Portfolio Evolution: Why Investors Are Evolving Fixed Income Portfolios with Real Assets

Allocations to infrastructure and real estate may enhance portfolio diversification and diversify sources of return.

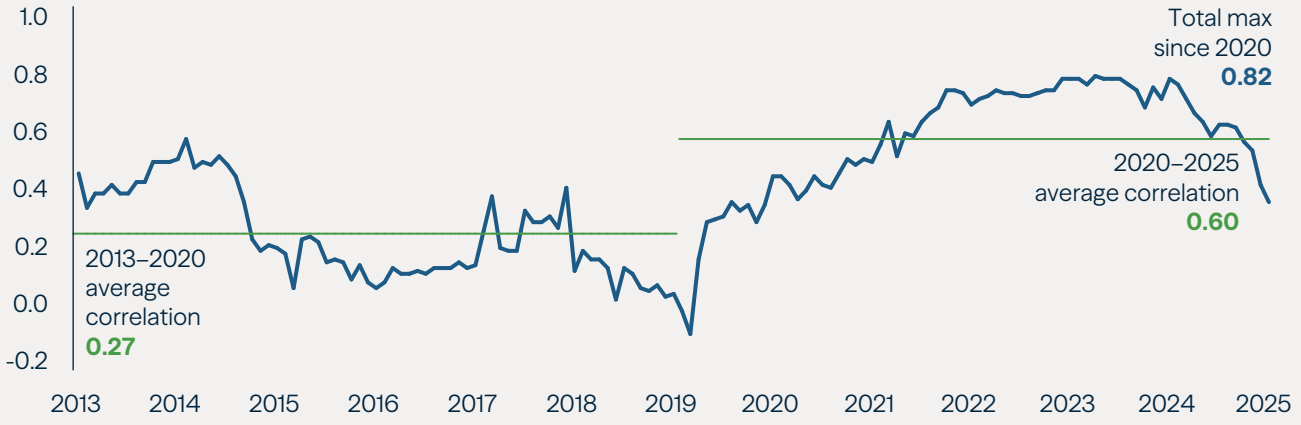
Fixed income has traditionally played a foundational role in an investment portfolio by providing income, stability, capital preservation and diversification. While equities are generally the primary engine of long-term growth, fixed income helps manage risk and can provide a reliable source of returns across different market environments.

While fixed income remains a cornerstone of diversified portfolios, its role has evolved in response to higher inflation, changing interest-rate regimes and the addition of private market solutions. Greater uncertainty around future interest-rate policymaking, especially as current regimes express aversion to forward guidance, has created increased volatility.

Investor concern has been heightened in recent times because fixed-income performance is highly sensitive to changes in interest rates, especially for longer-duration portfolios. Higher yields have improved prospective income, but uncertainty about inflation, Federal Reserve policy and long-term rates have created substantial short-term price risk.

Evidence of this shift has come into focus in recent years. Equity and fixed income portfolios have become increasingly correlated. For example, in 2023, stock and bond correlations hit a 10-year high of 0.82 (**Figure 1**). This is significantly higher than the average correlation of 0.27 from 2013 to 2020.

Figure 1: Rolling 24-Month Global Stock/Bond Correlations (January 1, 2013–December 31, 2025)



Past performance does not guarantee future results. Past performance shown for illustrative purposes only and does not predict or depict the future performance of any investment. Indexes are unmanaged and cannot be purchased directly by investors. Global stocks represented by MSCI World Index, global bonds by Bloomberg Global Aggregate Index.

Source: Bloomberg, MSCI, Morningstar and Brookfield. As of December 31, 2025.

To mitigate this risk, investors are increasingly complementing traditional bonds with income-producing real assets such as infrastructure and real estate as they seek to potentially enhance yield, diversify sources of return and support inflation resilience. Infrastructure and real estate returns are less correlated to equity markets (**Figure 2**) and offer diversification to a fixed income portfolio.

