Brookfield

Rebalancing Toward Real Assets to Mitigate Concentration Risk

REAL ASSETS QUATERLY | PUBLIC SECURITIES GROUP

Q4 2025

Key Takeaways

- Diversification through Real Assets may help mitigate concentration risk.
- Structural tailwinds are driving long-term growth in Infrastructure and Real Estate.
- Active positioning across capital structures is essential amid narrowing credit spreads.

Mitigating Concentration Risk with Real Assets

The S&P 500 is increasingly dominated by a small number of constituents. As of September 30, 2025, the top 10 stocks in the S&P 500 Index comprised 38% of the index's total market capitalization. That number has increased by nearly 22 percentage points over the last 10 years.

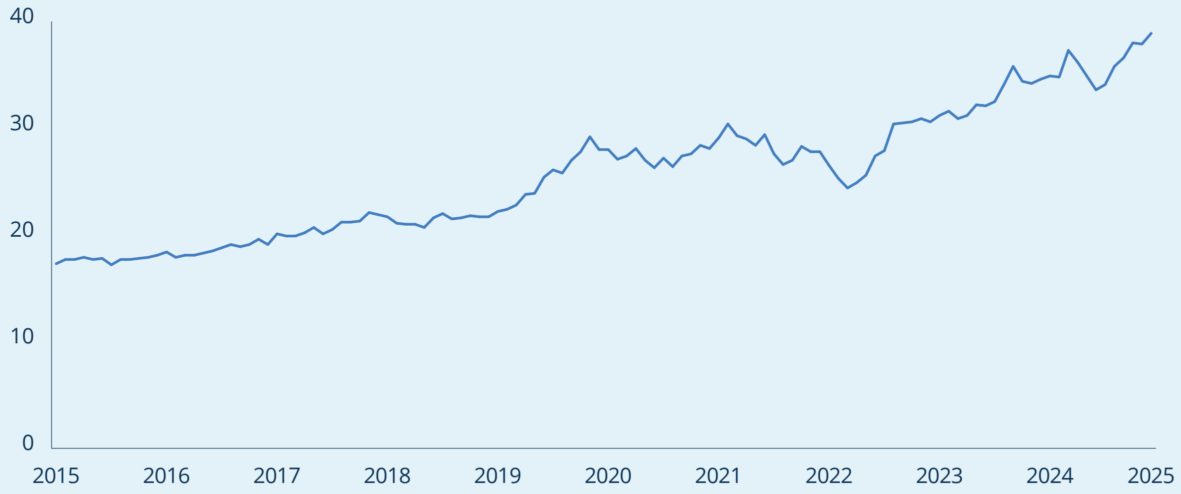
Such levels of concentration are tolerable as markets continue to set record highs. But history has shown that during inflection points and market pullbacks, elevated levels of concentration can result in greater drawdowns.

Investors consider real assets for a variety of reasons. Among them are diversification, downside protection and the potential for total return with lower volatility. These potential benefits are highlighted by a comparison of key metrics of select listed real asset index performances to a portfolio of the current top 10 constituents in the S&P 500 Index.

Following the run-up in equity markets, rebalancing equity exposure to portfolios of infrastructure and real estate securities may be prudent for allocators seeking to mitigate concentration risk among a select number of technology and consumer discretionary stocks. Real assets offer potential upside exposure and participation in a continued broader equity rally, but with lower correlations and betas to the small group of securities that have recently driven the bellwether U.S. stock market index to record highs.

