

Leading Indicators

Key economic and financial metrics, updated weekly

9th January 2024

2024: the year of interest rate cuts, elections and manufacturing?

125bps

Money markets are currently pricing in 125bps of rate cuts in 2024, the first as early as June.

53%

Of respondents in the Make UK and PWC Manufacturing Report expect the UK to be a competitive location in 2024

40

Roughly 40 countries are holding national elections in 2024

NEW YEAR, MORE RATE CUTS?

Due to softer-than-expected inflation and wage growth figures in December, economists now expect the Bank of England (BoE) to cut interest rates faster and further than previously anticipated. Economists predict between 100bps – 125bps of rate cuts from the BoE, starting in May or June, depending on the forecast house. However, many forecasters have been changing views on a frequent basis, making it tricky to grasp sentiment. Less than a month ago, the most economists expected were two rate cuts in 2024.

However, following the positive US jobs report on Friday, some of this optimism surrounding interest rate cuts has reduced. 216k jobs were added to the US labour market in December 2023, significantly above expectations of 170k. Since the data release, interest rate futures indicate less chance of a March rate reduction from the US Federal Reserve. Rightly or wrongly, the UK typically follows the US. Money markets are now pricing in five 25bps rate hikes from the BoE in 2024 starting in June, compared to the six 25bps rate cuts beginning in May, priced in last week.

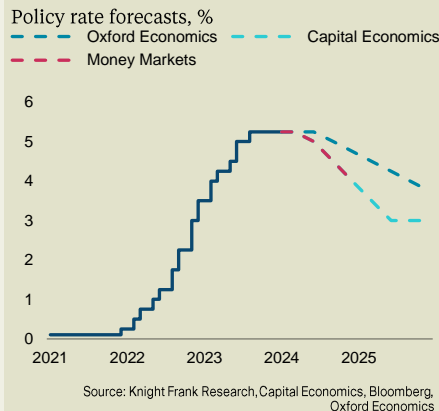
MANUFACTURERS OPTIMISTIC ON THE UK

The latest annual survey conducted by industry body Make UK and PWC of 205 manufacturers found that 53% of respondents expected the UK to be a competitive manufacturing location in 2024, up from 31% a year ago, due to a much calmer financial environment. 25% of companies surveyed anticipated the UK to be more competitive than Germany, France, Spain and Italy, outweighing those who thought the opposite. The survey found costs, supply chain disruption, and access to skilled labour to be the sector's biggest risks. While these risks are not unique to the UK, it has faced higher costs on the sharper end of the spectrum. Amongst other things, elevated manufacturing costs have had implications for the supply of commercial real estate. There is an implied supply shortfall of 5.85m sq ft of London office space between 2024 and 2026, compared to trend take-up levels. We're already seeing that a reduced level of supply has been supportive of rental growth and pricing of prime London offices.

2024: A POLITICAL BONANZA

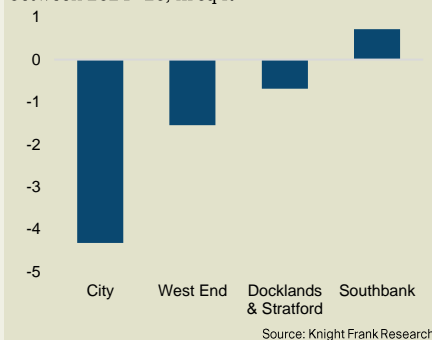
More than 40 countries are holding national elections in 2024. Alongside macroeconomic implications, these elections will be pivotal for ESG-related policy setting. The UK general election is yet to be announced. Still, we have seen Sunak's net zero policy shift following the Uxbridge by-election and talk of Labour's £28bn green pledge. In the lead-up to any election, we will get more clarity on each party's policies. However, there remains a clear direction from the private sector. Our analysis shows [growing demand for sustainable offices](#), and whilst the supply is increasing, it is not matching the pace, creating an imbalance and resulting in a [rental](#) and [sales](#) premium.

