AVISON YOUNG

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Debt market monitor

Why is the price of gold rising?

The price of gold set new record highs this past summer and that always leads to the question – does gold's price surge mean inflation is about to spike? Gold prices have gone from around $1,200 USD in late 2018 to a new all-time high of $2,059 USD on August 6, 2020.

Gold is up almost 30% this year, making it one of the best-performing asset classes. Investors worldwide have been flocking to gold this year largely due to the fears over the coronavirus and the unprecedented actions of governments and central banks around the world in an effort to head off an economic depression. The U.S. government, for example, ran a record budget deficit of about $3.7 trillion in fiscal 2020 according to the Congressional Budget Office. That represents nearly twice the previous highest annual budget deficit of $1.9 trillion, posted in 2009 during the Great Recession. Additionally, the Federal Reserve has added more than $3 trillion to its balance sheet, which now has an aggregate balance of $7.2 trillion – and the Fed is not done yet. Importantly, the Fed slashed short-term interest rates to near-zero earlier this year and is suggesting it could keep these low rates until 2022 if necessary.

Although there are other factors contributing to the rise of gold prices to record highs, those mentioned above are the main drivers. Forecasters at Goldman Sachs recently upped its forecast to $2,300 while Bank of America indicated it could go to $3,000 in the next year. It's anyone's guess where the price may go.

Investors have been piling into gold in anticipation of rising inflation, which is not to be discounted entirely. The converse argument put forth by markets reveals the opposite – very low inflation. The bond market's expectation of inflation – calculated as the ordinary treasury yield minus the treasury inflation-protected securities – shows inflation below 1% for the next five years and below 1.5% for more than a decade. Other market-derived methods, such as swaps – inflation options – show only a 5% chance of inflation averaging more than 3% over the next five years.

As one analyst put it, "if a sharp increase in inflation is about to show up, it will be one of the greatest market misses in history."

Fiscal snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
November 2020	0.50	2.45
October 2020	0.50	2.45
November 2019	2.00	3.95

Government of Canada benchmark bond yields

	5-Year	10-Year	Long
November 2020	0.43	0.67	1.17
October 2020	0.40	0.66	1.25
November 2019	1.49	1.46	1.55

Indicative commercial mortgage spreads* Over Government of Canada bond yields

Conventional	5-Year	10-Year
November 2020	1.55 - 2.10	1.75 - 2.25
November 2019	1.90 - 2.30	1.95 - 2.45

Insured	5-Year	10-Year
November 2020	0.90 - 1.25	1.05 - 1.35
November 2019	0.95 - 1.20	0.95 - 1.20

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

Source(s): Bank of Canada

Debt Capital Markets Services

Highlighted transaction

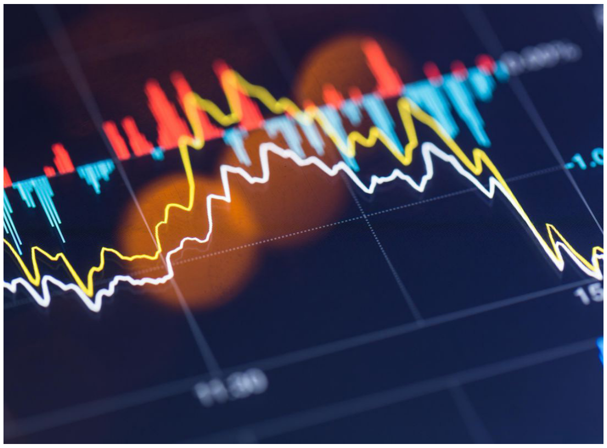
Asset type	Land for redevelopment
Location	Major Canadian metropolitan centre
Facility details	A bridge loan was secured for a 2-year term to allow for final entitlement to be received for a high rise condominium development in the amount of $6.0M.

Intelligent debt financing solutions

The Avison Young Debt Capital Markets Group 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.

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

Avison Young creates real economic, social and environmental value as a global real estate advisor, powered by people. As a private company, our clients collaborate with an empowered partner who is invested in their success. Our integrated talent realizes the full potential of real estate by using global intelligence platforms that provide clients with insights and advantage. Together, we can create healthy, productive workplaces for employees, cities that are centers for prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.



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

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