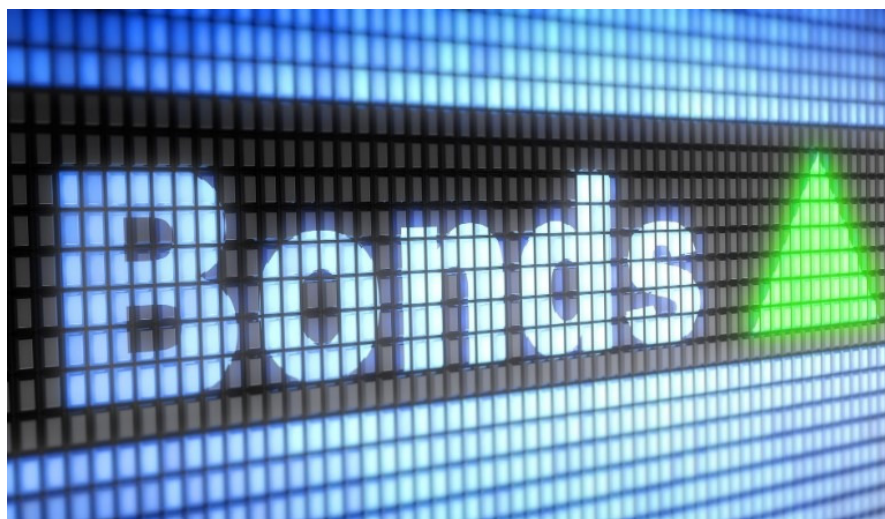


Watching the bond market in 2020

Another year of surprises and uncertainty in 2019 continued to mystify economists and many market investors alike. Falling bond yields were brought on by weakening economic growth and performance was fueled partly by international flows of money seeking risk-averse homes, such as those found in the U.S. Apprehensions about a bond-market sell-off, often threatened but not realized, allowed the bond bull market in North America to continue.

Early appearances are that the markets have potential to turn the corner in 2020, with bond yield curves regaining positive territory, ongoing solid employment numbers and inflation remaining under control. Central banks seem to be in a “wait-and-see” mindset, with some hinting that interest-rate upticks could be in the cards; however, further reductions are not likely unless there is a considerable softening of economic conditions. Nevertheless, concern about Europe persists and hopes are that a recovery will continue without the necessity of further easing by the European Central Bank. As Goldman Sachs put it, “Markets will need to learn to fly on their own.”

The simmering down of trade tensions between the U.S. and China has lifted some uncertainty and provided additional clarity for financial markets. If progress is made on a trade solution, then bond yields should favour rising in 2020 – possibly by as much as 50 basis points, if all else remains generally calm in the world (a big “if”). There remain many risks, including the impacts of the U.S. election process and results, the execution of Brexit and, of course, tension between the Middle East and the U.S. It will be key to watch the bond market closely as it is representative of a significant amount of investor sentiment.



Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
December 2019	2.00	3.95
November 2019	2.00	3.95
December 2018	2.00	3.95

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
December 2019	1.68	1.70	1.76
November 2019	1.49	1.46	1.55
December 2018	1.88	1.98	2.18

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
December 2019	1.55 - 2.00	1.65 - 2.10
December 2018	1.75 - 2.10	1.85 - 2.35
Insured	5-Year	10-Year
December 2019	0.90 - 1.10	0.85 - 1.10
December 2018	0.90 - 1.10	0.90 - 1.10

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

Source(s): Bank of Canada

Highlighted Transaction

Asset Type	Development Land
Location	Major Canadian city
Facility Details	A demand facility for a term of 24 months in the amount of \$6,000,000 provided for equity repatriation purposes.

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The Avison Young Debt Capital Markets 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 - CMHC and Fannie Mae / Freddie Mac.

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



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