

U.S. yield curve has potential to drop below 1%

Only once has the 30-year U.S. Treasury bond yielded less than 1% – on March 9th, 2020. The yield has declined steadily from its most recent high of 1.48% on July 6th and was hovering around 1.25% at the beginning of August.

Several conditions are conspiring to potentially bring the entire U.S. yield curve in below 1%. This event would be “a sign of the times,” according to the senior rates strategist at TD Securities – and would aid in an economic recovery. With a free-flowing monetary faucet, yields have been pushed to ultra-low levels. Additionally, some analysts believe that the Federal Reserve might change its buying to the longer end of the curve, which would serve to add to already existing downward pressure on yields.



Bonds at the long end of the curve are subject to sensitivity from inflation risk, as higher prices erode purchasing power and returns. With current inflation below the 2% target, Jerome Powell, Chairman of the Federal Reserve, indicated that he believes “fundamentally this is a disinflationary shock.” Real yields, which adjust for inflation, have also been hitting record lows, with the yield on the 10-year Treasury Inflation Protected Securities now more than 1% into negative territory.

“I think the downward pressure on yields will continue for the foreseeable future,” said Nick Maroutsos, co-head of global bonds for Janus Henderson. He added, “it’s only a matter of time before the entire U.S. curve trades below 1%.”

A Bank of America analyst indicated that inflows into inflation-protected bonds could mean some investors are pricing the risk of stagflation.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
July 2020	0.50	2.45
June 2020	0.50	2.45
July 2019	2.00	3.95

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
July 2020	0.31	0.46	0.92
June 2020	0.36	0.52	0.99
July 2019	1.46	1.49	1.20

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
July 2020	2.20 - 3.00	2.40 - 3.25
July 2019	1.75 - 2.10	1.85 - 2.35
Insured	5-Year	10-Year
July 2020	1.10 - 1.75	1.10 - 1.75
July 2019	0.90 - 1.15	0.90 - 1.15

*Spreads are indicative of high quality real estate in major Canadian markets.

Source(s): Bank of Canada

Highlighted Transaction

Asset Type	Development Land
Location	Major Canadian city
Facility Details	Bridge financing was arranged in the amount of \$15M to allow the client to complete a zoning change and site approval for condominium development.

Intelligent Debt Financing Solutions

The Avison Young Debt Capital Markets dedicated team is focused on providing innovative North American-wide debt and equity solutions to accomplish goals. We originate debt and equity for all types of real estate and all types of clients. Debt origination includes fixed and floating rate structures, permanent and construction financing, structured finance, bridge and mezzanine debt and insured agency financing - CMHC and Fannie Mae / Freddie Mac.

Our years of combined debt/equity capital markets experience has created meaningful relationships that we can put to work for you.

Please contact our Debt Capital Markets team for more details related to debt financings or real estate transactions.



Norm Arychuk, Mortgage Broker*
416.673.4006
norman.arychuk@avisonyoung.com

Michael Ho, Mortgage Broker**
416.673.4012
michael.ho@avisonyoung.com

*Licence #: M09002260
Brokerage Licence #10637

**Licence: # M15000834
Brokerage Licence #10637

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its Principals. Founded in 1978, with legacies dating back more than 200 years, the company comprises approximately 5,000 real estate professionals in 120 offices in 20 countries. The firm's experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.

AVISON YOUNG CANADA CAPITAL MARKETS OFFICES

Calgary | Edmonton | Mississauga | Montreal | Toronto | Vancouver

avisonyoung.ca

Avison Young Commercial Real Estate (Ontario) Inc., Brokerage
18 York Street, Suite 400
Mailbox # 4
Toronto, Ontario, Canada M5J 2T8
416.955.0000

**AVISON
YOUNG**

©2020 Avison Young Commercial Real Estate (Ontario) Inc., Brokerage
The information contained herein was obtained from sources deemed reliable and is believed to be true; it has not been verified and as such, cannot be warranted nor form any part of any future contract.

**CANADA BEST
MANAGED
COMPANIES**

Platinum
member