

## Long bond yields on the move

Long-term bond yields are climbing, while the short end of the curve remains embedded near all-time lows. What is driving the long end of the market? A meaningful acceleration in both growth and inflation in the years ahead looks more likely now than it did a few months back. The bump up in long-term bond yields is surprising almost everyone, given that central banks have repeatedly confirmed their will to maintain short-term interest rates near zero for quite some time and material stimulus continues to be poured into economies.

As one analyst put it: “the crybabies on Wall Street started to hyperventilate when the yield on 10-year treasury bonds recently approached 1.40%, historically low but well above its recent low of 0.52% in August 2020.” The inflation-adjusted interest rate the U.S. Treasury pays to borrow 30-year term funds was negative for much of 2020, meaning the government would pay investors back less in inflation-adjusted terms than it borrowed. In late February 2021, the rate rose into positive territory for the first time since June



2020. Trade-offs are between more stimulus today and potentially higher rates and more inflation down the road, said Nathan Sheets, Chief Economist of PGIM Fixed Income and a former official at the Treasury and the Federal Reserve. Federal Reserve Chairman Jerome Powell called the surge in Treasury yields “a statement of confidence.” The upward trajectory in rates so far appears to be an optimistic sign that the post-pandemic economy will mark the end of a long period of slow growth. The Goldilocks theory will eventually apply – the balance between a “too hot” and a “too cold” economy is a challenge to get just right.

## Fiscal snapshot

### Bank of Canada

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

### Government of Canada benchmark bond yields

	5-Year	10-Year	Long
February 2021	0.88	1.35	1.76
January 2021	0.43	0.84	1.47
February 2020	1.07	1.12	1.30

### Indicative commercial mortgage spreads\* Over Government of Canada bond yields

Conventional	5-Year	10-Year
February 2021	1.35 - 2.00	1.60 - 2.00
February 2020	1.75 - 2.20	1.85 - 2.25
Insured	5-Year	10-Year
February 2021	0.95 - 1.20	0.95 - 1.20
February 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

# Highlighted transaction

Asset type	Retail
Location	Major Canadian city
Facility details	2 separate senior facilities were arranged to assist with the acquisition of single tenanted retail properties for 10 year terms, amortized for 25 years at competitive rates of interest.

## Intelligent debt financing solutions

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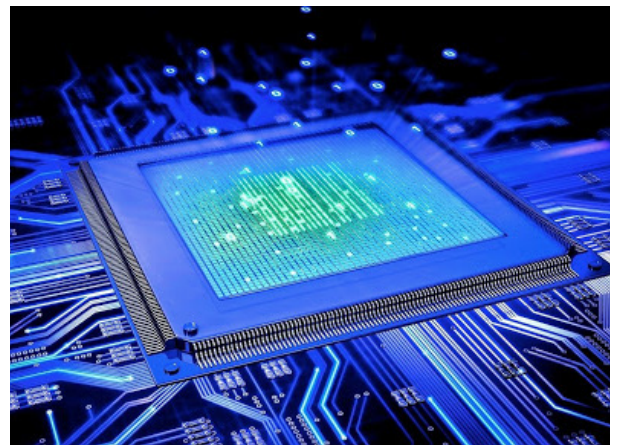
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