Figure 2: Private Market Correlation Analysis

	Global Equities	Global Bonds	Private Credit	Private Real Estate	Private Infrastructure
Global Equities	1.00				
Global Bonds	0.36	1.00			
Private Credit	0.83	0.18	1.00		
Private Real Estate	0.23	-0.15	0.25	1.00	
Private Infrastructure	0.29	-0.13	0.29	0.63	1.00

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Source: Bloomberg, Cliffwater, MSCI, Preqin. For the period January 1, 2008, through December 31, 2025.

Rather than replacing fixed income, these allocations can broaden the portfolio's opportunity set. Fixed income may provide liquidity, downside risk mitigation and portfolio stability. Meanwhile, infrastructure and real estate may offer additional cash flow and return drivers that are less dependent on interest rates and may potentially provide resilience during inflationary periods. Together, they may help create a more balanced income-oriented portfolio capable of navigating a wider range of economic environments.

When considering portfolio optimization, it is important to understand the role each asset class plays in providing return for risk. While income is central to each asset class, the risk characteristics of infrastructure and real estate may have less sensitivity to certain macroeconomic factors and individual credits.

Portfolio Framework: Roles and Risks

Asset Class	Potential Investment Role	Risk Characteristics
Investment-grade bonds	Capital preservation, liquidity	Interest-rate risk
High yield/private credit/leveraged loans	Income enhancement	Credit risk
Infrastructure	Stable income, inflation resilience	Regulatory, operational and political risk
Real estate	Income, appreciation, inflation resilience	Property valuation risk in market cycles

Diversification

Traditional bond portfolios are largely exposed to two factors—interest rates and credit spreads. Infrastructure and real estate are more insulated from the volatility resulting from these factors because of additional return drivers.

Infrastructure benefits from regulated cash flows, long-term contracts and inflation-linked revenues. Real estate returns are driven by rental income, occupancy and property value appreciation. Both asset classes benefit from population growth as well as supply and demand dynamics. These different drivers may help reduce overall portfolio volatility, as they have not historically been perfectly correlated with traditional bond returns.

Income

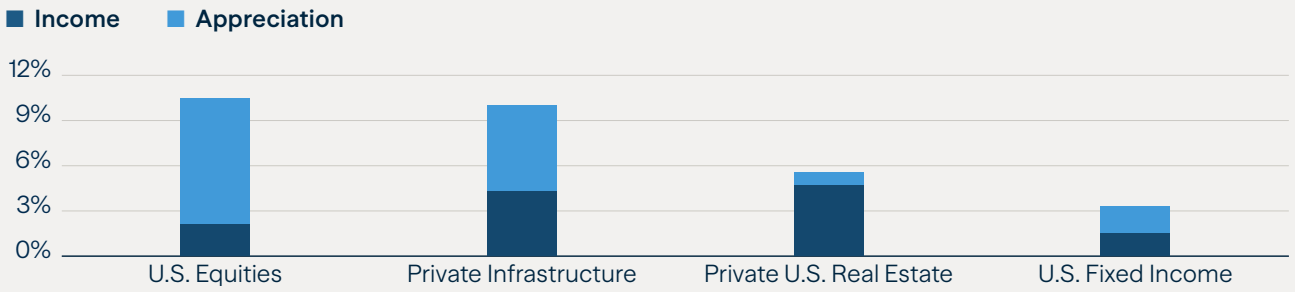
Infrastructure and private real estate have historically produced income yields above investment-grade bonds. Adding allocations to real assets can potentially increase portfolio income without relying exclusively on credit.

By adding real estate and infrastructure to a fixed income portfolio, investors can gain access to multiple sources of return:

- Bond coupons
- Infrastructure cash flow
- Rental income
- Asset appreciation
- Inflation-linked revenue

Different asset classes can deliver similar or different total returns through very different mechanisms: equities rely heavily on capital growth, while infrastructure and real estate provide a larger income component, as shown in **Figure 3** below.

Figure 3: 15-Year Annualized Return – Income and Appreciation Breakout



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Source: Bloomberg, MSCI, National Council of Real Estate Investment Fiduciaries. Data as of December 31, 2025.

Over the period illustrated in Figure 3, real estate and infrastructure indexes outperformed the fixed income index, with a larger portion of performance due to income.

