AVISON YOUNG

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Debt market monitor

Inflation or deflation?

Are we facing inflation or deflation in the years ahead? This question, so relevant today, was also posed by economists during the global financial crisis in 2009, when many economies took unorthodox monetary and fiscal measures at a time of high unemployment.

In the decade following the significant fiscal stimulus package the U.S. rolled out in 2009 – which included the Federal Reserve's bold bond-buying program – inflation did not materialize. In fact, the Federal Reserve has expressed concern about not achieving its 2% target rate of inflation. Despite unprecedented fiscal stimulus and money printing, inflation has remained dormant due to the depressed labour and output markets.

Many pundits have recently expressed the opinion that it is very likely inflation will once again not materialize to a large degree, despite more monetary and fiscal policy actions than occurred in 2009 being implemented around the world in response to the pandemic. The difference this time is related to asset bubbles. The bursting of today's bubbles in the world's asset and credit markets would likely result from rising interest rates that could be brought on by extraordinary budget policy easing. The Federal Reserve has a keen eye on the resultant effects that stimulus has on the economy and, while inviting higher inflation rates potentially above its 2% target, it is committed to a low-interest-rate environment for a few years. This lays the groundwork for steady recovery and growth – hopefully.

The inflation worriers often overlook the fact that a rise in inflation is likely to cause interest rates to rise – either the Federal Reserve will raise its interest rates and start reversing its bond-buying program or bond vigilantes will drive bond rates higher in the expectation of higher inflation.

Fiscal snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
January 2021	0.50	2.45
December 2020	0.50	2.45
January 2020	0.50	3.95

Government of Canada benchmark bond yields

	5-Year	10-Year	Long
January 2021	0.43	0.84	1.47
December 2020	0.39	0.67	1.21
January 2020	1.29	1.27	1.42

Indicative commercial mortgage spreads* Over Government of Canada bond yields

Conventional	5-Year	10-Year
January 2021	1.40 - 2.00	1.65 - 2.10
January 2020	1.75 - 2.25	1.85 - 2.35

Insured	5-Year	10-Year
January 2021	0.90 - 1.25	1.05 - 1.35
January 2020	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	Retail
Location	Major Canadian city
Facility details	A first charge facility was arranged to assist capital repatriation on a retail property for a term of 10 years in the amount of $10,000,000.

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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