

Federal Reserve policy announcement



In late August, U.S. Federal Reserve (Fed) Chairman Jerome Powell released a statement virtually for the central bank's symposium traditionally held in Jackson Hole, Wyoming. Powell's statement confirmed the Fed's strategy in setting U.S. monetary policy by letting inflation and employment take a path to higher levels and allowing interest rates to stay low for a substantial period of time – five years, by some estimates. This will allow the central bank flexibility to let the employment market heat up and price pressures climb higher before taking action as it has done previously. As James Knightley, Chief International Economist at ING, put it, the Fed is saying they “really, really, really aren't going to raise rates soon.” With this statement of policy direction, the Fed is clearly not worried about inflation gaining a foothold.

The Fed will now allow inflation to run above 2%. Some skeptics stress that the world's most powerful central bank has already been missing its inflation goal of 2%, so targeting higher levels is meaningless. At what level of inflation will the Fed hit the brakes? No answer was provided to this question; however, it does provide further support to the market today.

The Fed has two mandates: full employment and price stability. Now it has added a third pillar – financial stability. Importantly, the Fed is dismissing the potential for runaway prices by focusing on employment. Powell has explicitly stated that ensuring low unemployment takes priority over price stability.

Low inflation contributes to low interest rates, which reduce the Fed's ability to fight off economic downturns, potentially making them deeper and longer. Powell confirmed the Fed's awareness of this in his statement, noting that “downward risks to employment and inflation have increased.”

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
August 2020	0.50	2.45
July 2020	0.50	2.45
August 2019	2.00	3.95

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
August 2020	0.40	0.63	1.17
July 2020	0.31	0.46	0.92
August 2019	1.18	1.16	1.42

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

	Conventional	5-Year	10-Year
August 2020		1.85 - 2.50	2.00 - 2.65
August 2019		1.85 - 2.25	1.95 - 2.45
	Insured	5-Year	10-Year
August 2020		0.90 - 1.25	1.05 - 1.35
August 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

Highlighted Transaction

Asset Type	Suburban office building
Location	Major Canadian city
Facility Details	Permanent financing was arranged in the amount of \$26M to facilitate an equity repatriation and fund costs for re-tenanting, for a 7-year term and amortization period of 25 years.

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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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