Around the world, we are experiencing unprecedented times. COVID-19 has already had tremendous effects on the macroeconomic state of the world, with greater impacts likely to come. Reduced demand, supply chain disruptions and curtailed spending are leading to financial and liquidity constraints. Individuals and businesses are striving to understand the impact, mitigate adverse consequences and capitalize on opportunities.

State of the nation: 2020 Canadian capital markets

- During the first few weeks of fiscal 2020, the bullish outlook and confidence remained strong as we ended fiscal 2019 on a strong note. As COVID-19 began to spread across the world and eventually being declared a global pandemic by the World Health Organization (WHO), consumers became more cautious as fears that COVID-19 would affect corporate earnings and credit availability.

- There is no doubt the preventative actions taken by countries and their respective government bodies along with consumers having a cautious short-term outlook have dampened the equity markets. As at March 12, 2020, the TSX Composite Index (TSX) was down ~30% from its all-time high and the New York Stock Exchange Composite Index (NYSE) was down ~21% from its all-time high.

- The most immediate economic impact is expected in China, but the pandemic has sent ripples in the financial markets globally. Companies are warning that the fast-spreading COVID-19 could disrupt operations and cut into earnings as the loan market feels the effects of a selloff in equity markets.

- Both the Bank of Canada (BoC) and the US Federal Reserve (the Fed) have taken proactive moves in reducing their respective overnight borrowing rates, and both have cited additional support as required. As of March 16, 2020, the overnight borrowing rate from the BoC is 0.75% and the Fed at a near zero rate of 0.25%.

- According to Oxford Economics, “the spread of the virus to regions outside of Asia would knock 1.3% off global growth this year, the equivalent of US$1.1t in lost income.” This appears in line with existing economic studies of pandemic points to a possible loss of Gross Domestic Product (GDP) of 1%-5% in the year of the outbreak, depending on its severity.
What should businesses do?

Be proactive in the following areas:

1. **Fortify capital structure** – Ensure sufficient committed capital and cashflow runway (i.e., handle the economic disturbance of COVID-19). The positive news is that debt capital markets in Canada and the US continue to be strong; however, the spread of the virus has repriced risk across a broad set of assets, making financial conditions less accommodative.

2. **Revise your business plan** – If you haven't already, review your 2020 priorities, stress your balance sheet and determine course-correction actions.

3. **Seek advice and/or professional services**, as most businesses are entering into uncharted markets.

Short-term rates

The BoC and the Fed have taken proactive measures in reducing short-term overnight borrowing rates twice in March to support the economy during the COVID-19 pandemic. As of the time of writing, the BoC overnight borrowing rate was 0.75% and the Federal Reserve was near zero at 0.25%. Both central banks have announced additional support, such as $10b business credit line in Canada and the Federal Reserve purchasing another US$700b worth of Treasury bonds and mortgage-backed securities. Both Canada and the US will be monitoring their respective economies closely and continue to hold meetings with G7 central banks in coordinating a global effort in mitigating a potential downturn in the business cycle.
Market highlights / insights

Capital markets Q4 2019

Total loan issuance values increased by 12.1% to C$77.4b from C$69.0b compared to Q4 2018. On a year-over-year basis, the face value of loan issuances remained flat; however, the frequency of loan issuances has increased as mid-market companies take advantage of the relatively cheap debt capital market.

Canadian loan issuances, 2013-19

Source: Loanconnector

Loan volumes by purpose

Refinancing and M&A continue to represent most of the loan volume by purpose for 2019 at 37% and 22%, respectively. Leveraged buyouts and dividend recaps were also important at 22% and 6%, respectively. The remaining 14% of loans were miscellaneous in nature. The flat yield curve continues to drive debt capital refinance as companies take advantage by swapping out short-term capital with long-term cheaper capital. Despite lower M&A activity as compared to 2018, companies are benefiting from increases in market share and penetration of new markets.

Leverage

Given the amount of surplus liquidity in the capital markets, it is not surprising leverage multiples were steady year over year with a slight decline in the middle market of 5.5x (2018 - 5.6x) and a slight increase to 5.3x for large corporate (2018 - 5.2x).
Interest rates

Long-term rates

- As the global economy slows, investors typically flock to bonds, which drives prices up and bond yields lower. This has been evident since November 2018 as we observed the divergence of long-term and short-term rates.
- Although there has been some recovery with treasury bond yields across most tenors, rates continue at historical lows.
- The Canadian benchmark bond yields reached their lowest point of the year in August and early September 2019. The yield on the 10-year benchmark bond reached its year low point of 1.09% on August 15, 2019.
- The Canadian bond yield curve remains flat, with only ~0.5% difference between the 2-year and the 10-year bond spread.

Canadian benchmark bond yields

Source: Bloomberg

Equity markets – Canada and US

Source: EY Global IPO Trends: Q4 2019

- Overall, Americas IPO markets performed respectably, despite the geopolitical and trade uncertainty that ran throughout 2019.
- US exchanges accounted for the majority of IPOs in the Americas, 77% by deal numbers and 93% by proceeds in 2019. This included 24 unicorn IPOs.
- Toronto and TSX Venture exchanges saw 18 IPOs raising US$295m in 2019.

Americas 2019 activity

<table>
<thead>
<tr>
<th>Stock exchanges by total proceeds</th>
<th>Sectors* by number of IPOs</th>
<th>IPOs by largest proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASDAQ $26.7b</td>
<td>128 IPOs US</td>
<td>Healthcare 74 IPOs</td>
</tr>
<tr>
<td>NYSC $23.3b</td>
<td>37 IPOs US</td>
<td>Technology 55 IPOs</td>
</tr>
<tr>
<td>B3 $2.3b</td>
<td>5 IPOs Brazil</td>
<td>Finance 18 IPOs</td>
</tr>
</tbody>
</table>

*IPO activity of Canadian Securities Exchange is excluded. All amounts in table are in US$.

Change on 2018

<table>
<thead>
<tr>
<th>18 IPOs</th>
<th>$295m proceeds</th>
<th>$36m median deal size*</th>
</tr>
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<tr>
<td>▼ 10%</td>
<td>▼ 74%</td>
<td>▼ 74%</td>
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</table>

IPO activity of Canadian Securities Exchange is excluded. *14 of 18 IPOs had deal size below US$5m, these deals are excluded from the calculation of median deal size.

Source: EY Global IPO Trends: Q4 2019

Median deal size is calculated for IPOs that were priced by end of 4 December.

All values are US$ unless otherwise noted. Q4 2019 and Q4 19 refer to the fourth quarter of 2019 and cover priced IPOs from 1 October 2019 to 4 December 2019 plus expected IPOs by the end of December. YTD 2019 and 2019 refers to the full year of 2019 and cover priced IPOs from 1 January 2019 to 4 December 2019 plus expected IPOs by the end of December. Data as of 4 December 2019.
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