

# Leading Indicators

Key economic and financial metrics, updated weekly

14th November 2023

## Rising global geopolitical tensions see renewed demand for safe-haven assets

**+0.0%**

UK GDP annualised quarterly growth, Q3 2023

**4.23%**

Current 5-year SONIA swap rate, its lowest level since May 2023

**+91.7%**

Monthly increase in the geopolitical risk (GPR) index, October 2023

### RACE TO RATE CUTS NOW ON?

UK economic growth was flat in the third quarter of 2023, slowing from a +0.2% expansion in the previous quarter but above market expectations of a -0.1% contraction. This was the weakest pace of growth since Q3 2022, suggesting the weight of the BoE's historic monetary tightening run is beginning to take effect.

As we approach the end of the tightening cycle, attention turns to which advanced economy will be the first to see interest rates fall. Most economists currently forecast at least two rate cuts from the MPC and Fed next year, albeit with differing opinions on when the first rate cut will be. One view from Oxford Economics is that both the Fed and the BoE will start cutting rates in Q3 2024. However, in the Euro Area, rates are expected to fall faster and by a greater amount, with 150bps of rate cuts priced in next year, falling to 3.00% by the end of 2024.

Meanwhile, negative interest rates in Japan are forecast to end next April, lifting to 0% from -0.1% currently, according to Oxford Economics.

### UK BORROWING TO SUPPORT BOE'S INFLATION TARGET

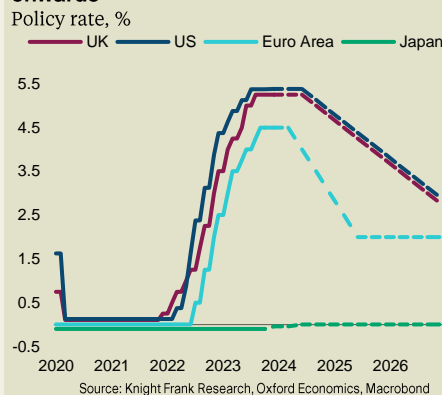
Following the pandemic-induced surge in borrowing and more than a year after the 'mini-budget' that would have seen the UK run substantial deficits to fund tax cuts, government borrowing is roughly in line with pre-pandemic levels, at least relative to the size of the economy. This priority of fiscal restraint and lowering inflation to the 2% target will likely continue for some time. The topic even featured in the King's Speech last week and will most likely be a strong focus in the Autumn Statement on 22nd November.

In line with less government borrowing, the UK 30-year gilt yield has fallen back to c.4.7% from above 5% in October. Meanwhile, the 5-year SONIA swap rate is currently at 4.23%, a six-month low. As financing costs remain elevated, we may see more CRE transactions next year, should investors choose not to refinance and bring assets to market instead.

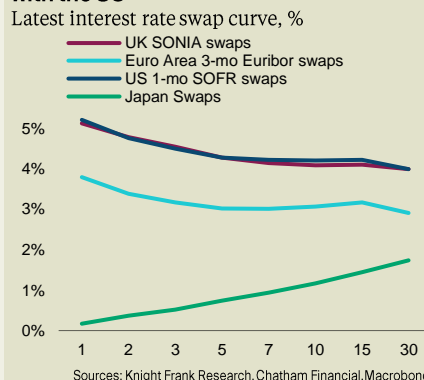
### GEOPOLITICAL RISK REACHES 17-MONTH HIGH

The geopolitical risk (GPR) index has increased by +91.7% m-m in October to its highest level since May 2022, but remains below the recent peak in early 2022, following the outbreak of war in Ukraine. Safe-haven assets, including commercial real estate, typically receive renewed demand in times of heightened geopolitical tension. Indeed, global cross border CRE investment totalled \$18.2bn over September and October, a +26% increase compared to investment over July and August. Cross-border investment was up +25% in the UK over the same period.