Money markets are pricing in the first rate cut in June 2024



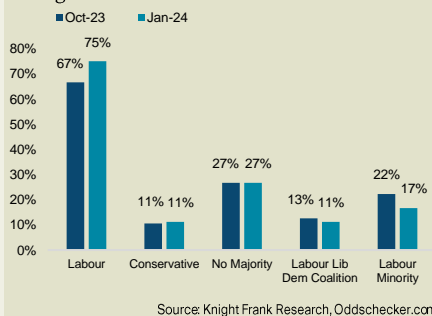
There is an implied supply shortfall of 5.85m sq ft of London offices

London office expected over/under-supply between 2024 - 26, m sq ft



75% likelihood of Labour government following the next UK general election

Betting odds on the government following the next general election

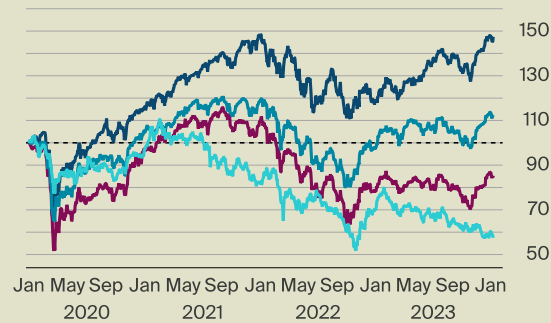


Equities

Equity markets

Price return index, Jan 2020 = 100, US\$

— FTSE 250 — S&P 500 — STOXX 600 — Hang Seng



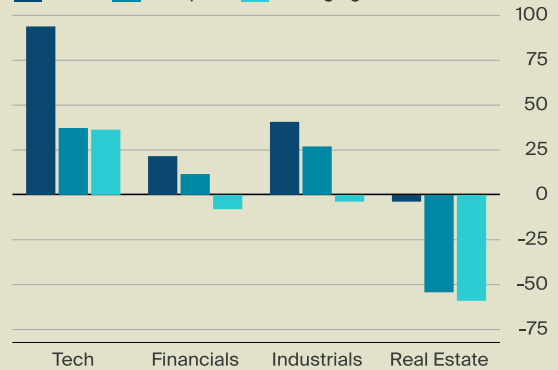
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	7,256	0.7	-0.9	2.2	9.6
FTSE 250	24,718	0.5	-1.5	5.5	-14.7
Hang Seng	2,078	-2.5	-4.8	-0.7	-42.6
IBEX 35	11,199	0.4	0.4	2.3	4.5
MIB	33,534	0.7	0.0	3.2	27.4
S&P 500	4,764	1.6	-0.1	3.9	47.4
STOXX 600	525	0.2	-0.9	3.7	12.4
TOPIX	17	1.1	-0.1	2.3	6.2

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



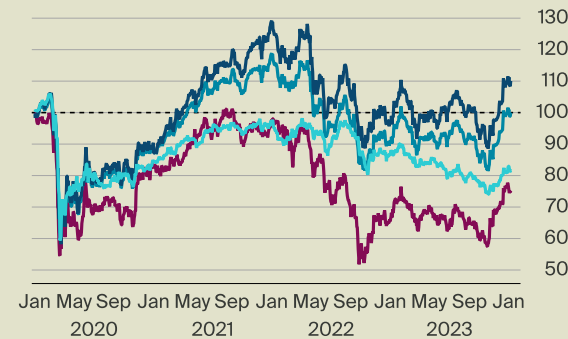
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	93.8%	37.2%	36.3%
Financials	21.6%	11.6%	-7.9%
Industrials	40.7%	27.0%	-3.8%
Real Estate	-3.8%	-54.2%	-59.0%

REITs by region

EPRA/NAREIT total return index, Jan 2020 = 100, US\$

— World — Europe — US — Asia Pacific



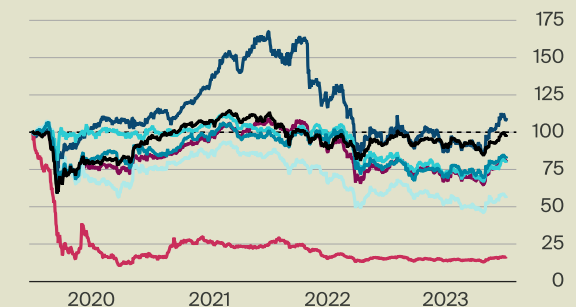
Source: Knight Frank, Macrobond

Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,631	1.4	-1.3	7.0	10.1
Europe	2,144	0.3	-2.8	5.4	-24.8
World	3,212	1.2	-1.6	6.3	0.0
Asia Pacific	3,202	0.7	-1.2	2.0	-18.4

