SEPTEMBER 2019

Debt Market Monitor

Debt Capital Markets Services

Tariffs' Effect on Interest Rates

The U.S. Federal Reserve ("the Fed") lowered its key interest rate by 25 basis points in late July. The move by the Fed means that its target for the benchmark lending rate is now 2% to 2.25%. This was its first rate cut since 2008, and it was likely driven by the U.S.-China trade war and a slowing global economy. The latest threat of further tariffs increases the odds of another cut to interest rates in mid-September, according to Goldman Sachs.

The U.S. President has made it clear that he is in favour of lower interest rates. By pressuring China with tariffs, he leaves the Fed little room to manoeuvre in order to keep the economic recovery on pace. It also raises the possibility of the Fed getting dragged into a deeper monetary easing cycle due to the economic damage caused by tariff-related trade policies.

These are the two biggest economies in the world going head-to-head – which will not likely produce a favourable result anytime in the near term. Some impacts on the U.S. economy have already occurred – weaker manufacturing and investment data have been reported. Moreover, the flare-up on trade increases the risk of currency being used as a leverage as well.

The bond market has reacted swiftly to the President's implementation of tariffs and the threat of more tariffs. Treasury prices have surged to highs not seen since early 2007, adding to the pronounced yield-curve inversion for three-month and 10-year treasuries – now more than 50 basis points (reflecting a premium to be paid for three-month treasuries over 10-year treasuries) and signaling the likelihood of recession.

Lower interest rates at this stage of the economic cycle come with risks. Unemployment in the U.S. is near a 50-year low, stocks are close to record highs and experiencing volatility, bonds have rallied, inflation remains tame at less than 2% and debt is at very high levels. The balloon is becoming seriously inflated.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
August 2019	2.00	3.95
July 2019	2.00	3.95
August 2018	1.50	3.45

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
August 2019	1.18	1.16	1.42
July 2019	1.48	1.49	1.70
August 2018	2.16	2.22	2.25

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
August 2019	1.50 - 2.00	1.60 - 2.10
August 2018	1.75 - 2.10	1.85 - 2.35
Insured	**5-Year**	**10-Year**
August 2019	0.90 - 1.10	0.85 - 1.10
August 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	Multi tenanted industrial
Location	Major Canadian city
Facility Details	70% leverage or $8,750,000 was secured for refinance purposes for a term of 12 months, payable interest only. The short-term loan was arranged to allow for the owner to stabilize the property.

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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