# Brookfield Real Assets Monthly

## KEY TAKEAWAYS

- China, energy prices and the performance of cyclical vs. defensive equities are key for gauging where inflation and interest rates may be heading—and they are sending mixed messages.
- Given macroeconomic uncertainty and our expectation that global growth will slow, we remain focused on playing defense.
- We see opportunities in real estate and infrastructure companies with quality earnings, good balance sheets and solid cash flows, including in select energy infrastructure firms.

## INSIGHTS

### INFLATION SIGNALS OUR CIO IS WATCHING

The Federal Reserve is focused on getting inflation down to its 2% target, even if that means further rate raises, as Federal Reserve Chair Jerome Powell made clear in his remarks at the Jackson Hole economic symposium last month. This means understanding where inflation is going is key to determining the outlook for interest rates and, ultimately, the U.S. economy.

We recently sat down with Paula Horn, Chief Investment Officer (CIO) for Brookfield's Public Securities Group (PSG), to discuss what inflation signals she's watching as she helps PSG's investment teams navigate their real asset strategies in today's uncertain economic environment. She shared three inflation signals she's watching closely and their implications for listed real assets.

**China.** Paula believes Chinese growth in 2023 will more than likely fall short of the Chinese government's "unimpressive" 5% target, as she says China's policymakers appear more focused on debt management than supporting the property sector and stimulating consumption. As a result, China "is a large global disinflationary force" for the global economy, Paula says.

**Energy.** Falling prices for oil and gas earlier this year were one reason for the recent drop in the U.S. headline Consumer Price Index (CPI) inflation rate. However, that trend is unlikely to continue, with energy poised to be a reflationary force in coming months, according to Paula. The price of oil, as measured by West Texas Intermediate crude oil, has risen about 23% this quarter through the end of August.

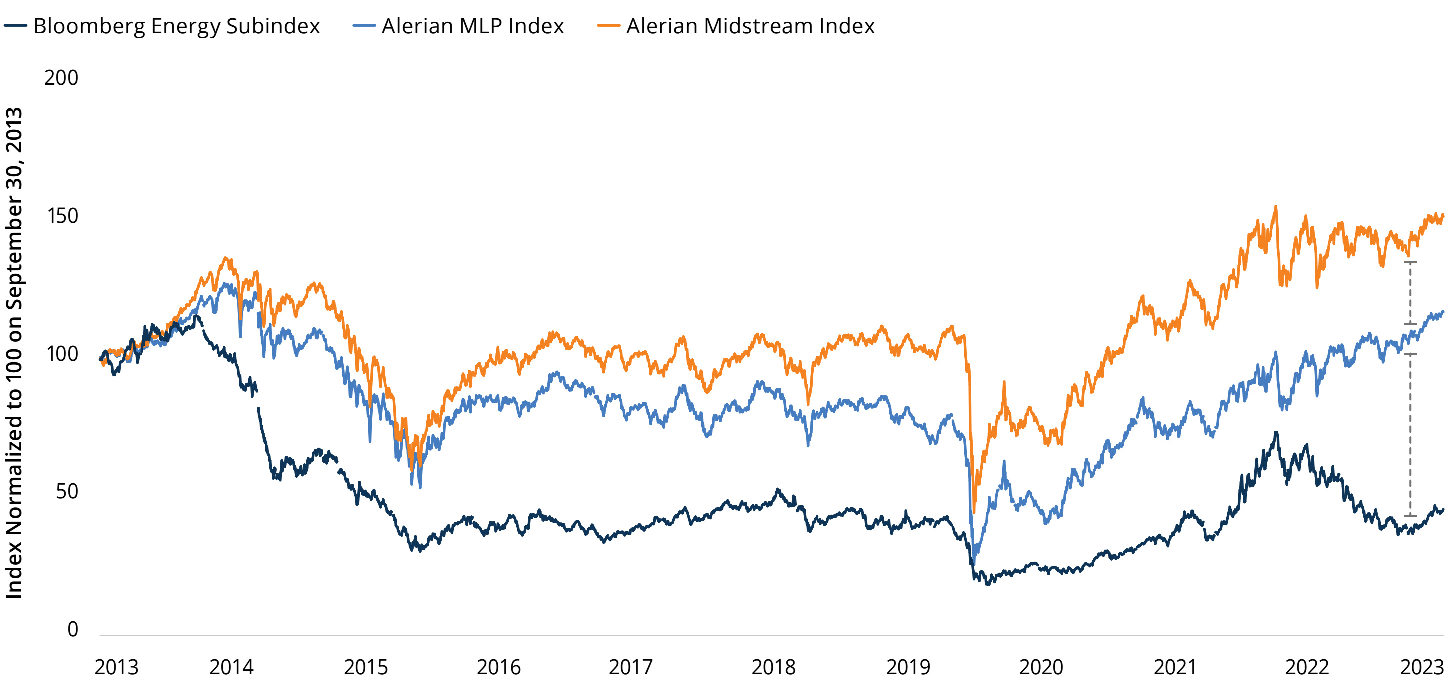
**The Performance of Cyclicals vs. Defensives.** According to Paula, the outperformance this year of cyclical stocks over defensive counterparts appears to reflect the market's view that a reflationary impulse from fiscal stimulus is still working through the system. Public and private spending supporting onshoring, the CHIPS Act and the Inflation Reduction Act have had a procyclical inflation impulse, very atypical during a Fed tightening cycle, boosting growth even in the face of rising interest rates. However, she notes that utilities equities have been outperforming very recently. She believes this trend bears watching. She says it could signal that the market senses an end to growth impulses and an economic slowdown ahead, given the lagged impact of one of the most aggressive rate hiking campaigns on record.

