

Leading Indicators

Key economic and financial metrics, updated weekly

12th December 2023

Navigating 2024: why optimism is growing

-75bps

Money markets are currently pricing in 75bps of rate cuts by the end of next year, bringing the base rate to 4.50%

3.50%

Forecast UK 10-year gilt yield by the end of 2024, according to Capital Economics

-13%

Carbon emissions from the UK built environment moderated by -13% between 2018 and 2022

2024: WEAKER GROWTH, SOFTER INFLATION

The UK is expected to avoid a recession next year, but the outlook continues to be soft. The OBR forecasts +0.7% GDP growth in 2024, while the consensus forecast is slightly less positive, anticipating +0.4% growth.

However, one view is that the inflation story will be less dramatic next year. The OBR expects inflation to fall to 2.8% by Q4 2024. The inflation rate is not expected to return to the 2.0% target until Q2 2028.

With a lower inflationary environment, markets expect the Bank of England (BoE) to start cutting its interest rate in 2024. However, the question remains about when it will do this, and by how much. Currently, money markets expect three 25bps rate cuts from the BoE next year, the first as early as June. One month ago, money markets were only pricing in two rate cuts in 2024.

CRE INVESTMENT: SEARCHING FOR THE TURNING POINT

With global and UK CRE investment volumes nearly halving y/y in 2023 YTD, we are expecting investment to at least slightly improve next year, for three key reasons.

Firstly, interest rates and market rates are forecast to come down by H2 2024, which will mean a more favourable CRE lending and investing environment. Additionally, economists are anticipating further compression in the risk-free rate next year, from 3.99% currently (its lowest level since May) to 3.50% by the end of the year. This should also help create a more attractive CRE investment market in 2024.

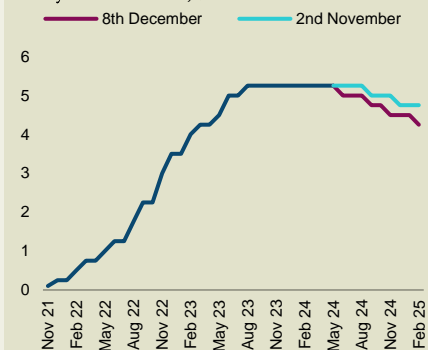
With lenders being less lenient on non-performing loans, we are also likely to see more assets come to market next year, further improving investment volumes. Lastly, there is a growing sense that the current window of opportunity to buy at significant discounts is finite.

BUILT ENVIRONMENT CENTRE STAGE AT COP 28

At COP 28, 27 countries, including the UK, US, and China, pledged their commitment to the 'Buildings Breakthrough' initiative. The initiative aims to make 'near-zero and resilient buildings' the new normal by 2030, ambitious given that buildings account for c.40% of global energy-related CO₂ emissions. The UKGBC estimates that UK carbon emissions from the built environment fell by 13% between 2018 and 2022, missing the 19% required to meet the UK's net zero pathway. During 2020 alone, actual emissions reduced by -9%. Overall, the shortfall represents 11 MtCO₂e of carbon emissions, equivalent to the annual polluting output of 6.5 million cars.

Money market expectations of the UK base rate continues to moderate

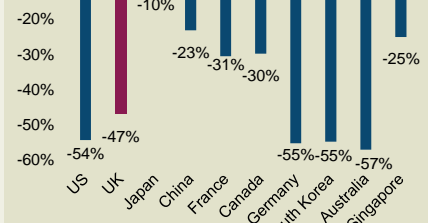
Policy rate forecasts, %



Source: Knight Frank Research, Bloomberg, Macrobond

Despite a moderation in investment, the UK remains 2nd most invested market globally

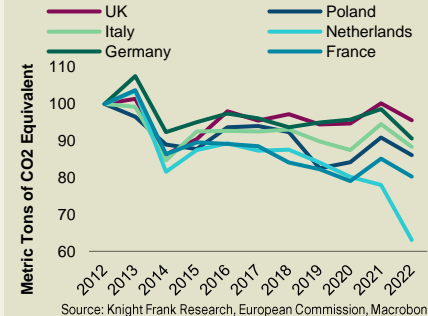
y/y % change in Q1 - Q3 investment in the top 10 global CRE investment markets in 2023



Source: Knight Frank Research, RCA

The effort to moderate CRE greenhouse gas emissions is underway

Buildings Greenhouse Gas Emissions Index, 2012 = 100



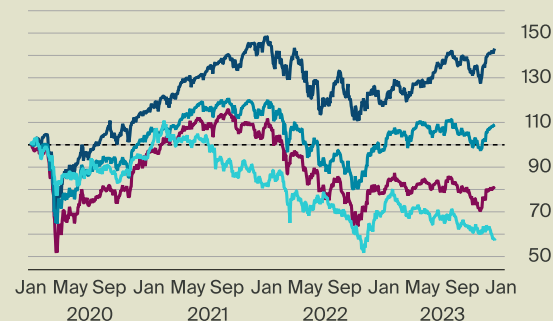
Source: Knight Frank Research, European Commission, Macrobond

