AVISON YOUNG

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Debt Market Monitor

Debt Capital Markets Services

What does an inverted yield curve mean

Over the past few months, heightened attention has been paid to the phenomenon referred to as an "inverted" or "negative" yield curve – some would say it has become an obsession among those watching the market. Having short-term rates cross over and yield more than long-term rates is not a normal market occurrence. Many – though not all – recessions have been preceded by an inverted yield curve. Essentially, an inverted yield curve occurs when investors view the health of the economy as being better in the longer horizon than the shorter. When there is no prospect of inflation in the near term, investors tend to buy longer-term treasuries, thus lowering their yields below short-term bonds and resulting in an inverted yield curve. It is an indicator that investors believe monetary policy is too tight for the deteriorating health of the economy.

It is not uncommon for investors and economists alike to offer explanations that amount to the "it is different this time" philosophy, relying on subjectivity rather than facts. There are many differing opinions on whether the yield curve continues to hold its predictive power. The Chief Economic Advisor for Allianz, Mohamed El-Erian, has indicated that he is not worried and does not believe that the yield curve's signal is what it used to be. The basis for not believing the yield curve is a good indicator today stems from the view that certain market forces are distorting the curve's message – a significant one being the shrinkage of the U.S. central bank's balance sheet. Even former Federal Reserve Chairman Alan Greenspan called the prophetic abilities of the yield curve obsolete – prior to one of the worst recessions that the U.S. has experienced since the 1930s.

Seth Carpenter, Chief U.S. Economist at UBS and a former senior Treasury and Federal Reserve official summed it up: "You are an idiot to ignore the yield curve but it is not proof that a recession is coming by itself." There are many forces in play that affect the yield curve, not the least of which is the current hyper-low interest-rate environment.

Fiscal Snapshot

Bank of Canada

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

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
April 2019	1.54	1.71	1.99
March 2019	1.52	1.62	1.90
April 2018	2.11	2.30	2.40

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
April 2019	1.65 - 2.00	1.70 - 2.00
April 2018	1.60 - 2.00	1.65 - 2.00
Insured	**5-Year**	**10-Year**
April 2019	0.90 - 1.10	0.85 - 1.10
April 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	Industrial
Location	Major Canadian city
Facility Details	A term facility in the amount of $25,000,000 for a 5-year term, amortized for 25 years; was arranged to facilitate the acquisition of 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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