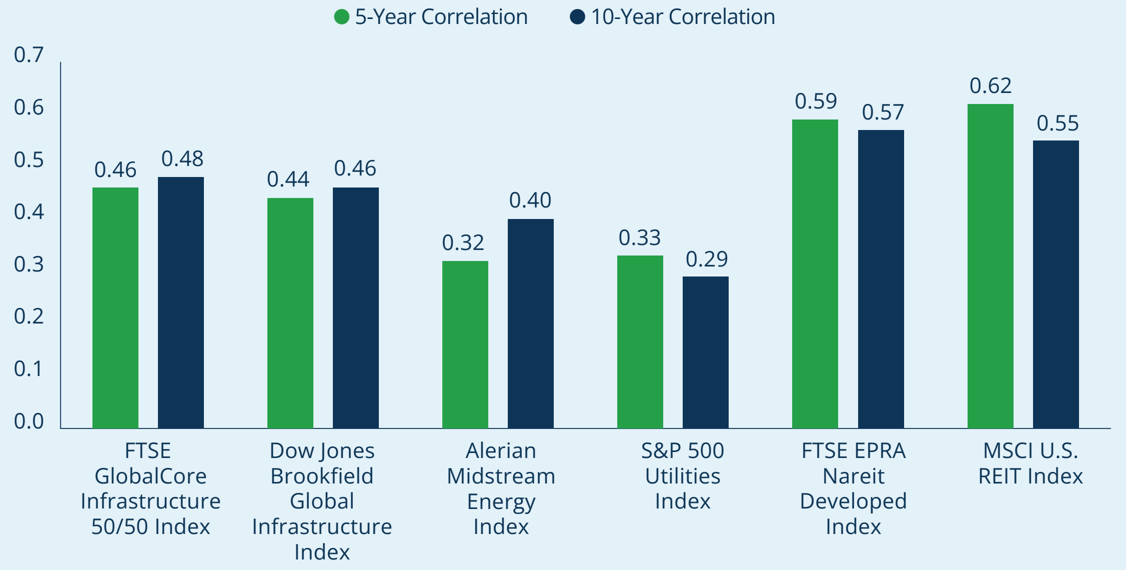
In our quarterly newsletter we present current observations across our flagship investment strategies. Each section includes a detailed analysis of one key theme driving fundamentals in each sector, along with several high-level opportunities and considerations across regions and subsectors.

Top 10 Weights of S&P 500 Index Constituents Monthly, 10 Years Ended September 30, 2025



As of September 30, 2025. Source: Bloomberg. SPDR S&P 500 ETF Trust data used to measure index weights.

Correlations: Select Real Asset Indexes vs. Equal-Weighted Portfolio of Top 10 S&P 500 Index Constituents



As of October 2025. Source: Bloomberg. Note: Five- and 10-year correlation and beta calculations vs. real asset indexes are based on a hypothetical, equal-weighted portfolio comprised of the 10 largest stocks in the S&P 500 Index as of October 17, 2025.

Source: Bloomberg, Brookfield Public Securities Group.