UK REITs by sector

UK EPRA gross total return index, Jan 2020 = 100, GBP£

— All REITs — Office — Industrial — Retail — Healthcare
— Residential — FTSE 250



Source: Knight Frank, Macrobond

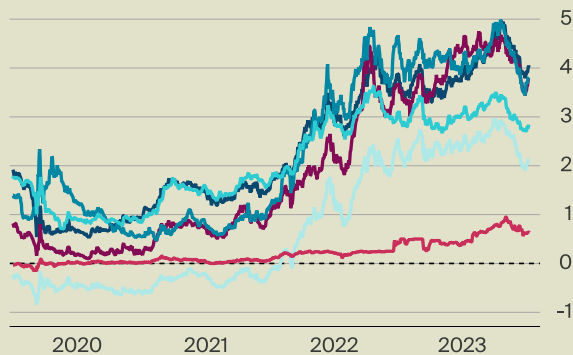
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	834	0.7	-2.1	5.2	-18.5
Office	1,693	0.6	-2.3	3.8	-42.9
Industrial	1,358	1.4	-2.1	4.1	9.5
Retail	59	1.6	0.0	5.1	-83.5
Healthcare	1,826	-0.4	-1.9	6.1	-19.5
Residential	1,278	0.5	-1.0	4.6	-16.3
FTSE 250	16,716	0.1	-1.6	4.3	-1.9

Bonds & Rates

Government bond yields

10 year government bond yields, %

— US — UK — Germany — Italy — Japan — Singapore



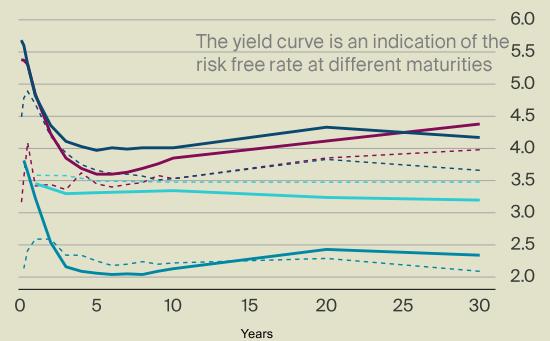
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.81	3.81	3.69	3.99	1.40
Japan	0.63	0.64	0.62	0.75	-0.03
Singapore	2.84	2.84	2.79	2.87	1.74
UK	3.79	n/a	3.64	4.04	0.82
US	4.01	4.01	3.95	4.23	1.92

Yield curves

Latest nominal yield curves vs one year ago, %

Today — US — UK — Germany — S. Korea One year ago ...US ...UK ...Germany ...S. Korea

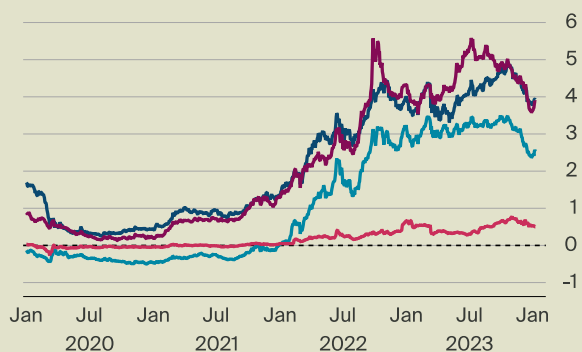


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



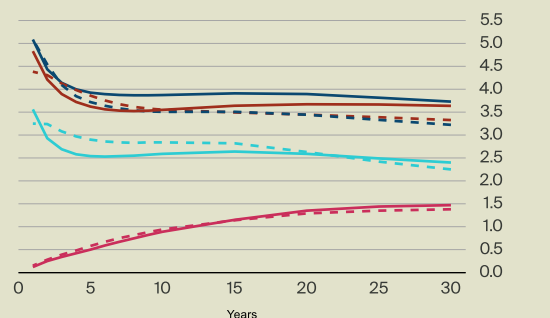
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.54	2.57	2.43	2.73	-0.13
Japan	0.50	0.50	0.53	0.69	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	3.87	3.89	3.63	4.29	0.88
US	3.93	3.94	3.78	4.24	1.70

Swap curves

Latest swap curves vs one year ago, %

Today — US — UK — Euro Area — Japan One year ago ...US ...UK ...Euro Area ...Japan