Equities

Equity markets

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

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



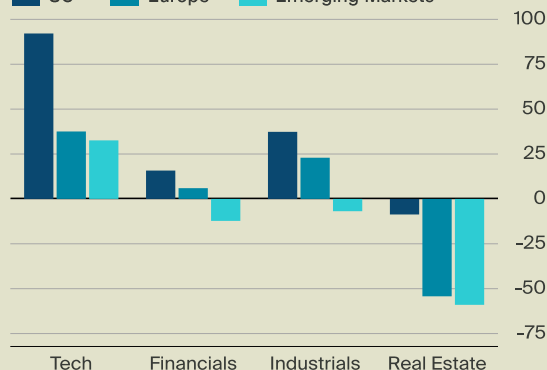
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	7,141	0.6	1.5	9.7	7.9
FTSE 250	23,538	0.5	1.1	6.2	-18.8
Hang Seng	2,098	0.3	-1.5	-6.4	-42.0
IBEX 35	10,957	0.1	-0.4	8.7	2.2
MIB	32,692	0.6	0.7	6.5	24.2
S&P 500	4,622	0.8	0.6	6.3	43.1
STOXX 600	509	0.6	0.7	6.1	9.1
TOPIX	16	-0.1	0.1	3.9	1.8

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



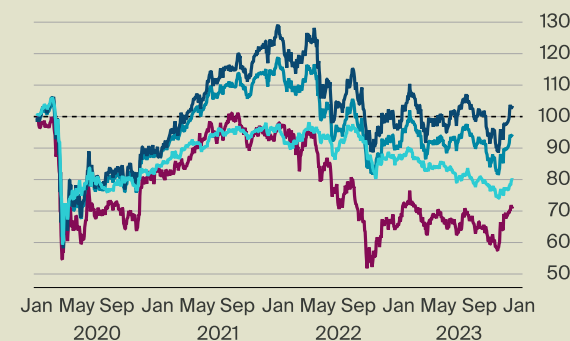
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	92.1%	37.5%	32.6%
Financials	15.8%	6.0%	-12.2%
Industrials	37.3%	22.9%	-6.9%
Real Estate	-8.7%	-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

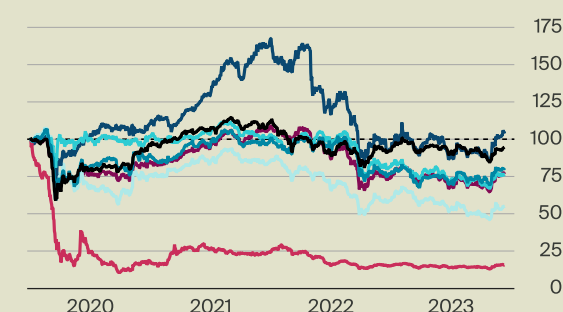
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,472	0.5	0.7	11.5	3.4
Europe	2,036	0.1	1.5	10.0	-28.6
World	3,032	0.3	1.0	10.3	-5.6
Asia Pacific	3,139	0.1	2.6	5.7	-20.0

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

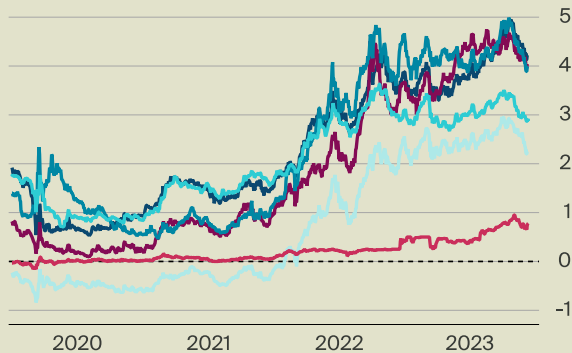
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	796	0.5	1.9	7.6	-22.2
Office	1,629	-0.2	2.0	4.6	-45.1
Industrial	1,306	0.1	2.3	8.9	5.3
Retail	56	-0.2	-2.2	8.5	-84.3
Healthcare	1,729	0.4	-1.0	2.1	-23.7
Residential	1,230	0.7	0.1	3.1	-19.4
FTSE 250	16,141	0.7	2.0	4.3	-5.3

