THE MONTHLY MORTGAGE COMMENTARY

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FLATTENING THE CURVE

Financial markets are showing intense levels of volatility as the spread of COVID-19 continues to escalate and countries ramp up their responses. The S&P 500 plummeted into a bear market and, on a purely technical basis, nearly rebounded back into bull market territory just two weeks later. At one point, the entire U.S. yield curve fell below 1.0% for the first time in history. The VIX, a measure of stock market volatility, surpassed its 2008 peak and remains elevated, implying more wild swings could come over the short term.

The total impact of the pandemic remains uncertain and countries have enacted aggressive measures to flatten the curve of the virus' spread. By shuttering significant sectors of the economy, this crisis is proving different from prior financial shocks by affecting both the supply and demand sides of the economy. With mounting evidence of sharp economic pain on the horizon, policymakers around the world have acted swiftly and decisively. In an unprecedented and coordinated effort, central banks and governments around the world have deployed massive amounts of stimulus in an effort to effectively "freeze" economies in place. The hope of these measures is to allow for a quick return to normal once the health crisis passes.

In the meantime, the monetary stimulus measures combined with the prevailing market uncertainty have had major implications for the real estate mortgage market. The Bank of Canada cut its policy interest rate to the effective lower bound of 0.25% and government bond yields have further compressed. However, corporate credit spreads have blown out in the market's rush into safe haven assets. For every basis point drop in the Canadian 10-year yield, it was outpaced by nearly a four basis point rise in corporate BBB-rated credit spreads. In the U.S., even major market participants have seen material repricing in their debt transactions in recent weeks.

As a result of these dramatic, near-daily market swings, the cost of capital for real estate is now in 'price discovery mode.' Capital has become more selective as lenders shift their focus to their existing portfolios and NOI durability. The complications stem from tenants' ability and willingness to pay rents, thereby impairing landlords' ability to service their debt obligations. While some tenants and landlords have reached mutual agreements, this is still a very much evolving and case-by-case situation.

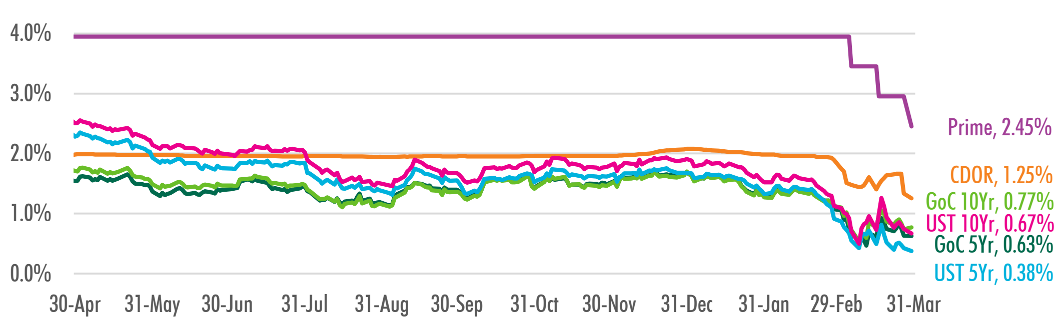
Key Indicator	Current	30 Days
5Yr Mortgage Spread	Min. 295 bps, subject to approx. 4% floor rates	
10Yr Mortgage Spread		
5Yr Canada Housing Trust Spread	51 bps	15 bps
10Yr Canada Housing Trust Spread	66 bps	22 bps
USD/CAD	$0.7057	-5.43%
WTI Crude	US$20.09	-55.12%
WCS Crude	US$8.67	-71.87%
S&P/TSX REIT Index	137.46	-29.26%

Source: Thomson Reuters, March 30, 2020.

Economic Highlights:

- The Bank of Canada cut its policy interest rate by 150 bps this month to 0.25%.
- Canadian prime rates have subsequently been cut to 2.45%.
- Unemployment benefit claims spiked to a record 929,000 applications during the week of March 16 to 22.

Benchmark Yields



Source: Thomson Reuters, March 30, 2020.

ViewPoints:

- Governments are spending big to keep the world economy from getting dangerously sick
- The Sky's the Limit for Stimulus in Canada's Bid to Salvage Economy
- Bank of Canada cuts key interest rate another half-percentage point to 0.25 per cent

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