AVISON YOUNG

November 2020

# Debt market monitor

## Market liquidity could be tested again

The U.S. treasury market is the deepest and most liquid in the world. Nevertheless, at the beginning of the coronavirus pandemic, a significant number of investors attempted to sell their treasury holdings and were met with limited buyer demand. The market shock in March, which helped drive yields across maturities to all-time lows, was “truly an exceptional event,” Lorie Logan of the Federal Reserve Bank of New York said in a speech to the Brookings-Chicago Booth Task Force on Financial Stability.

The major sellers were mutual funds, which sold off more than $200 billion of their treasury holdings in the first quarter. Foreign accounts and hedge funds sold off more than $160 billion of treasury holdings between February and April. The buyers, treasury market primary dealers, reported that transaction volumes increased from $400 billion a day in February to $650 billion a day in mid-March. This imbalance in supply and demand caused the spread between the prices asked and those bid to rise to an all-time high, nearly 30 times their normal level.

Prior to the sell-off, primary dealers were holding historically high amounts of treasury debt and were therefore unable to take on more. The Federal Reserve Bank then stepped in and began purchasing, which returned liquidity to the market. Today, those primary dealers hold even more treasury debt than they did at the beginning of the pandemic, and could, in the event of another bout of forced selling, face the same difficulty absorbing all the treasury supply on offer, according to Logan.

To pay for the stimulus package passed by Congress earlier this year – among other government-funded programs – the Treasury Department has issued a record $15.5 trillion through the end of September. Issuance could rise further should additional stimulus packages be forthcoming. “Ongoing increases in the stock of treasuries may result in greater peaks in demand for intermediation,” Logan said.

With the possibility of market volatility around the U.S. election, the shock wave experienced in March could very well be repeated and even magnified.

## Fiscal snapshot

### Bank of Canada

| | Bank Rate | Bank Prime Lending Rate |
|---|---|---|
| **October 2020** | 0.50 | 2.45 |
| **September 2020** | 0.50 | 2.45 |
| **October 2019** | 2.00 | 3.95 |

### Government of Canada benchmark bond yields

| | 5-Year | 10-Year | Long |
|---|---|---|---|
| **October 2020** | 0.40 | 0.66 | 1.25 |
| **September 2020** | 0.36 | 0.57 | 1.11 |
| **October 2019** | 1.42 | 1.42 | 1.58 |

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

| Conventional | 5-Year | 10-Year |
|---|---|---|
| **October 2020** | 1.75 - 2.25 | 1.80 - 2.35 |
| **October 2019** | 1.85 - 2.25 | 1.95 - 2.45 |

| Insured | 5-Year | 10-Year |
|---|---|---|
| **October 2020** | 0.90 - 1.25 | 1.05 - 1.35 |
| **October 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** Mixed use suburban retail and office

**Location** Major Canadian metropolitan centre

**Facility details** Senior secured funds in the amount of $17.13M was arranged to assist with the acquisition of the asset. A term of 7 years and amortization of 25 years was structured.

## 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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