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



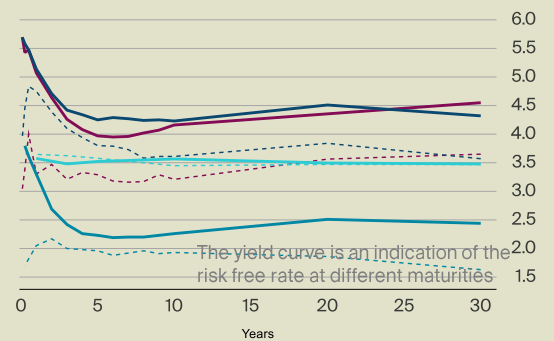
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.00	4.00	3.92	4.50	1.40
Japan	0.78	0.77	0.69	0.83	-0.03
Singapore	2.87	2.92	2.92	3.10	1.74
UK	4.04	n/a	4.03	4.34	0.82
US	4.23	4.23	4.18	4.61	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

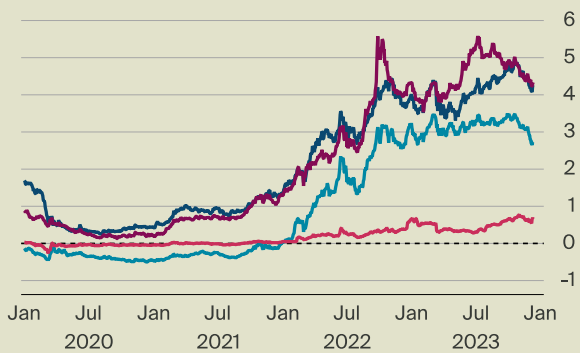


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



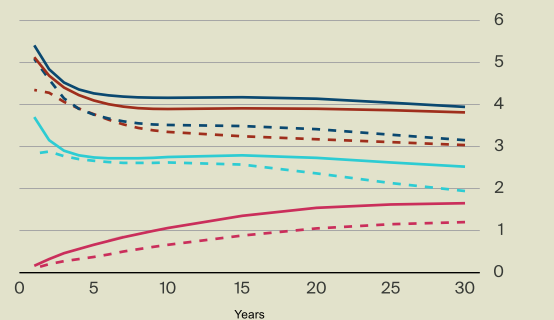
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.74	2.73	2.79	3.18	-0.13
Japan	0.66	0.69	0.60	0.72	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.34	4.29	4.41	4.58	0.88
US	4.27	4.24	4.21	4.62	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



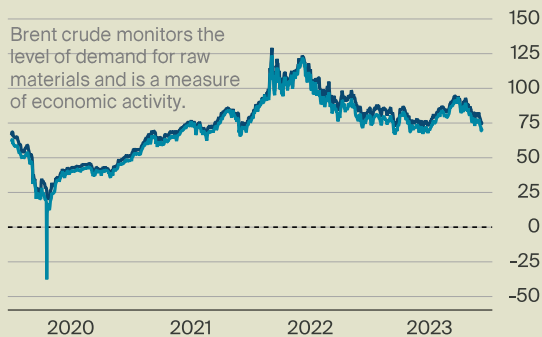
Source: Knight Frank, Macrobond

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	76.0	75.8	78.2	81.6	66.0
WTI, \$ per barrel	71.3	71.2	73	77.2	61.1

Baltic dry index

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

— Baltic dry index



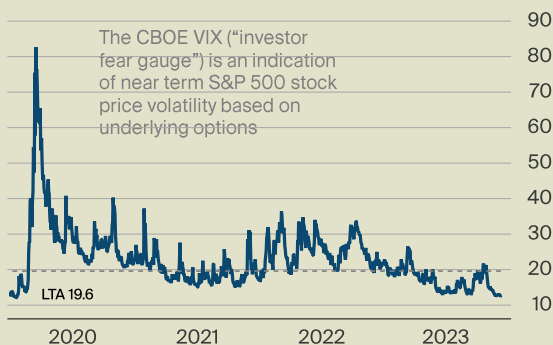
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	2509	0.561	-25	52.7	130

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

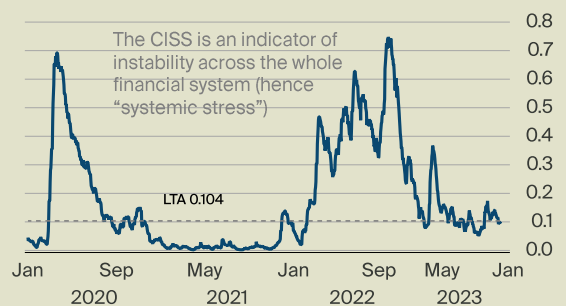
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	12.6	12.6	12.9	14.2	13.8
Euro Stoxx 50 VIX	13.7	13.7	14.0	16.0	14.0
Nikkei VIX	18.1	18.2	17.8	20.0	14.8
KOSPI VIX	14.5	14.6	14.8	17.1	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



