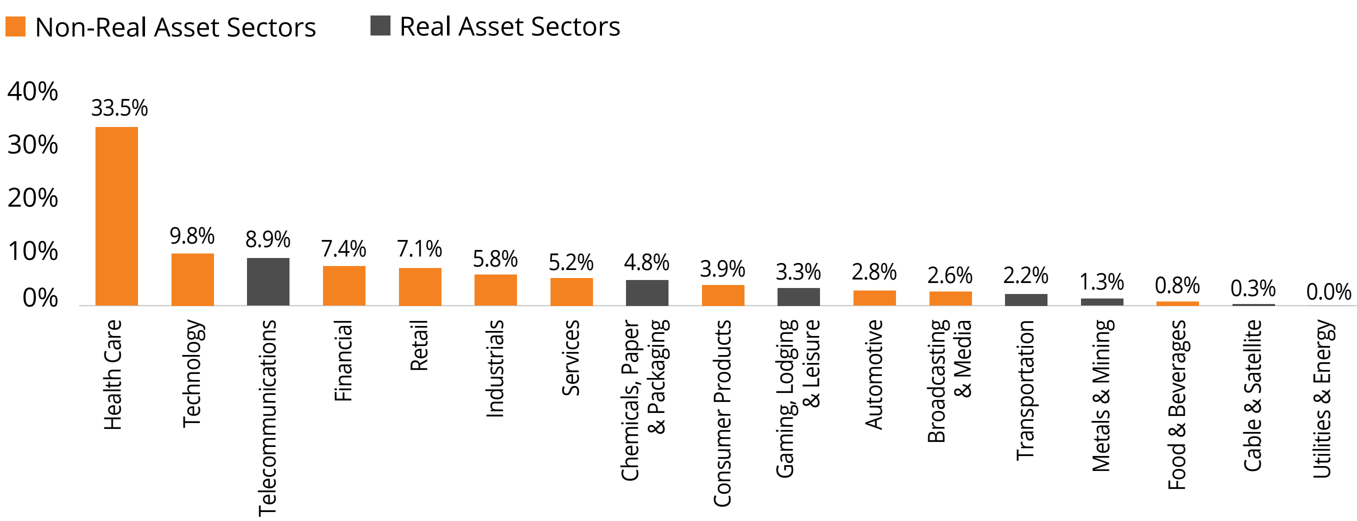
As of February 29, 2024. Source: Bloomberg. Referenced by the U.S. property types measured by the FTSE Nareit U.S. Real Estate Index Series. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

REAL ASSET DEBT

- Fixed-income markets were mixed in February. High-yield spreads tightened on positive economic sentiment, but U.S. Treasury rates rose across the yield curve. Broad investment grade fell 1.40%, as measured by the ICE BofA U.S. Corporate Index, while broad high yield returned 0.30%, as measured by the ICE BofA U.S. High Yield Index. Real asset investment grade and real asset high yield performed approximately in line with their broader market counterparts.
- Twelve companies defaulted (including distressed exchanges) in February, one of the highest monthly totals following the COVID-19 pandemic, pushing the trailing 12-month default rate higher.[2] According to our analysis, defaults over the past 12 months have continued to be concentrated in non-real asset sectors, although we expect the communications infrastructure sector, in particular telecommunications, to see an increase in defaults in the coming quarters. Based on historical data, we believe bonds of issuers backed by real assets may have higher recovery rates in cases where they do default.
- We expect a moderate slowdown in the economy in the coming quarters, although fiscal policy will likely continue to provide support for growth in this election year. Even in optimistic economic growth scenarios, default rates may continue to trend higher, driven by higher interest costs and refinancing needs. In addition, a soft-landing scenario with prolonged higher rates could continue to impact floating-rate products. Relative to those in non-real asset sectors, issuers in real asset sectors have a relatively higher proportion of fixed-rate debt and relatively lower maturities over the next five years. Spreads within high yield are near their long-term averages. However, 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. Within our portfolio, we favor infrastructure debt as well as select opportunities in real estate debt.

DEFAULTS IN THE PAST 12 MONTHS HAVE BEEN CONCENTRATED IN NON-REAL ASSET SECTORS

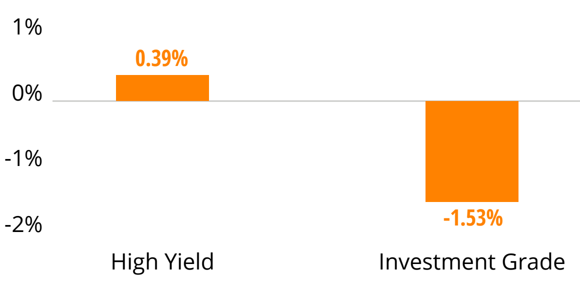
Share of Trailing 12-Months Defaults by Sector (% Bond and Loan Amount Outstanding)



As of February 29, 2024. Source: PSG analysis of JPMorgan default data.