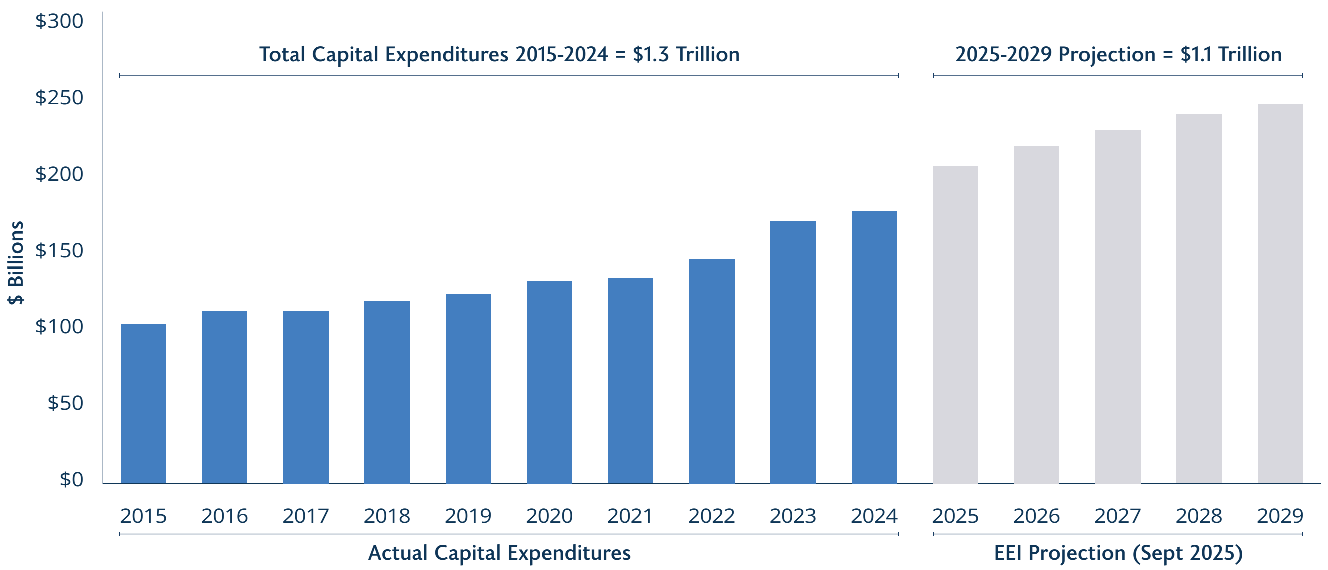
Infrastructure

Capital expenditures in electric utilities over the next five years are set to match spending of the last decade.

Utilities earn regulated returns on invested capital, with increased earnings being derived from continued investment and expansion. The sector's projected investment trajectory supports a compelling combination of defensive characteristics and infrastructure-led growth. For investors, this increase in forecasted spending creates strong tailwinds for the asset class.

AI data center growth has driven power demand and increased investment across the utilities space, but there are other drivers of the increase in capital expenditures within the sector. The ongoing effort to modernize the grid, integrate renewable power sources, and replace aging infrastructure contribute to the long-term capex growth shown below.

Electricity Demand Pulling Forward Utility Earnings Potential



As of September 2025. Source: Edison Electric Institute (EEI) Financial Analysis Department, EEI member company reports. Chart represents total capital expenditures of U.S. investor-owned electric utilities, consolidated at the parent or appropriate holding company level.

Opportunities

- U.S. hyperscale data center leasing is on pace to set a record in 2025, a signal that the rising power demand story is showing no signs of slowing
- Several high-profile reshoring and U.S. manufacturing build-out announcements highlight the diverse drivers of power demand beyond AI
- Select transport assets in the Asia Pacific region appear well positioned for growth

Considerations

- Along with increasing power demands, there are affordability challenges and potential regulatory changes to address consumer concerns
- Sales of spectrum assets and customer churn may be headwinds for tower operators

Real Estate

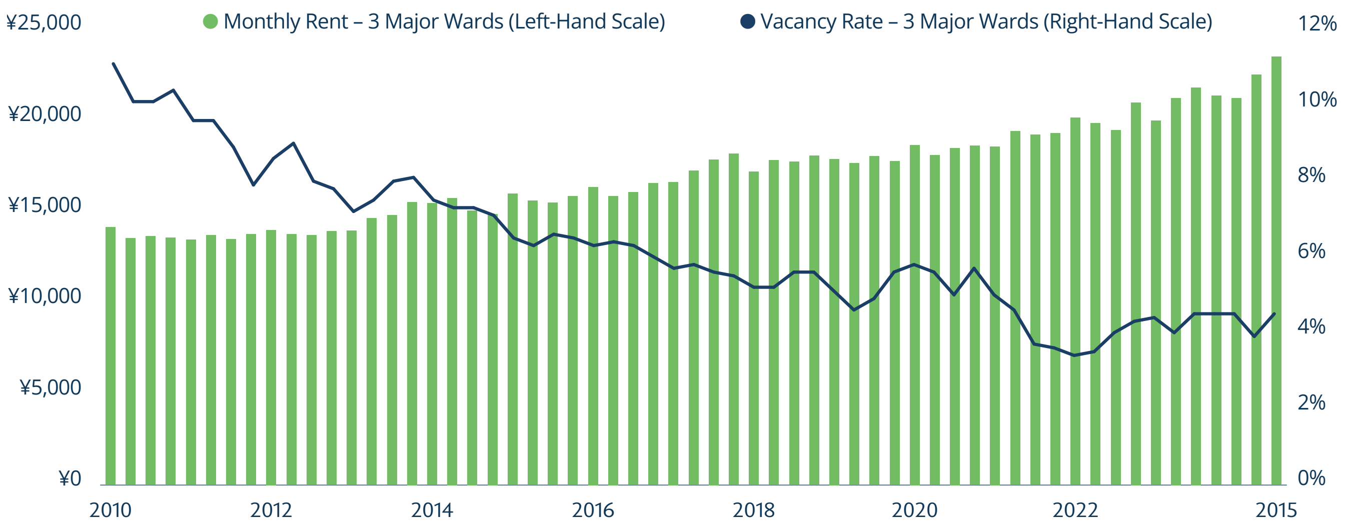
Japan has emerged as a key target market for global real estate investors. Amid steady economic growth, supportive property fundamentals and improving corporate governance practices, Japan's property market is experiencing a wave of inflows from foreign and domestic investors.