Based on these mixed signals, Paula says it's not clear that the Fed's job is done on the inflation front. The more that central banks raise rates, the less chance there is of a soft landing, in her view. Given the persistent macroeconomic uncertainty, Paula says PSG's investing teams remain focused on playing defense by investing in companies with quality earnings, good balance sheets and solid cash flows. She says the real estate equities team is finding such companies in the health care, industrial and residential sectors, while the infrastructure and real asset debt teams see opportunities in towers, utilities and select energy infrastructure firms.

Energy infrastructure was a very strong performer in the first half of the year, despite falling energy prices. Historically, the performance of energy infrastructure equities has correlated with that of the underlying commodities, such as oil, but that relationship does not appear to be as tight as in prior cycles. Paula attributes this to the companies' strong emphasis in recent years on capital discipline and returning capital to shareholders in the form of dividends and buybacks, trends our investment teams see continuing regardless of what happens with energy prices.

ENERGY INFRASTRUCTURE EQUITIES WERE STRONG PERFORMERS IN THE FIRST HALF OF 2023 DESPITE FALLING ENERGY PRICES

**Index Prices for Energy Infrastructure Equities and Energy Commodities**




As of August 31, 2023. Source: Bloomberg. Brookfield PSG. Data are normalized to 100 starting on September 30, 2013. 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.**

