JANUARY 2019

Debt Market Monitor

Debt Capital Markets Services

Is a recession in 2019 probable?

Markets and hard data are at odds with each other on the question of whether a U.S. recession will occur in 2019.

Some of Wall Street's largest banks are doing a deep dive on what they perceive to be the most important data for reading the tea leaves on 2019. Although the markets are portraying a very nervous and volatile state, especially for equity investors, the larger picture points to a calmer read on the economic environment.

Data on which the banks focus include job numbers. Reports of slightly higher weekly job claims (the term used for U.S. Labor Department statistics on unemployment insurance benefit applications) point to a negative forecast. However, the claims have been at particularly low levels and the recent bump upward is relatively slight. Typical indicators of an upcoming slump would need to show job claims in double-digit territory and well off the current levels. Business survey data is also being closely watched. As JP Morgan reported recently, business sentiment is near its highest level in the current expansion. The yield curve is yet another indicator that is scrutinized as a sign that a recession is projected to occur. If the short end of the curve were to experience yields that were higher than those offered in the long end – for example two-year versus 10-year yields – there would be cause for concern of a recession. Historically, a negative yield curve identified recessions quite accurately. Although the yield curve recently threatened to go negative, the past seven recessions experienced a lag of about two years prior to a recession – we are not there yet.

Lastly, a survey conducted by the Federal Reserve shows that professional forecasters are starting to turn negative on the economy's prospects four quarters from now – a long ways off. The survey places the odds of the economy shrinking in a year's time at 23% – which is the highest level since 2008, but still implies a recession probability of less than 20%, according to a Goldman Sachs.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
December 2018	2.00	3.95
November 2018	2.00	3.95
December 2017	1.25	3.20

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
December 2018	1.88	1.97	2.18
November 2018	2.20	2.27	2.39
December 2017	1.86	2.04	2.26

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
December 2018	1.50 - 1.90	1.70 - 2.00
December 2017	1.50 - 2.00	1.65 - 2.25
Insured	**5-Year**	**10-Year**
December 2018	0.80 - 1.10	0.80 - 1.10
December 2017	0.95 - 1.15	0.95 - 1.25

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

Source(s): Bank of Canada

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Highlighted Transaction

Asset Type	Multi-tenanted flex office development
Location	Major Canadian city
Facility Details	A $20M non-recourse, non-revolver to assist with future development of additional density and leasing. The facility provides for a 36-month term with and extension feature for a further 24 months. The interest rate structure is floating with an option to convert to a fixed rate via an interest rate swap.

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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