Supply-and-demand dynamics are supportive across most property types in Japan, but Tokyo's multifamily market stands out. A resilient economy, net in-migration, limited new supply and affordability challenges for home buyers are helping to boost rent growth for landlords. Apartment rents in Tokyo are growing at their fastest pace in three decades, and investors are taking note. According to JLL, transaction volumes across Asia Pacific residential assets rose 92% year-over-year in Q2 2025, with Japan accounting for more than half of the region's total.

We see the potential for Japanese real estate securities to outperform amid positive property fundamentals, as well as improving corporate governance and fund flows into the region that are boosting property values.

Tokyo Apartment Supply and Demand May Support Strong Rent Growth

Tokyo Average Monthly Rent and Vacancy Rates



As of August 2025. Source: SMBC NIKKO.

Opportunities

- Senior housing rent growth is supported by robust demand and the fewest number of new units under construction since 2013[1]
- U.S. and European industrial fundamentals appear to be reaching an inflection point as the supply pipeline continues to fall
- Single-family rental stocks have lagged the broader universe and may present relative value

Considerations

- Unknown economic growth implications from the deployment of AI applications and the enforcement of immigration policies could impact certain property types
- Lodging trends appear to be weakening, with revenue per available room (RevPAR) growth steadily contracting
- Cold storage assets remain pressured and out of favor, with minimal line of sight into a recovery