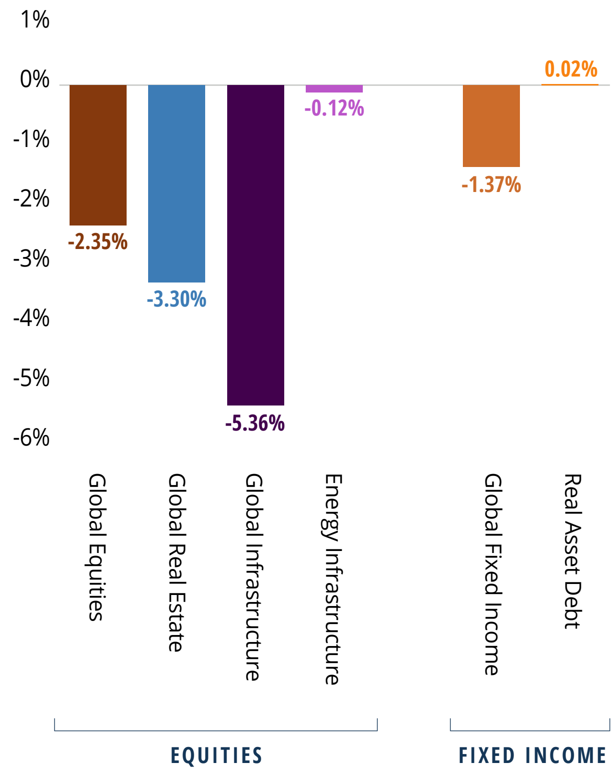
# Real Assets Month in Review

## REAL ASSETS

- Global equities finished August lower amid concerns about softer economic data out of China and Federal Reserve messaging suggesting the possibility of higher-for-longer interest rates. The MSCI World Index fell 2.35% during the month, with North America, Asia Pacific and Europe down 1.79%, 3.58% and 3.95%, respectively. The S&P 500 Index lost 1.59%, ending its five-month winning streak.
- The 10-year U.S. Treasury yield rose to 4.11% from 3.96% at the end of July on upbeat U.S. economic data and ramped-up Treasury issuance. Fitch Ratings downgraded the U.S. government's credit rating one notch (from AAA to AA+) at the beginning of the month. West Texas Intermediate crude oil increased to $83.63 from $81.80 at the end of July, helped by production cuts, while the Bloomberg Commodity Index fell 0.77%.
- We see signs that global growth will slow through the remainder of 2023 as restrictive monetary policies work their way through the economies. While inflation is trending lower, we expect it will remain above central bank targets, so tight monetary policy is likely to continue for some time. Overall, our positioning remains defensive within our portfolio, with a modest underweight to real asset equities and a modest overweight to real asset debt. We hold no direct commodity exposure.
- 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 most constructive on utilities for their defensive characteristics, despite recent challenging performance. We also see tailwinds for renewables and energy midstream equities, which we believe could benefit from the energy transition toward renewable power and the global push for energy security. Within real estate, although valuations appear attractive, lingering concerns around financing and broad negative sentiment around commercial real estate keep us cautious. Finally, the material increase in bond yields over the past year continues to make real asset debt more 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

**August 2023 Total Returns**



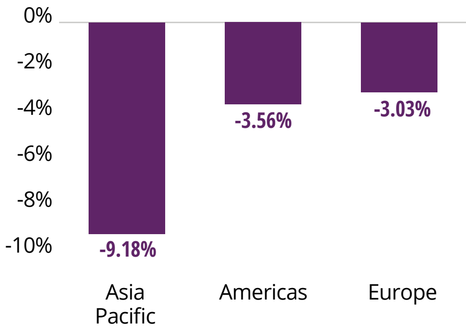

As of August 31, 2023. Source: Bloomberg, Brookfield PSG, U.S. Department of Commerce. See disclosures for full index representations and definitions. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

## GLOBAL INFRASTRUCTURE

- Global infrastructure equities fell during August, with the FTSE Global Core Infrastructure 50/50 down 5.36%. Companies in the Asia Pacific region were the leading detractors, given less-than-optimistic economic data out of China. Energy infrastructure was largely flat, with the Alerian Midstream Energy Index returning -0.12%.
- The economics of offshore wind projects in the U.S. were called into question toward the end of August and beginning of September. The Biden administration stood behind the Inflation Reduction Act, stating its belief that the tax credits would be supportive to renewables development.
- Overall, we maintain our defensive positioning in listed infrastructure and have looked to consolidate some of our positions into our best ideas. We are actively focused on mitigating unintended factor risk across our strategies, given the economic uncertainty, particularly in the Asia Pacific region amid recent economic news.

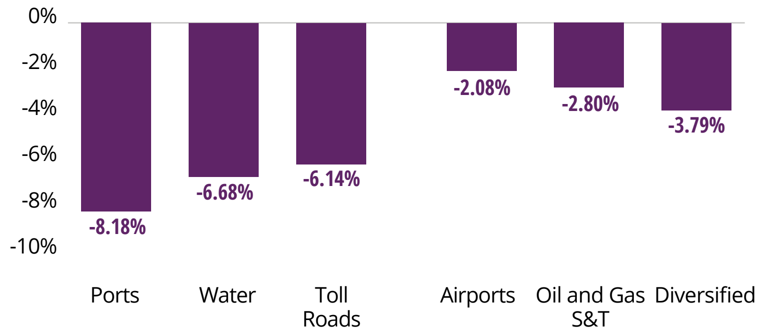
### PERFORMANCE BY GEOGRAPHY

**August 2023 Total Returns**




### PERFORMANCE BY SECTOR

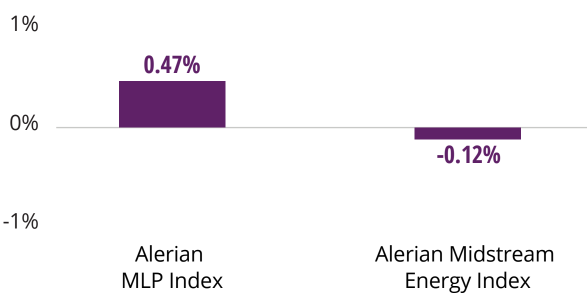
**Top Three Laggards** **Top Three Leaders**




As of August 31, 2023. Source: Bloomberg. Referenced by the Dow Jones Brookfield Global Infrastructure Composite Index. Brookfield has no direct role in the day-to-day management of the Brookfield Infrastructure Composite. "S&T" refers to 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

**August 2023 Total Returns**



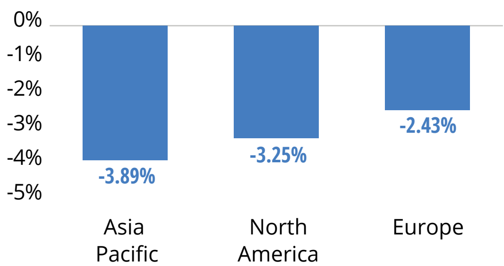

As of August 31, 2023. Source: Bloomberg. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