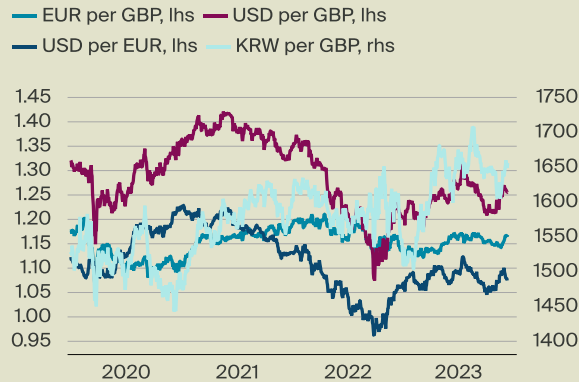
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.109	0.119	0.206	0.023
Equity markets stress sub index	0.053	0.051	0.119	0.009
Bond markets stress sub index	0.065	0.071	0.085	0.02
FX markets stress sub index	0.027	0.030	0.045	0.004

Currencies & Monetary Policy

Currencies

Spot prices

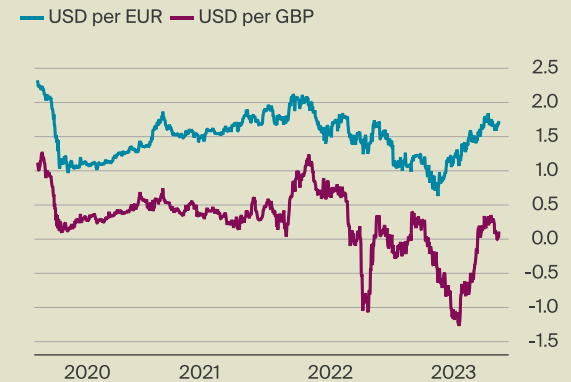


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.168	1.165	1.166	1.143	1.177
KOR per GBP	1.656	1.649	1.653	1.611	1,525
USD per GBP	1.255	1.255	1.261	1.220	1.321
USD per EUR	1.075	1.075	1.082	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	1.73	1.68	1.63	1.68	2.32
USD to GBP	0.11	0.02	-0.01	0.25	1.12

Inflation and monetary policy

Inflation rate (%)

	Nov	Oct	Sep	Aug
Australia	n/a	n/a	5.3	5.3
Canada	n/a	3.1	3.8	4.0
China	-0.4	-0.1	0.1	0.2
Euro Area	2.4	2.9	4.3	5.2
France	3.4	4.0	4.9	4.9
Germany	3.2	3.7	4.5	6.1
India	5.6	4.9	5.0	6.8
Italy	0.8	1.7	5.3	5.4
Japan	n/a	3.3	3.0	3.2
Saudi Arabia	n/a	1.6	1.7	2.0
South Korea	3.3	3.8	3.7	3.4
Spain	n/a	3.5	3.5	2.6
Sweden	n/a	6.5	6.5	7.5
UK	n/a	4.6	6.7	6.7
US	n/a	3.2	3.7	3.7

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 (%)
	0.35 tn	-0.1
	234 bn	0.1
	5.92 tn	1.4
	765 tn	-0.1
	1.73 tn	-0.5
	2.66 tn	-0.6
	382 bn	-0.1
	1.39 tn	-0.1
	5.22 tn	0.5
	470 bn	-3.2
	396 bn	-0.3
	487 bn	-1.0
	123 bn	-5.4
	1.35 tn	-0.5
	7.74 tn	-1.6

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

Source: Knight Frank, Macrobond



Active Capital 2022/2023

Our flagship capital markets research programme, Active Capital, will guide you through the complexities and challenges of global real estate, whilst highlighting the opportunities that lie ahead over the next 18 months.

[Watch the launch](#)



(Y)OURSACE 2023

Knight Frank | Cresa's research indicates that corporate real estate leaders are increasingly challenged by managing complexity across their business, with real estate playing a critical strategic role in supporting business transformation. (Y)OUR SPACE investigates how the future of the workplace is likely to unfold over the next three years.

[View Report](#)

Recent research



Quantifying ESG in real estate

This report covers a selection of our recent analytical projects, as well as practical applications and considerations for clients. It offers clear messages that we hope will inform decision-makers as they make decisions against a rapidly evolving backdrop. We also hope the ideas will spark debate and unlock new areas of investigation.



Retail Property Market Outlook 2023

The 2023 Retail market outlook discusses predictions for the Retail market, providing in-depth commentary on retail sub-sectors and occupier activity amidst economic distress.

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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