

Debt Capital Markets Services

Goldilocks economy

The U.S. Federal Reserve ("the Fed") uses the term "Goldilocks" to label the current economic environment – that is, a strong job market, inflation remains in check and there are no apparent signs of an overheated economy. Bond traders have moved their bets from four interest-rate increases from the Federal Reserve during 2019 to none, with some traders suggesting a rate cut has a reasonable probability. This is quite a change from predictions that were made in late 2018, when the discussion around Fed rate hikes was centered on three or four hikes in 2019.

Even the Fed itself has backed off its forecast rate increases. The treasury yield curve has turned negative, or inverted, at several points – with some longer-term rates yielding lower than some shorter-term rates. A closely followed treasury spread is that between the 10- and two-year rates, which has averaged about 120 basis points (bps) since 1998. Over the past two years, this spread has decreased below its average and is continuing to narrow, coming in as tight as 16 bps in February 2019. Similarly, closely watched is the spread between two-year and three-month bonds, which averaged about 60 bps for the same period, until it fell to 27 bps in December 2018 and was actually negative in January 2019. An inverted yield curve is widely taken as an indicator of an economic slowdown and a recession.

Despite the troublesome indicators contained in the yield curve and the recent stock-market volatility, economic data continues to reveal signs of strength, particularly job growth. The Fed's apparent hiatus from rate increases in 2019 may be just what the economy needs for a recharge.



Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
February 2019	2.00	3.95
January 2019	2.00	3.95
February 2018	1.50	3.45

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
February 2019	1.82	1.94	2.19
January 2019	1.78	1.88	2.14
February 2018	2.04	2.23	2.37

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
February 2019	1.65 - 2.00	1.70 - 2.00
February 2018	1.60 - 2.00	1.65 - 2.00
Insured	5-Year	10-Year
February 2019	0.85 - 1.10	0.85 - 1.10
February 2018	0.80 - 1.10	0.85 - 1.10

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

Source(s): Bank of Canada

Highlighted Transaction

Asset Type	Multi-tenanted industrial properties
Location	Major Canadian city
Facility Details	Two standalone facilities totaling \$9,750,000 for refinance, acquisition and capital expenditure purposes. Fixed rate, permanent financing providing flexibility to the owner at very competitive terms.

Intelligent Debt Financing Solutions

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.

Our years of combined debt/equity capital markets experience has created meaningful relationships that we can put to work for you.

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

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