

# Leading Indicators

## Higher for longer? The global government bond sell off

**5.04%**

Current UK 30-year gilt yield, its highest level since 1998

**\$6.6bn**

Global cross border investment by Japanese capital in 2023 YTD, an annual record high

**-3.2%**

y/y contraction in global trade in July 2023, the strongest decline since August 2020, according to CPB Netherlands

### GLOBAL BOND SELL OFF

Fuelled by expectations that interest rates will remain higher for longer, particularly in the US, there has been a global sell off in government bonds.

US and UK 30-year government bond yields hit 5+% last week for the first time since 2007 and 1998, respectively. Long dated German bund yields reached levels last seen in the run up to the 2011 eurozone debt crisis, while Italy's 10-year bonds hit 5% last week, the highest level since 2012, when the crisis was underway.

However, for the UK, the speed of the rise in long dated gilts (+44bps over 10 days) is slower than during the run up to the liability-driven investment (LDI) crisis following last year's 'mini-budget' (+155bps over seven days). While another LDI crisis is unlikely, the cost of debt in the UK has risen in response to the bond sell off. The 5-year SONIA swap rate is currently 4.56%, which compares to the recent four month low of 4.44% at the end of September. Elevated financing costs could provide opportunities for investors less reliant on debt.

### OPPORTUNITIES REMAIN, DESPITE HEADWINDS

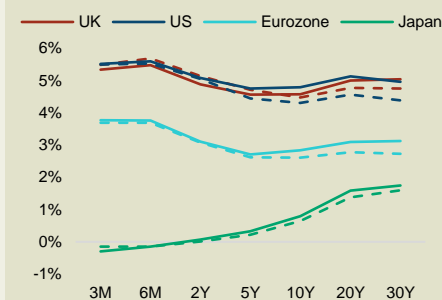
Given higher interest rates and the elevated cost of debt, we have seen a global moderation in CRE investment in 2023. However, with a thinner pool of capital, comes opportunity. Our [latest Active Capital research](#) suggests that high-net-worth investors and Sovereign Wealth Funds, typically less reliant on leverage, are using this pause to acquire 'once in a generation' safe haven, trophy assets with less competition. Investors in countries with relative currency strength, such as North America and Singapore, will likely continue to be active internationally. For example, we are seeing an increase in Japanese investors, across all investor types, as they take advantage of significantly lower domestic swap rates. Indeed, provisional numbers suggest global cross border investment from Japan has totalled \$6.6bn between Q1 – Q3 2023, a new annual record and up +145% y/y. CRE in the US (\$2.4bn), Australia (\$1.4bn), Canada (\$1.1bn) and the UK (\$748m) have been the main targets for Japanese investors in 2023 YTD.

### TRADE SLOWDOWN AHEAD?

The World Trade Organisation (WTO) halved its estimates for export growth to +0.8% in 2023, down from +1.7%, last forecast in April. Rising geopolitical tensions were behind the downgrade, however, the WTO chief economist stated that broad deglobalisation "was not here yet". This aligns with Brent Crude rising to an 11-month high of over \$95 per barrel last week. [Our view](#) is that the changing global geopolitical landscape, combined with a desire for more sustainable supply chains, has increased the appetite for onshoring, which is helping to fuel demand for warehousing space.

### Elevated long-dated government bond yields

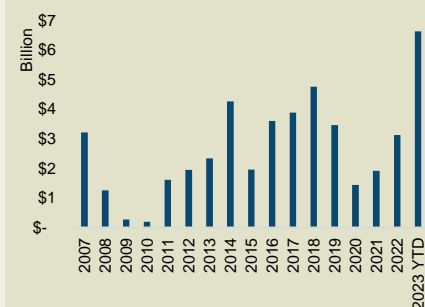
Latest government bond yield curve vs 1 month ago, %



Source: Knight Frank Research, FT, Macrobond

### Outbound Japanese CRE investment hits a record high in 2023

Global cross border Japanese CRE investment, \$ bn



Source: Knight Frank Research, Real Capital Analytics

### Global trade growth contracted by levels last seen in August 2020

y/y global trade growth, %



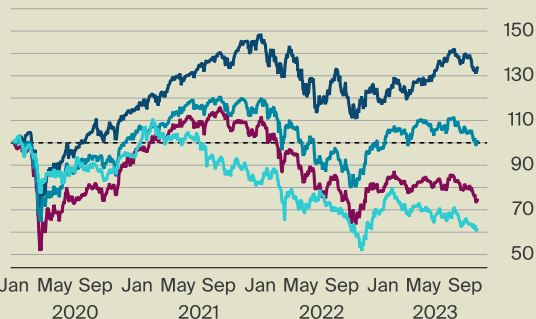
Source: Knight Frank Research, CPB Netherlands