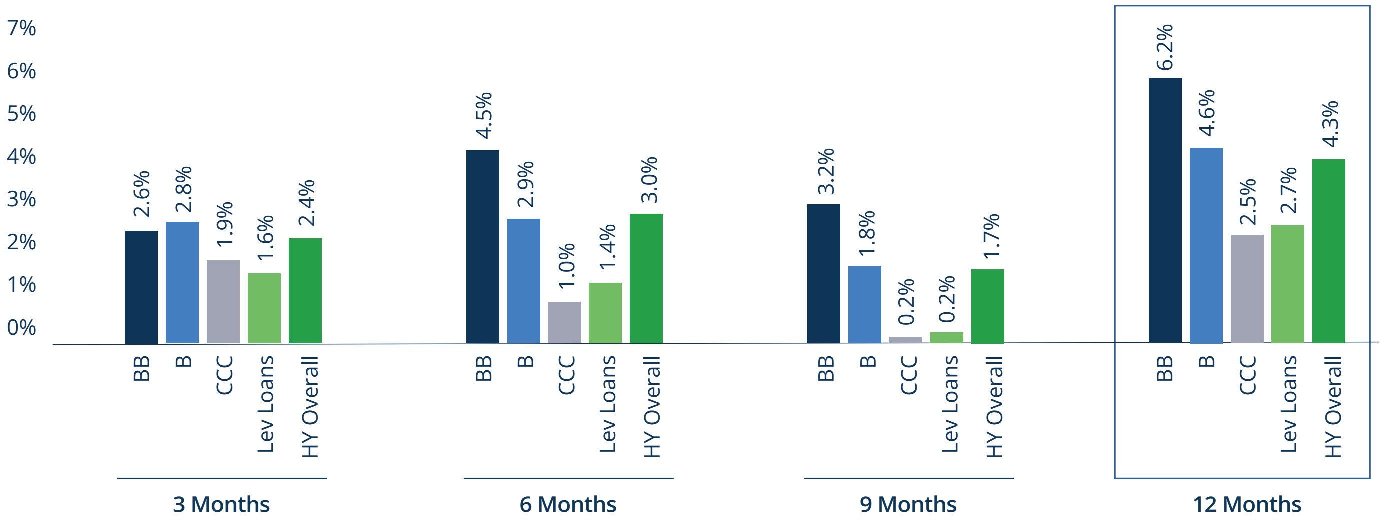
Fixed Income

U.S. corporate credit markets continued their steady march higher in the third quarter of 2025, marking their 12th consecutive quarter of positive total returns. Credit markets have recently benefited from strong fundamentals, including relatively healthy corporate earnings and balance sheets, as well as favorable technical factors such as limited supply, high absolute yields, and easing monetary policy.

The Federal Reserve's recent rate cuts and the potential of further easing heading into 2026 is a potential positive for the U.S. high-yield asset class. Further rate cuts may incentivize investors to rotate out of yield alternative investments such as cash, investment-grade credit, or levered loans and into high yield, where the potential reduction in borrowing costs will have a positive impact on issuers. That said, it's essential to focus on why the Federal Reserve is cutting, and it's clear that signs of a sluggish labor market have taken hold, and this could indicate a slowdown in consumer spending, the largest component of U.S. GDP.
We currently favor BB securities, which have historically outperformed weaker segments following Federal Reserve rate cuts, partially due to their ability to better absorb softening economic conditions (**Exhibit 1**).

Exhibit 1. Performance Following Federal Reserve Cuts

High-yield bonds have outperformed leveraged loans following rate cuts. Within high-yield, better-quality credits (BB) have outperformed lower-quality (B/CCC).



Source: Brookfield, JP Morgan. Data as of June 30, 2025. Results reflect the average returns of the JP Morgan High Yield Bond Universe for the 3, 6, 9 and 12M periods, following the months of June 1995, August 1998, December 2000, August 2007, June 2019 and September 2024.

Opportunities

- High absolute yields above the rate of inflation are providing real yield to investors
- Net issuance remains low, which is restricting supply and supporting prices
- Real asset sectors that invest in the essential economy, especially infrastructure, are less exposed to consumer spending and could potentially outperform should economic conditions soften

Considerations

- High yield valuations remain high as spreads hover near all-time lows
- Cracks have begun to emerge in the private credit and leveraged loan markets, which could pose headwinds to high-yield securities should an economic slowdown occur

Multi-Asset Solutions

Our Multi-Asset Solutions team leverages the Firm's deep expertise and investment capabilities across real asset sectors, capital structures, and the liquidity spectrum to create diversified real asset solutions for investors.

Our outlook for diversified real assets is constructive. Looking across the real asset continuum, we find that today's environment calls for a keen focus on the capital structure, as relative value opportunities and risks are especially prevalent. For instance, the competing nature of equity vs. credit deserves to be reexamined, as the continued rally in U.S. credit markets has led to spreads hovering near all-time lows. Moreover, while absolute yields remain attractive relative to history, the additional spread you receive for going down in credit quality is minimal. For example, the option-adjusted spread (OAS) between the BB high yield and BBB investment-grade segment is one standard deviation below its historical average at just 77 bps (**Exhibit 2**), leaving little compensation for investors, given the added credit risk. As such, we maintain a slight overweight to investment grade vs. high yield.

Exhibit 2. The Extra Return Required for Owning High-Yield Credit Is Low

BB-BBB's option-adjusted spread (OAS)

Source: ICE BofA. Data as of September 30, 2025.