Source: Knight Frank, Macrobond

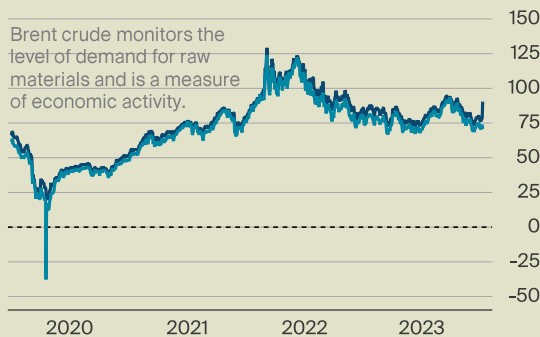
Commodities & Volatility

Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)

Brent crude monitors the level of demand for raw materials and is a measure of economic activity.



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	90.4	78.8	77.0	75.8	66.0
WTI, \$ per barrel	70.8	73.8	72	71.2	61.1

Baltic dry index

Baltic Exchange, Shipping Dry index (BDI), US\$

— Baltic dry index

Baltic Dry Index is a measure of what it costs to ship raw materials and is a leading indicator of global demand



Source: Knight Frank, Macrobond

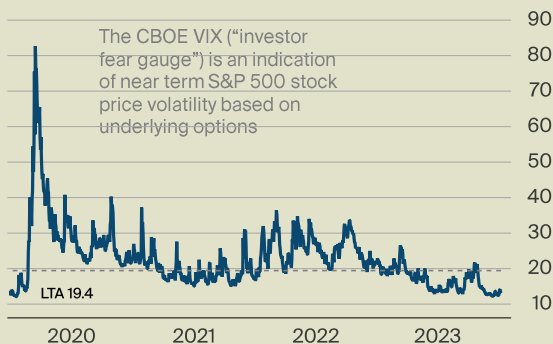
	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	2022	-3.07	-3.44	-18.6	85.5

Volatility index

Near term stock price volatility indicator

— CBOE Volatility Index (VIX) --- Long term average

The CBOE VIX ("investor fear gauge") is an indication of near term S&P 500 stock price volatility based on underlying options



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	13.1	13.1	13.2	12.4	13.8
Euro Stoxx 50 VIX	14.0	14.0	14.5	13.7	14.0
Nikkei VIX	19.2	18.5	17.5	19.7	14.8
KOSPI VIX	17.4	17.8	18.6	14.8	14.7

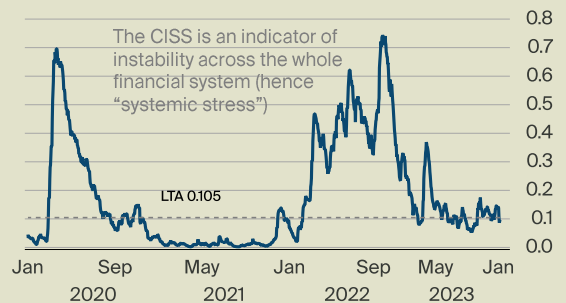
Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average

The CISS is an indicator of instability across the whole financial system (hence "systemic stress")



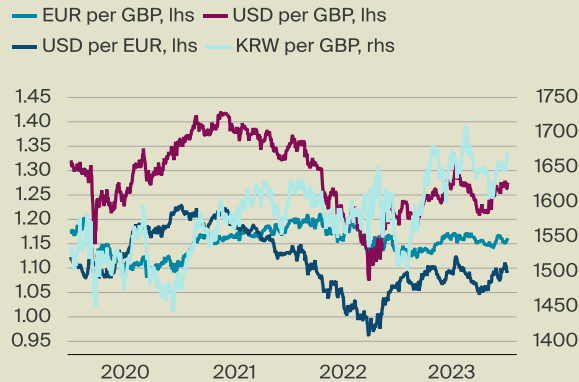
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.114	0.063	0.119	0.023
Equity markets stress sub index	0.071	0.027	0.051	0.009
Bond markets stress sub index	0.069	0.051	0.071	0.02
FX markets stress sub index	0.027	0.012	0.030	0.004