# Equities

## Equity markets

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

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



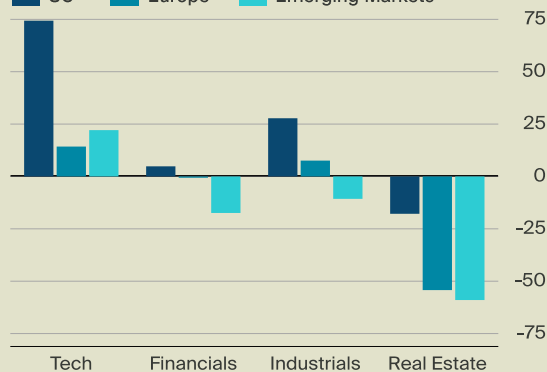
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,315	0.6	-2.0	-5.1	-4.6
FTSE 250	21,466	0.3	-3.7	-6.4	-25.9
Hang Seng	2,237	1.8	-1.6	-3.7	-38.2
IBEX 35	9,653	0.2	-3.3	-3.1	-9.9
MIB	29,200	0.9	-2.3	-3.1	10.9
S&P 500	4,336	1.8	1.1	-2.6	34.2
STOXX 600	468	0.8	-1.8	-3.5	0.3
TOPIX	16	2.6	0.8	-3.9	-1.4

## Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



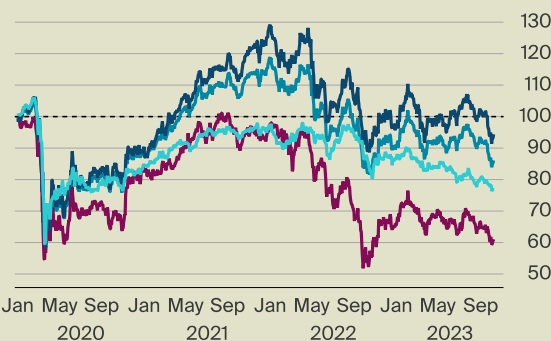
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	74.4%	14.3%	22.1%
Financials	4.8%	-0.6%	-17.4%
Industrials	27.8%	7.6%	-10.7%
Real Estate	-17.8%	-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

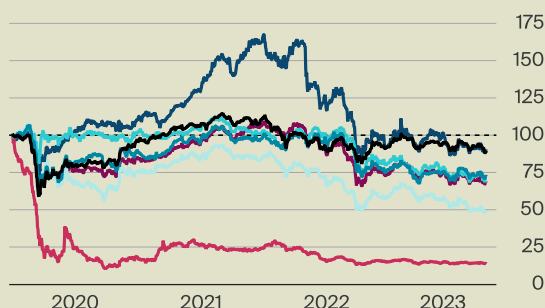
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,256	1.3	-0.5	-6.6	-5.6
Europe	1,721	0.4	-2.3	-6.2	-39.6
World	2,766	1.0	-1.0	-6.4	-13.9
Asia Pacific	3,020	-0.3	-1.7	-4.2	-23.1

## 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

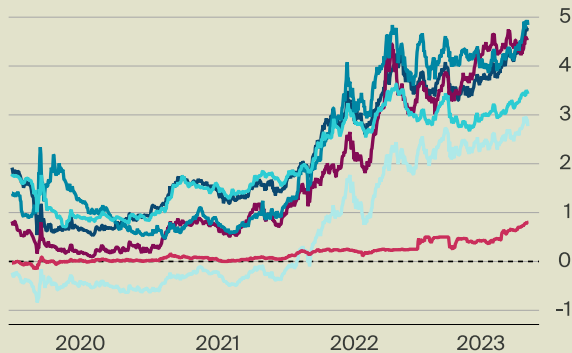
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	695	-0.2	-1.7	-2.5	-32.1
Office	1,420	-0.9	-5.1	-4.8	-52.1
Industrial	1,110	0.2	-1.3	-2.2	-10.5
Retail	50	-1.6	-3.7	-3.4	-86.2
Healthcare	1,583	0.6	-1.3	-3.8	-30.2
Residential	1,102	-0.3	-0.2	-0.8	-27.8
FTSE 250	15,035	-0.2	-3.8	-4.1	-11.8