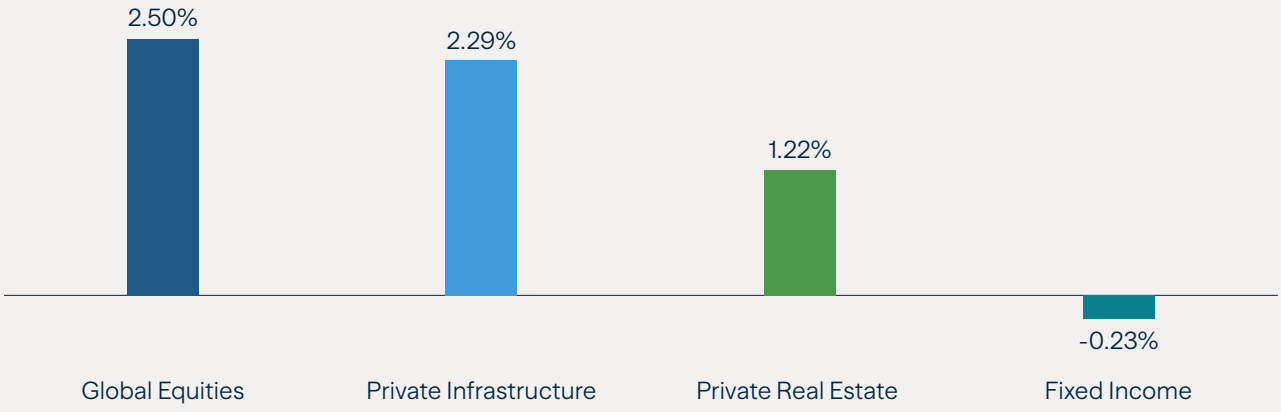
Managing Inflation Risk

One of the biggest limitations of nominal bonds is their sensitivity to unexpected inflation. Real assets, however, can potentially benefit from higher inflation.

Infrastructure often provides explicit inflation linkage through inflation-linked revenues. Typically, these contracts include provisions that allow revenues to adjust with inflation. Real estate may offer inflation-resilient characteristics because rents tend to rise over time, property replacement costs increase and asset values often adjust upward over long horizons.

During periods of above-average inflation, both real estate and infrastructure have historically outperformed fixed income — real estate by 145 basis points (bps), and infrastructure by 252 bps (**Figure 4**).

Figure 4: Average Quarterly Returns During Periods of Above-Average Inflation



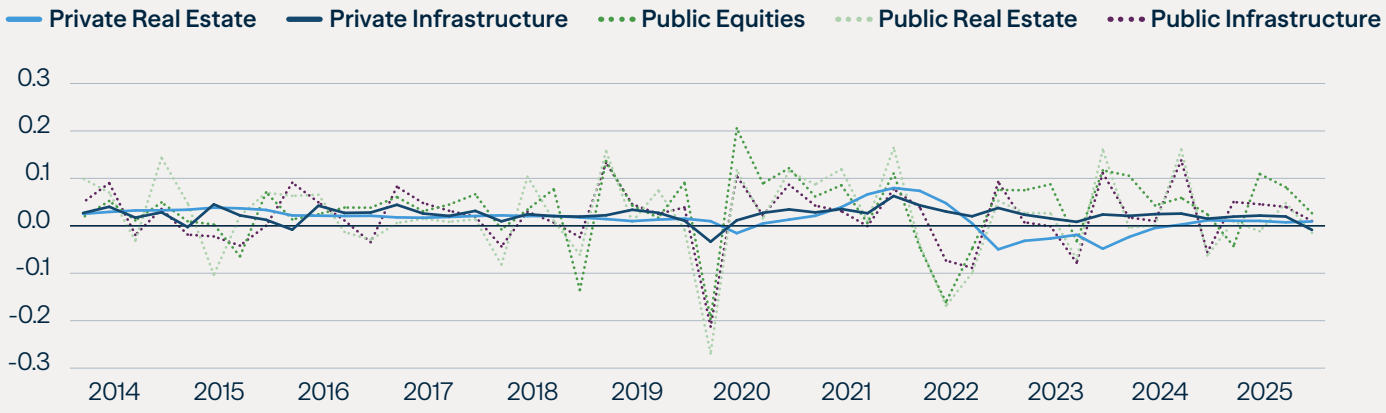
Past performance does not guarantee future results. Global Equities represented by MSCI World Index, Private Infrastructure by the Preqin Private Infrastructure Index, Private Real Estate by the Preqin Real Estate Index and Fixed Income by the Bloomberg Global Aggregate Index. See disclosures for full index definitions. Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. There may be limitations to the data provided given limited coverage, reporting lag and different valuation methodologies. Further, private infrastructure funds that are included in the index choose to self-report. Thus, the index is not representative of the entire private infrastructure universe and may be skewed towards those funds that generally have higher performance. Over time, funds included and excluded based on performance, may result in a "survivorship bias" that can result in a further misrepresentation of performance.