REAL ASSET DEBT PERFORMANCE

February Total Returns



As of February 29, 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

- Tailwinds for Global Renewables and Sustainable Infrastructure
- Five Trends Supporting Residential Real Estate in the Canadian Sunbelt
- Listed Infrastructure Potentially Poised for Attractive Returns as Rates Peak

SCAN TO LEARN MORE

ENDNOTES

[1]Source: Bloomberg.

[2]Source: JPMorgan.

RISK DISCLOSURE

All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Real assets include real estate securities, infrastructure securities and natural resources securities.

Investments in real estate-related instruments may be affected by economic, legal or environmental factors that affect property values, rents or occupancies of real estate.

Infrastructure companies may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability and energy conservation policies.

The market value of natural resources securities may be affected by numerous factors, including events occurring in nature, inflationary pressures and international politics.

Diversification does not guarantee a profit or protect against loss.

For the February 2024 total-returns data, global equities are represented by the MSCI World Index, global real estate by the FTSE EPRA Nareit Developed Index, global infrastructure by the FTSE Global Core Infrastructure 50/50 Index, energy infrastructure by the Alerian Midstream Energy Index, global fixed income by the Bloomberg Global Aggregate Index, and real asset debt by the ICE BofA USD Real Asset High Yield & Corporate Custom Index. Real asset high yield is represented by the ICE BofA Real Asset USD High Yield Custom Index, and real asset investment grade is represented by the ICE BofA Real Asset USD Investment Grade Custom Index.

Brookfield Public Securities Group LLC ("PSG" or "the Firm") is a wholly owned subsidiary of Brookfield Corporation.

Brookfield Public Securities Group LLC is an SEC-registered investment adviser and is registered as a portfolio manager in each of the provinces and territories of Canada and represents the Public Securities Group of Brookfield Corporation, providing global listed real assets strategies including real estate equities, infrastructure equities, multi-strategy real asset solutions and real asset debt. PSG manages separate accounts, registered funds and opportunistic strategies for institutional and individual clients, including financial institutions, public and private pension plans, insurance companies, endowments and foundations, sovereign wealth funds and high-net-worth investors. PSG is an indirect, wholly owned subsidiary of Brookfield Corporation, a leading global alternative asset manager.

The information in this publication is not and is not intended as investment advice, an indication of trading intent or holdings, or prediction of investment performance. Views and information expressed herein are subject to change at any time. Brookfield disclaims any responsibility to update such views and/or information. This information is deemed to be from reliable sources; however, Brookfield does not guarantee its completeness or accuracy. This publication is not intended to and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any security, product or service (nor shall any security, product or service be offered or sold) in any jurisdiction in which Brookfield is not licensed to conduct business and/or an offer, solicitation, purchase or sale would be unavailable or unlawful.

Opinions expressed herein are current opinions of Brookfield Public Securities Group LLC, including its subsidiaries and affiliates, and are subject to change without notice. Brookfield Public Securities Group LLC, including its subsidiaries and affiliates, assumes no responsibility to update such information or to notify clients of any changes. Any outlooks, forecasts or portfolio weightings presented herein are as of the date appearing on this material only and are also subject to change without notice. Past performance is not indicative of future performance, and the value of investments and the income derived from those investments can fluctuate. Future returns are not guaranteed, and a loss of principal may occur.

FORWARD-LOOKING STATEMENTS

Information herein contains, includes or is based on forward-looking statements within the meaning of the federal securities laws, specifically Section 21E of the Securities Exchange Act of 1934, as amended, and Canadian securities laws. Forward-looking statements include all statements, other than statements of historical fact, that address future activities, events or developments, including, without limitation, business or investment strategy or measures to implement strategy, competitive strengths, goals, expansion and growth of our business, plans, prospects and references to our future success. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other similar words are intended to identify these forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining our actual future results or outcomes. Consequently, no forward-looking statement can be guaranteed. Our actual results or outcomes may vary materially. Given these uncertainties, you should not place undue reliance on these forward-looking statements. The quoted indexes within this publication do not reflect deductions for fees, expenses, sales charges or taxes.

INDEX PROVIDER DISCLAIMER

The quoted indexes within this publication are unmanaged and cannot be purchased directly by investors.

Index performance is shown for illustrative purposes only, and it does not predict or depict the performance of any investment. There may be material factors relevant to any such comparison, such as differences in volatility and also regulatory and legal restrictions between the indexes shown and any investment in a Brookfield strategy, composite or fund. Brookfield obtained all index data from third-party index sponsors and believes the data to be accurate; however, Brookfield makes no representation regarding its accuracy. Indexes are unmanaged and cannot be purchased directly by investors.

Brookfield Public Securities Group LLC does not own or participate in the construction or day-to-day management of the indexes referenced in this document. The index information provided is for your information only, and it does not imply or predict that a Brookfield Public Securities 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 Energy Subindex is a commodity group subindex of the Bloomberg Commodity Index. It is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of the underlying commodity futures price movements.

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-1332