# Bonds & Rates

## Government bond yields

10 year government bond yields, %

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



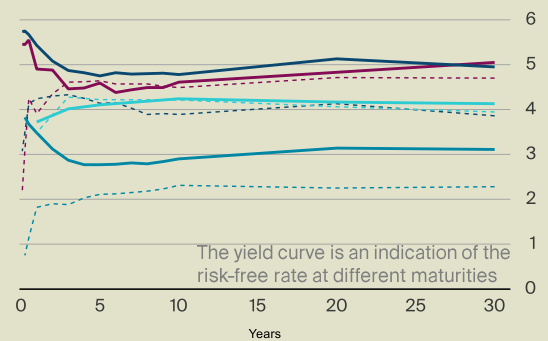
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.84	4.84	4.91	4.33	1.40
Japan	0.80	0.80	0.78	0.65	-0.03
Singapore	3.43	3.43	3.40	3.22	1.74
UK	4.57	n/a	4.60	4.42	0.82
US	4.78	n/a	4.81	4.26	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

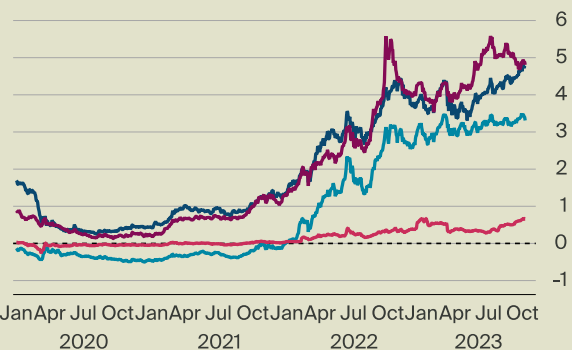


Source: Knight Frank, Macrobond

## Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



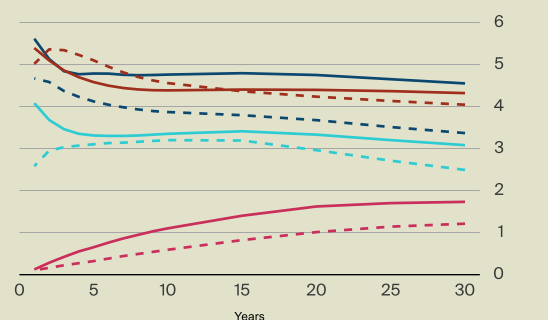
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.31	3.40	3.46	3.25	-0.13
Japan	0.65	0.65	0.66	0.50	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.81	4.89	4.91	4.97	0.88
US	4.79	4.77	4.76	4.43	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



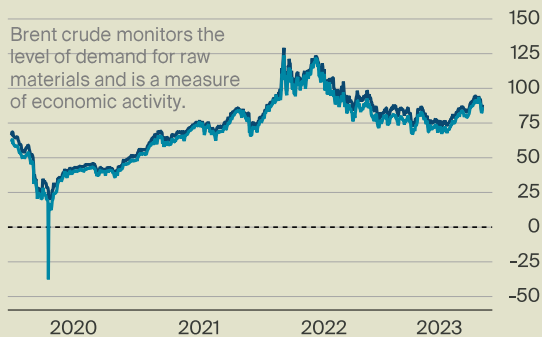
Source: Knight Frank, Macrobond

# Commodities & Volatility

## Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	88.2	84.4	92.5	90.4	66.0
WTI, \$ per barrel	86.4	82.8	88.8	87.5	61.1

## Baltic dry index

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

— Baltic dry index



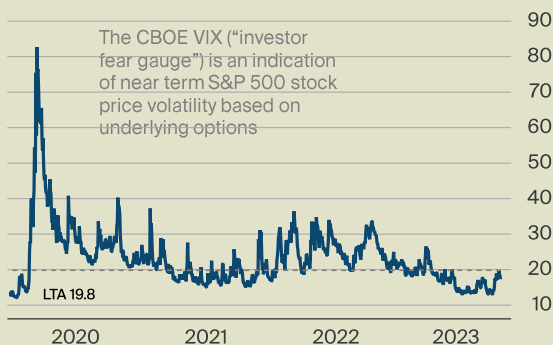
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1991	8.98	14.6	67.9	82.7

## Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

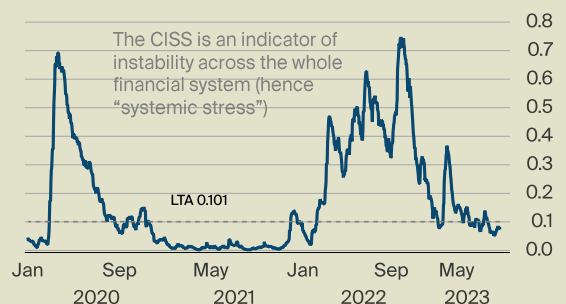
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	17.7	17.7	19.8	13.8	13.8
Euro Stoxx 50 VIX	20.2	20.2	20.2	16.2	14.0
Nikkei VIX	20.5	n/a	20.3	17.2	14.8
KOSPI VIX	17.6	17.4	15.1	12.4	14.7

## Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



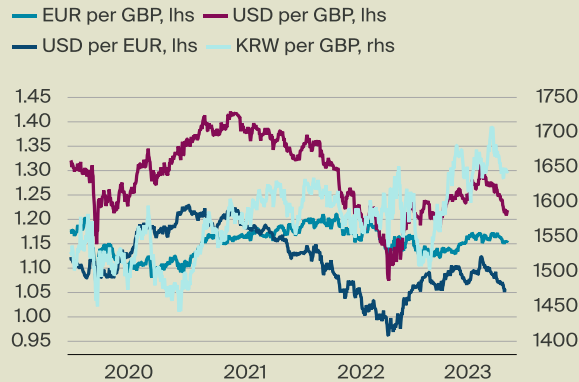
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.130	0.180	0.149	0.023
Equity markets stress sub index	0.068	0.080	0.064	0.009
Bond markets stress sub index	0.070	0.082	0.076	0.02
FX markets stress sub index	0.032	0.026	0.039	0.004

# Currencies & Monetary Policy

## Currencies

### Spot prices

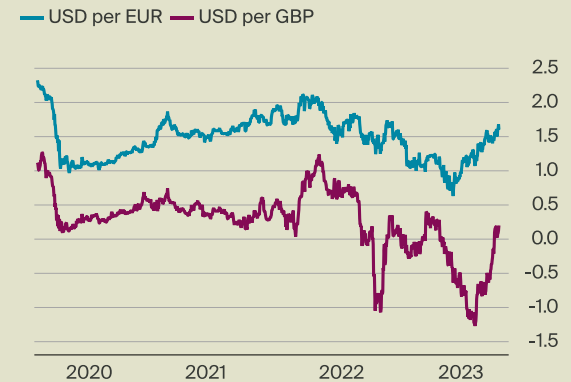


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.157	1.155	1.153	1.166	1.177
KOR per GBP	1,644	1,643	1,643	1,667	1,525
USD per GBP	1.219	1.216	1.221	1.249	1.321
USD per EUR	1.058	n/a	1.058	1.071	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	1.60	1.68	1.53	1.49	2.32
USD to GBP	0.20	0.13	0.02	-0.37	1.12

## Inflation and monetary policy

### Inflation rate (%)

	Sep	Aug	July	June
Australia	n/a	n/a	n/a	6.1
Canada	n/a	4.0	3.3	2.8
China	n/a	0.2	-0.2	0.1
Euro Area	4.3	5.2	5.3	5.5
France	4.9	4.9	4.3	4.5
Germany	4.5	6.1	6.1	6.4
India	n/a	6.8	7.4	4.9
Italy	5.3	5.4	5.9	6.4
Japan	n/a	3.2	3.3	3.3
Saudi Arabia	n/a	2.0	2.3	2.7
South Korea	3.7	3.4	2.3	2.7
Spain	n/a	2.6	2.3	1.9
Sweden	n/a	7.5	9.3	9.3
UK	n/a	6.7	6.8	7.9
US	n/a	3.7	3.3	3.1

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

### Interest rates (%)

	Last	Jan '23
	4.10	3.10
	5.00	4.25
	4.35	4.35
	4.50	2.50
	4.50	2.50
	4.50	2.50
	6.50	6.25
	4.50	2.50
	-0.10	-0.10
	6.00	5.00
	3.50	3.25
	4.50	2.50
	4.00	2.50
	5.25	3.50
	5.50	4.50

### Asset purchasing

	Latest (\$)	1m change (%)
	0.34 tn	-7.2
	257 bn	-2.5
	5.72 tn	2.1
	7.48 tn	-1.4
	1.81 tn	0.2
	2.66 tn	-1.6
	379 bn	1.3
	1.35 tn	-1.9
	4.96 tn	-0.7
	470 bn	-1.3
	424 bn	-5.6
	487 bn	0.4
	124 bn	-3.2
	1.31 tn	-0.5
	7.96 tn	-1.9

Source: Knight Frank, Macrobond



### Is the Logistics sector delivering on ESG?

The real estate sector is currently experiencing an ESG wake-up call. Recognising its contribution of around a third of total energy consumption and just shy of 40% of CO2 emissions, governments are introducing ESG-focused legislation and strategies to ensure corporations and the real estate sector take action.

[View Report](#)



### Healthcare Development Opportunities 2023

The continued interest in UK healthcare markets is based on strong fundamental drivers such as demographic shifts, secure income and consistency regarding performance – so understanding current and future supply levels is becoming increasingly important.

[View Report](#)

#### Recent research



#### Life Sciences & Innovation Insight – Q2 2023

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



#### UK CRE Quarterly Review – August 23

The latest CRE Review analyses the Q2 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



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