Source: Bloomberg, MSCI, Preqin. For the period January 1, 2008, through December 31, 2025.

Volatility and Risk Mitigation

Traditional fixed income portfolios are exposed to risk from duration and credit spreads. In contrast, real assets can offer lower volatility versus their public counterparts (**Figure 5**). Private real assets typically exhibit lower reported volatility than public assets due to less frequent valuations, reduced exposure to short-term market fluctuations, and, in some cases, more stable underlying cash flows.

Figure 5: Volatility Comparison – Private vs. Public

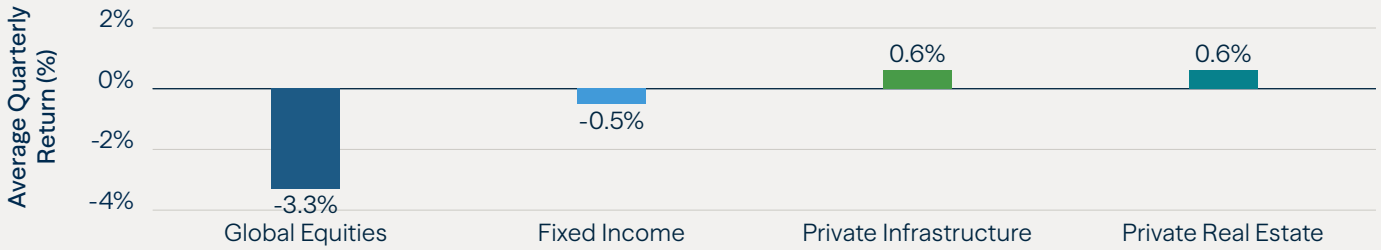


Past performance does not guarantee future results. Past performance is shown for illustrative purposes only and does not predict or depict the future performance of any investment. Indexes are unmanaged and cannot be purchased directly by investors. Private Real Estate is represented by the NCREIF Fund Index, Private Infrastructure is represented by the Preqin Private Infrastructure Index, Public Equities is represented by the S&P 500 Index, Public Real Estate is represented by the S&P United States REIT Index and Public Infrastructure is represented by the FTSE Global Core Infrastructure 50/50 Index.

Source: NCREIF, S&P, Preqin, FTSE Russell. Data as of December 31, 2025.

Real estate and infrastructure have historically outperformed during periods of equity market stress, due to their less correlated, less volatile sources of income and appreciation (**Figure 6**). Over the long run, diversifying with these asset classes has historically helped moderate volatility and support returns over time.

Figure 6: Average Quarterly Returns During the Worst 40 Quarters for Equity Markets



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Source: Bloomberg, MSCI, Preqin. For the period January 1, 2008, through December 31, 2025.

Historically, infrastructure and real estate often perform differently than bonds during various phases of the economic cycle (**Figure 7**). Diversifying with real assets has historically played a vital role in improving portfolio performance, through structuring a portfolio of diversified assets designed to capture performance at different points in a market cycle.

Consider the examples below during different market environments using a portfolio optimized for income. The portfolio performance is based on a 60/40 fixed income portfolio including global bonds and leveraged loans, which is then enhanced with infrastructure and real estate allocations of 20% each (lowering global bonds to 40% and leveraged loans to 20%).

