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AN EXTENDED RUNWAY FOR APARTMENTS

Following last month's rise in market optimism, some investors were further emboldened in November as phase one of the pivotal U.S.-China trade deal reportedly remains on track. According to the Bank of Canada, almost US$1 trillion of global economic output could be written off due to the trade war and the world is closely monitoring the progress of these trade negotiations. Yield curves have steepened and stock markets yet again set new records on the hope this deal will finally dispel some of the fog hanging over the global economy.

With the U.S. yield curve no longer inverted, recession fears somewhat dissipated and the ensuing stock market rally was then further fueled by investors feeling left behind. The Economist, however, cautions that a recession could still be on the horizon given its historical lag of 12 to 18 months following an inversion flag. Also cited was a concern that the Federal Reserve may dismiss the flag and under-respond the next time. For the time being, the Federal Reserve looks to be on a holding pattern, satisfied with the latest round of interest rate cuts. The Bank of Canada is also expected to continue to hold from making any cuts this year, but is monitoring for signs of a broad-based slowdown.

As the year draws to a close, the banks are starting to publish their outlooks for the future and, so far, the expectation is for muted growth in traditional portfolios. Goldman Sachs projects riskier assets to perform well in 2020, though top-end returns will likely have a ceiling given overarching global risks. Morgan Stanley expects lower returns this next decade compared to the prior two decades due to weaker economic growth, soft inflation and low bond yields.

As a result, commercial real estate, with its comparatively higher yields and greater stability, has been in great demand. In Canada, apartment properties are particularly sought-after, so much so that Continuum REIT canceled its plans to IPO and instead will go private in a $1.7 billion deal. Despite the IPO having been more than three times over-subscribed, Starlight Investments submitted an even more competitive offer that values the portfolio at an implied capitalization rate of approximately 3.5% - 3.6% according to market analysts. Other comparable Canadian apartment REITs trade at higher implied cap rates, suggesting there may be further upside for the Canadian apartment sector.

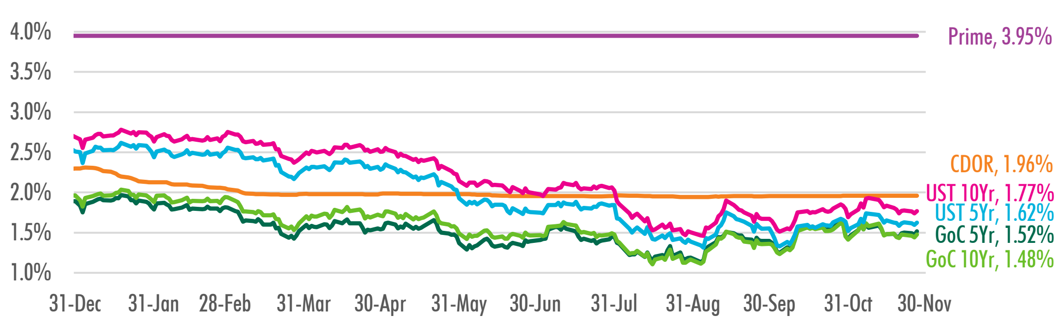
Key Indicator	Current	30 Days
5Yr Mortgage Spread	1.55-2.05%	
10Yr Mortgage Spread	1.65-2.30%	
5Yr Canada Housing Trust Spread	27 bps	-3 bps
10Yr Canada Housing Trust Spread	39 bps	-4 bps
USD/CAD	$0.7529	-1.71%
WTI Crude	US$58.11	4.12%
S&P/TSX REIT Index	199.36	2.13%

Source: Thomson Reuters, November 27, 2019.

Economic Highlights:

- Employment fell by 1,800 jobs in October 2019 and the unemployment rate stayed flat at 5.5%.
- Inflation held at 1.9% in October 2019, the eighth consecutive month of inflation near or above 2.0%.
- Retail sales fell 0.1% in September 2019, the first recorded drop in three months.

Benchmark Yields



Source: Thomson Reuters, November 27, 2019.

ViewPoints:

- Trade-war Toll Is Approaching $1 Trillion Globally, Poloz Warns
- America's Yield Curve Is No Longer Inverted
- Canada's Economy Slows In Third Quarter Even As Demand Jumps

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