Opportunities

- We prefer investment-grade credits over high yield on a valuation basis
- Real estate preferreds provide a potential opportunity to benefit from lower rates and play the real estate turnaround
- Infrastructure equities are benefiting from growing power demand driven by the development of AI tools and increased compute demand

Considerations

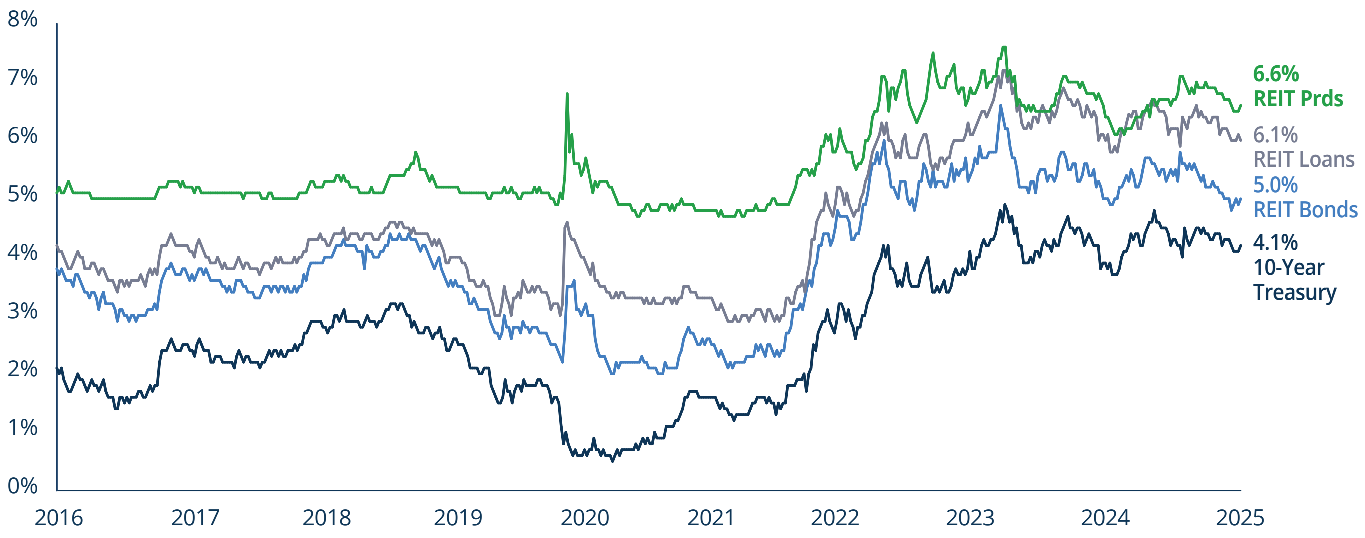
- Areas such as office and lodging fundamentals remain challenged in commercial real estate
- Cracks have started to appear in the leveraged loans and private credit markets, which could create a risk-off environment across capital markets

A focus on the capital structure also played a role in our recent decision to increase our allocations to real estate. While several property types continue to face long-term (e.g., office) or short-term (e.g., lodging) headwinds, we believe most of the worst news is behind the commercial real estate asset class. The cycle may start turning positive, especially given the Fed's dovish monetary policy stance.

When looking across the real estate capital structure, we believe the best value exists in REIT preferreds and, to a lesser extent, real estate equities. In our view, the long duration profile of REIT preferreds make them better suited to potentially benefit from the Fed's dovish stance, especially with potentially more rate cuts expected before year-end and with REIT preferreds trading at a significant discount to par. Finally, REIT preferreds offer high absolute yields, in addition to their senior place in the capital structure relative to equities, which may provide some downside protection and help maintain their relative attractiveness to investors (**Exhibit 3**).

Exhibit 3. Commercial Real Estate Yield by Debt Type

(Representative of 10-Year Money)



Source: Cushman & Wakefield, Recursion, Trepp, Green Street. Data as of September 30, 2025.

Disclosures and Definitions

Endnote

[1] Source: Multi-Housing News, 2025 Senior Housing Market Update.

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. 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. All real estate investments, ranging from equity investments to debt investments, are subject to some degree of risk. Fixed income risks include interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Real assets include real estate securities, infrastructure securities and natural resources securities. Diversification does not assure a profit or protect against loss in declining financial markets.

Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from AAA, which is the highest grade, to D, which is the lowest grade. Credit ratings are subject to change.

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Index Definitions

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.

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