Figure 7: Fixed Income Portfolio Allocation Enhanced with Real Assets



	Returns		Volatility	
Period[8]	**60/40**	**40/20/20/20**	**60/40**	**40/20/20/20**
Rising Rates	0.33%	3.90%	5.23%	4.88%
High Inflation	2.10%	7.46%	5.66%	5.40%
Equity Selloff	3.78%	5.15%	5.91%	5.76%
Recovery	-1.88%	2.52%	5.92%	6.43%

For illustrative purposes only. The information shown is based on historical index performance and is not representative of an actual investment. The portfolio allocations shown are hypothetical and provided for illustrative purposes only. Results are based on historical index performance during selected market periods and do not represent the performance of any actual portfolio or investor experience and different selections may produce different results. The selected periods are not indicative of all market environments, and different time periods may result in materially different outcomes. **Past performance is not indicative of future results.** Global Bonds represented by the Bloomberg Global Aggregate Index, Leveraged Loans by the Morningstar Global Leveraged Loans Total Return Index, Real Estate by Preqin Private Real Estate Index, Infrastructure by Preqin Private Infrastructure Index. Volatility is represented by standard deviation. Rising rates is the period from January 1, 2022 through September 30, 2023. High inflation is the period from April 1, 2021 through June 30, 2023. Equity Selloff is the period from October 1, 2019 through March 31, 2020. Recovery is the period from April 1, 2020 through December 31, 2021.

Source: Bloomberg, Morningstar, Preqin.

In the periods illustrated which are representative of an economic cycle, the hypothetical portfolio with real asset allocations produced higher returns and generally lower volatility, with the exception of the recovery period shown (**Figure 7**) where real assets may see larger performance gains. While these allocations can be adjusted based on market conditions as needed—it illustrates that real assets may play an important role in supporting portfolio objectives, including through periods of market volatility.

Considerations for allocating to real assets

For many private wealth investors, the objective may no longer be to build a portfolio consisting only of stocks and bonds. Instead, the focus is on creating a multi-income portfolio that combines traditional fixed income with infrastructure and real estate to achieve:

- More diversified sources of income and potential for enhanced returns
- Less sensitivity to interest-rate movements
- Potentially greater resilience in inflationary environments
- Exposure to long-term secular growth trends
- Potentially stronger risk-adjusted returns

In our view, the broader evolution in portfolio construction to include real assets is a strategic complement to fixed income that may improve performance over the long run.

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Investment Risks

Alternative investments are subject to a variety of risks and limitations, including but not limited to illiquidity, lack of transparency, complex structures, and the potential for significant loss of principal. These investments may not be suitable for all investors, and there is no guarantee that diversification, enhanced income, or risk mitigation objectives will be achieved. Investors should carefully consider these risks before investing.

All real estate investments, ranging from equity investments to debt investments, are subject to some degree of risk. Due to the physical nature of real assets, investors may be exposed to a wider range of potential risks including macroeconomic, political, regulatory, environmental, or commodity risk.

Infrastructure investments are subject to various risks including regulatory changes, political shifts affecting government support, technological obsolescence, and potential illiquidity. The stable cash flows and downside protection mentioned may not be achieved in all market conditions, and infrastructure investments can experience significant losses during economic downturns or sector-specific challenges. The diversification benefits may vary depending on the specific infrastructure assets and their correlation with other investments in your portfolio.

Private credit investments, including bespoke capital solutions and rescue financings, involve significantly higher risks than traditional fixed income investments. These risks include greater illiquidity, higher default rates, valuation challenges, and potential loss of principal. The "compelling returns" mentioned are not guaranteed and reflect compensation for these elevated risks. Execution of these strategies may involve complex negotiations, extended timelines, and recovery challenges. These investments typically demonstrate higher sensitivity to economic downturns and may perform differently than expected in changing market conditions.

Private equity investments are speculative and involve significant risks, including long holding periods, limited or no liquidity, higher fees and expenses, and possible loss of the entire investment. Returns can be highly variable and depend on economic, market and manager-specific factors; past performance or historical outperformance versus public markets does not guarantee future results. Such investments may be unsuitable for investors who require current income or ready access to capital.

