

Tariffs' effect on interest rates



Higher tariffs generally place increased pressure on rising inflation while having a dampening effect on the economy – slowing business and consumer spending and eroding business and consumer confidence. If tariffs increase to a critical level, spending will slow.

The chief economist at JPMorgan Chase & Co. expects the Federal Reserve (“the Fed”) to place more near-term focus on reducing the impact of a slowing economy as opposed to addressing the potential for higher inflation. A slowing economy further

increases the likelihood and necessity of interest-rate cuts. Recent indications from Federal Reserve funds futures are that traders are fully pricing in an interest-rate cut within the first couple of months of 2020. If tariffs remain in place long-term and the related costs are passed on to consumers in a way that will cause them to pull back on spending, then an adjustment to policy by the Fed will be necessary.

Federal Reserve members have indicated that the recent increase to the level of tariffs does not have much impact on U.S. gross domestic product, and in fact only represents an estimated 0.2% dent to growth. The indefinite runway for the current level of tariffs, combined with the threat of more tariffs, means that the Fed will be keeping a close eye on the growth numbers and will pull the trigger on an interest-rate cut if economic growth is in jeopardy.

Currently, it seems as though the U.S. administration remains bent on tariffs.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
May 2019	2.00	3.95
April 2019	2.00	3.95
May 2018	1.50	3.45

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
May 2019	1.36	1.49	1.77
April 2019	1.55	1.71	1.99
May 2018	2.10	2.23	2.25

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
May 2019	1.50 - 2.00	1.60 - 2.10
May 2018	1.75 - 2.10	1.85 - 2.35
Insured	5-Year	10-Year
May 2019	0.90 - 1.10	0.85 - 1.10
May 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

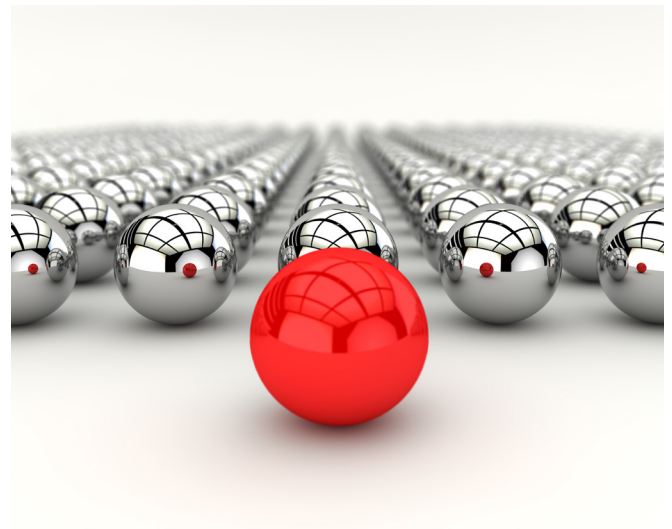
Asset Type	Multi-residential project
Location	Major Canadian city
Facility Details	A 10 year term facility, structured without recourse, in the amount of \$21.5M, payable interest only for acquisition purposes.

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