# GLOBAL REAL ESTATE

- In August global real estate securities erased the previous month's gains, with the FTSE EPRA Nareit Developed Index falling 3.30%. Among U.S. property types, hotels and retail companies fared the worst amid the potential for a consumer spending slowdown.
- Second-quarter earnings season wrapped during the month, and results were generally positive. Year-over-year earnings from operations growth exceeded 5% in the second quarter. Fundamentals remained strong in the health care, industrial, residential and data centers sectors; mixed among hotel and retail companies; and slowing within communications-related real estate.
- We continue to believe public real estate investment trusts (REITs) have little risk of defaults and are well positioned, given modest levels of overall debt and access to a diverse array of capital sources. We think the asset class is well priced for attractive relative returns looking ahead, and we are focused on the highest-quality assets that are positioned to grow earnings. In the U.S. we maintain our preference for the health care, industrial and residential sectors. Outside the U.S., we recently reduced our exposure in Hong Kong amid softening macroeconomic data and weakness in the Chinese property sector.

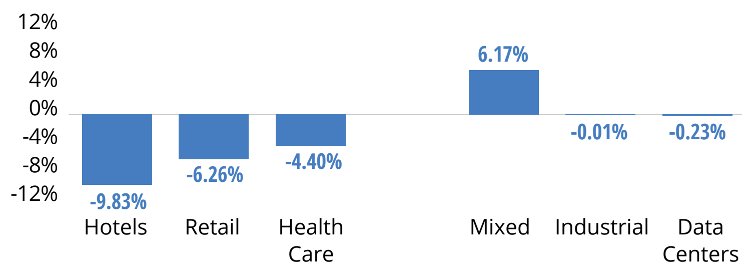
## PERFORMANCE BY GEOGRAPHY

**August 2023 Total Returns**




## PERFORMANCE BY U.S. PROPERTY TYPE

**Top Three Laggards** **Top Three Leaders**



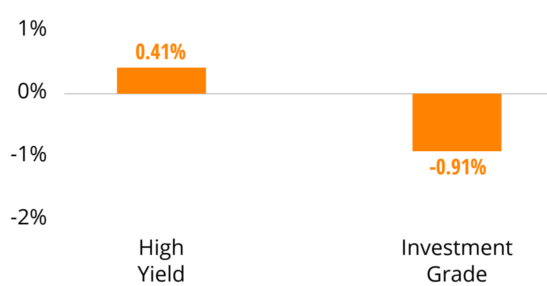

As of August 31, 2023. Source: Bloomberg. Referenced by the FTSE EPRA Nareit Developed Index. See disclosures for additional information. **It is not possible to invest directly in an index. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is not indicative of future results.**

# REAL ASSET DEBT

- Fixed-income markets were soft in August, as interest rates rose and high-yield and investment-grade spreads widened slightly. Broad high yield returned 0.29%, as measured by the ICE BofA U.S. High Yield Index, with lower-rated credit outperforming. Broad investment grade fell 0.68%, as measured by the ICE BofA U.S. Corporate Index, with the U.S. 10-Year Treasury yield rising above 4.00% throughout the month. Both real asset high yield and real asset investment grade performed approximately in line with broader bond market counterparts, returning 0.41% and -0.91%, respectively.
- We continue to closely monitor default activity among high-yield bonds and leveraged loans. Default rates rose in August to 2.40% for high yield and 2.93% for leveraged loans.[1] The majority of B- and lower rated issuance in recent years has been concentrated outside real asset sectors, in both the corporate bond and loan markets. Maturities within these rating segments are set to rise over the next 24 months, posing a potential challenge for borrowers who are likely already feeling the pressure of higher rates.
- We expect a moderate slowdown in the economy in the coming quarters and feel that now is an opportune time to be exposed to real asset debt vs. broad fixed income and real asset high yield vs. broad high yield. Within real asset debt, credit spreads remain around their longer-term averages, but attractive yields continue to provide opportunities for upgrading the quality of real asset debt portfolios. In today's market environment, we continue to favor infrastructure debt as well as higher-quality real asset debt.

## REAL ASSET DEBT PERFORMANCE

**August 2023 Total Returns**




As of August 31, 2023. 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.**

### ENDNOTE

1 Source: J.P.Morgan.

### 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.**

**For the August 2023 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.**

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### 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 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 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 U.S. 10-Year 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**

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