Important Disclosures

Brookfield Private Wealth LLC is registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC) and is a member of FINRA and the Securities Investor Protection Corporation (SIPC). Brookfield Private Wealth LLC is a wholly owned subsidiary of Brookfield.

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Past performance is not indicative of future performance, and the value of investments and the income derived from those investments can fluctuate.

Index Definitions

Bloomberg Global Aggregate Index is a market capitalization-weighted index, comprising globally traded investment grade bonds. The index includes government securities, mortgage backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark designed to measure the performance of the U.S. investment-grade, fixed-rate, taxable bond market. It includes U.S. Treasuries, government-related and corporate bonds, as well as securitized debt such as agency mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).

Cliffwater Direct Lending Index (CDLI) is designed to measure the unlevered, gross-of-fees performance of U.S. middle-market corporate loans. The Index is asset-weighted and represents the underlying loan portfolios of eligible Business Development Companies (BDCs), including both publicly traded and non-traded BDCs. The Index is calculated quarterly using financial statements and other information reported in SEC filings. Total returns reflect interest income, realized gains and losses, and unrealized gains and losses.

Core Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services, excluding food and energy components.

Dow Jones Brookfield Global Infrastructure Index is a global benchmark designed to measure the performance of publicly listed, pure-play infrastructure companies across sectors such as utilities, transportation, energy infrastructure, and communications. Eligible companies must derive at least 70% of their cash flows from infrastructure-related businesses, and constituents are weighted using a modified market-capitalization methodology.

FTSE EPRA Nareit Developed Index is a global benchmark designed to track the performance of publicly listed real estate companies and REITs in developed markets, with eligible businesses primarily engaged in the ownership, trading, or development of income-producing real estate.

FTSE Global Core Infrastructure 50/50 Index is a global benchmark designed to measure the performance of publicly listed companies deriving substantial revenues from core infrastructure activities across utilities, transportation, energy, and telecommunications. The index applies sector targets of approximately 50% Utilities, 30% Transportation, and 20% other infrastructure sectors such as pipelines, satellites, and telecommunications towers, with company weights generally based on investable market capitalization and additional caps to manage subsector concentration.

Morningstar Global Leveraged Loan Index is designed to measure the performance of the global leveraged loan market, primarily comprising syndicated, floating-rate loans issued in the United States and Europe. The Index is a fixed-weight composite consisting of 75% of the Morningstar LSTA US Leveraged Loan Index and 25% of the Morningstar European Leveraged Loan Index. Total returns reflect interest income, changes in loan prices and applicable currency movements.

MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia and Far East) outside of the U.S. and Canada.

MSCI Global Infrastructure Index is designed to capture the performance of publicly listed companies that own or operate infrastructure assets across areas such as telecommunications, utilities, energy, transportation, and social infrastructure. Constituents are selected from eligible GICS® sub-industries and the index is free-float-adjusted market-capitalization weighted, providing broad exposure to the global listed infrastructure opportunity set.

MSCI World Index captures large and mid cap representation across 23 developed markets. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) is a capitalization-weighted, gross of fees, time-weighted return index that measures performance of the largest open-end commingled funds pursuing a core real estate investment strategy.

Preqin Private Infrastructure Index captures the average returns earned by investors in their private infrastructure portfolios, based on the actual amount of money invested in private capital partnerships.

Preqin Real Estate Index captures in an index the return earned by investors on average in their private real estate portfolios, based on the actual amount of money invested in private capital partnerships. Historical data points are not recalculated as time passes, except for the latest two-quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

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

S&P U.S. REIT Index is designed to measure the performance of the investable universe of publicly traded real estate investment trusts (REITs) domiciled in the United States. The index provides exposure to a diversified range of real estate sectors, including residential, industrial, retail, healthcare, office, and specialized properties. It is weighted by float-adjusted market capitalization and rebalanced annually in September, with constituent share changes and IPO updates occurring quarterly. The index is available in both price return and total return versions, with the total return version reflecting price appreciation and reinvested dividends.

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