Currencies & Monetary Policy

Currencies

Spot prices

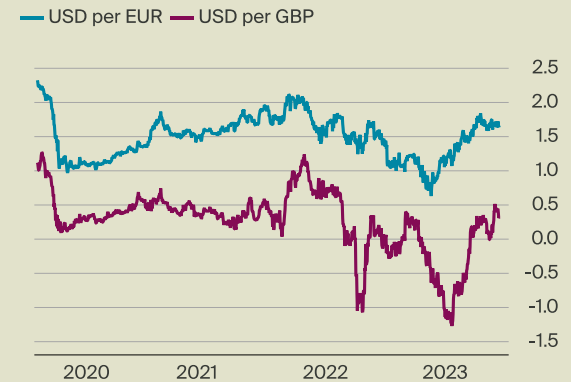


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.162	1.159	1.154	1.167	1.177
KOR per GBP	1,670	1,669	1,653	1,660	1,525
USD per GBP	1.275	1.270	1.275	1.261	1.321
USD per EUR	1.096	1.096	1.106	1.079	1.123

Hedging benefits

Hedging benefit p.a. on a 5 year forward



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
USD to EUR	1.66	1.64	1.65	1.73	2.32
USD to GBP	0.32	0.31	0.40	0.11	1.12

Inflation and monetary policy

Inflation rate (%)

	Dec	Nov	Oct	Sep
Australia	n/a	n/a	n/a	5.3
Canada	n/a	3.1	3.1	3.8
China	n/a	-0.4	-0.1	0.1
Euro Area	2.9	2.4	2.9	4.3
France	3.7	3.5	4.0	4.9
Germany	3.7	3.2	3.8	4.5
India	n/a	5.6	4.9	5.0
Italy	0.6	0.7	1.7	5.3
Japan	n/a	2.8	3.3	3.0
Saudi Arabia	n/a	1.7	1.6	1.7
South Korea	3.2	3.3	3.8	3.7
Spain	n/a	n/a	3.5	3.5
Sweden	n/a	5.8	6.5	6.5
UK	n/a	3.9	4.6	6.7
US	n/a	3.1	3.2	3.7

1. Australia Inflation rate is only available on a quarterly basis.

Interest rates (%)

	Last	Jan '21
	4.35	0.10
	5.00	0.25
	4.35	4.35
	4.50	0.00
	4.50	0.00
	4.50	0.00
	6.50	4.00
	4.50	0.00
	-0.10	-0.10
	6.00	1.00
	3.50	0.50
	4.50	0.00
	4.00	0.00
	5.25	0.10
	5.50	0.25

Asset purchasing

	Latest (\$ 1m change (%))	
	0.36 tn	0.9
	235 bn	-1.3
	6.21 tn	1.8
	766 tn	-0.9
	1.78 tn	-0.3
	2.66 tn	-0.6
	390 bn	3.4
	1.4 tn	-0.6
	5.32 tn	-0.8
	486 bn	3.1
	383 bn	-3.3
	487 bn	-0.2
	125 bn	-1.4
	1.37 tn	-0.5
	7.68 tn	-1.1

Source: Knight Frank, Macrobond



The London series – London’s Global Differentiators

There's no question about it. The London office market is undergoing significant structural change following our experience of the pandemic and more recent global economic headwinds. Through a series of six insightful papers delivered between now and throughout 2024, we will tackle the biggest questions facing the London office market and uncover future opportunities.

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Global Healthcare Report 2023

Ageing demographics and the need for long term care present themselves as key factors in the interest for healthcare globally. As private equity, REITS and institutional investors continue to chase strong, long income generated, there is growing interest in healthcare’s capabilities to aid ESG investing strategies.

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Recent research



Life Sciences & Innovation Insight – Q3 2023

Record company incorporations, highest ever quarterly life sciences real estate investment and UK Government proposes road to “science superpower”.



UK Real Estate Navigator – Q3 23

The latest Real Estate Navigator analyses the Q3 2023 occupier and investment performance of the UK commercial real estate sectors.

We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you



William Matthews
Partner
Head of Commercial Research
+44 20 3909 6842
william.matthews@knightfrank.com



Victoria Ormond, CFA
Partner
Head of Capital Markets Research
+44 20 7861 5009
victoria.ormond@knightfrank.com



Antonia Haralambous
Associate
Capital Markets Research
+44 20 3866 8033
antonia.haralambous@knightfrank.com



Khadija Hussain
Analyst
Capital Markets Research
+44 20 8176 9671
khadija.hussain@knightfrank.com