AVISON YOUNG

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Debt market monitor

Market reacts to Fed moves

Although markets are typically hypersensitive to various influences, sometimes market reactions are delayed as investors digest an event's implications for a post-pandemic economy. One such delayed reaction arrived just after the Federal Reserve (the Fed) meeting on September 21st and 22nd, as treasury yields surged back to levels seen in the middle of the summer. After taking the Fed's hawkish tilt – telegraphing tapering and pulling forward rate liftoff expectation on the dot plot – pretty much in stride at the time of the meeting, traders went the other way the next day.

The yield curve, as measured by the gap between the two-year Treasury and the 10-year Treasury rates, had flattened after Fed Chief Jay Powell's press conference, with the gap narrowing about four basis points (bps). A day later, the gap jumped more than 10 bps as the 10-year yield experienced its biggest one-day move since February and pushed above 1.4% for the first time since early July. It's seen a ceiling of about 1.8% this year.

"Take a step back and think about how low yields are even relative to where we were in the first quarter of this year," Zachary Griffiths, Wells Fargo macro strategist told Reuters. "We do have very high inflation; high economic growth forecasts and it's really been kind of hard to justify where yields have been up to this point."

The run-up in yields didn't really start until just before stocks opened on September 23rd, underscoring the thought that investors should be wary of Fed day moves. A lot of short and long positions are unwound in a very short time right after the Federal Open Market Committee statement is released. However, by the next day, the market began to look at a global landscape where central banks, the European Central Bank excluded, are removing historically high accommodation.

10-year Treasury yields moved on to 1.55% by the end of September, indicating the market is sensing an interest rate move by the Fed sooner than previously anticipated.

Fiscal snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
September 2021	0.50	2.45
August 2021	0.50	2.45
September 2020	0.50	2.95

Government of Canada benchmark bond yields

	5-Year	10-Year	Long
September 2021	1.11	1.51	1.98
August 2021	0.84	1.22	1.79
September 2020	0.36	0.57	1.11

Indicative commercial mortgage spreads* Over Government of Canada bond yields

Conventional	5-Year	10-Year
September 2021	1.35 - 1.85	1.45 - 2.00
September 2020	1.60 - 2.00	1.70 - 2.10

Insured	5-Year	10-Year
September 2021	0.80 - 1.00	0.95 - 1.10
September 2020	0.90 - 1.20	0.90 - 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	Condominium Development Land
Location	Major Canadian City
Facility details	For repatriation purposes, a first charge in the amount of $18,000,000 for a two-year term to allow for final planning and zoning approvals.

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.

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