### Interest rates expected to decline in 2024 onwards

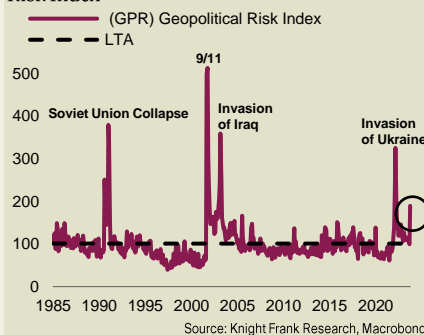


### The cost of debt in the UK is now aligned with the US



### Global geopolitical risk rises +92% m-m

World, Economic Policy Uncertainty, Geopolitical Risk Index

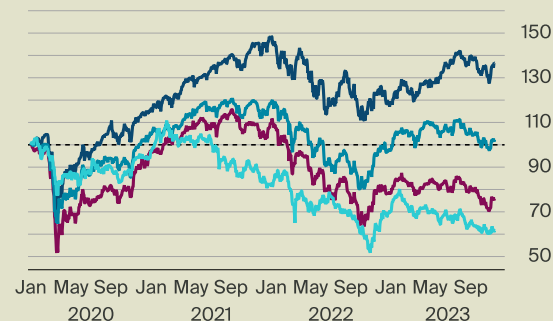


# Equities

## Equity markets

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

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



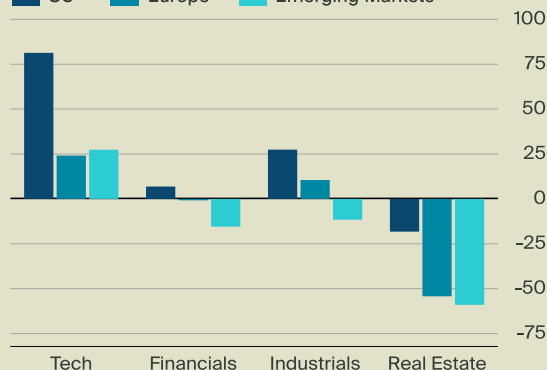
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
DAX 30	6,489	-0.3	0.6	0.7	-1.9
FTSE 250	21,945	-1.0	-1.4	0.7	-24.3
Hang Seng	2,228	1.2	-3.0	-4.4	-38.4
IBEX 35	10,112	0.4	1.3	2.6	-5.6
MIB	30,913	0.7	0.4	2.8	17.4
S&P 500	4,412	1.5	1.2	1.4	36.5
STOXX 600	477	-0.5	0.1	-0.3	2.3
TOPIX	15	0.2	-1.9	-1.1	-2.0

## Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



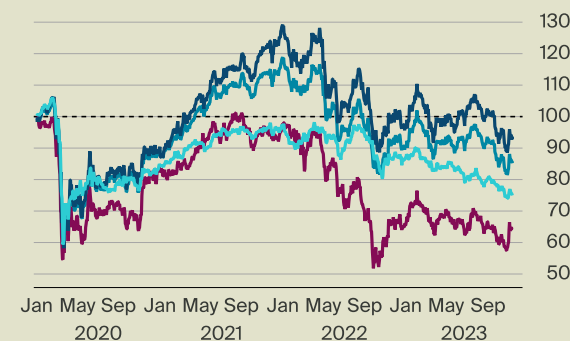
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	81.3%	24.1%	27.4%
Financials	6.9%	-0.8%	-15.5%
Industrials	27.4%	10.5%	-11.6%
Real Estate	-18.2%	-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

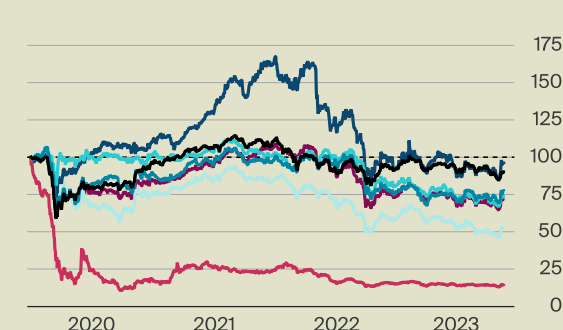
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
US	2,216	0.0	-3.4	-2.3	-7.3
Europe	1,824	-1.5	-3.8	3.9	-36.0
World	2,736	-0.4	-3.3	-1.9	-14.8
Asia Pacific	2,942	-0.9	-2.1	-3.9	-25.0

## 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

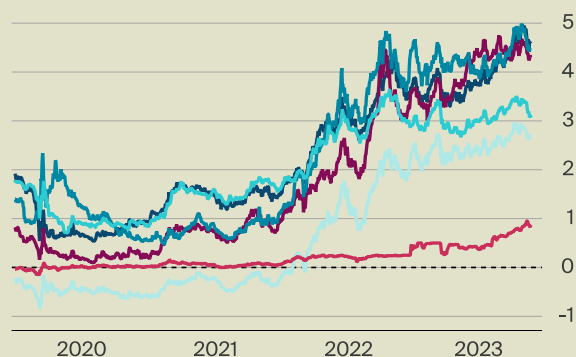
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
All REITs	735	-0.7	-2.1	3.3	-28.2
Office	1,553	-0.2	-1.7	6.9	-47.6
Industrial	1,182	-1.4	-2.9	3.1	-4.7
Retail	54	4.6	2.4	6.2	-84.9
Healthcare	1,672	-1.2	-3.5	6.2	-26.2
Residential	1,180	-1.0	-0.6	4.1	-22.7
FTSE 250	15,367	-0.7	-0.3	0.7	-9.8

# Bonds & Rates

## Government bond yields

10 year government bond yields, %

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



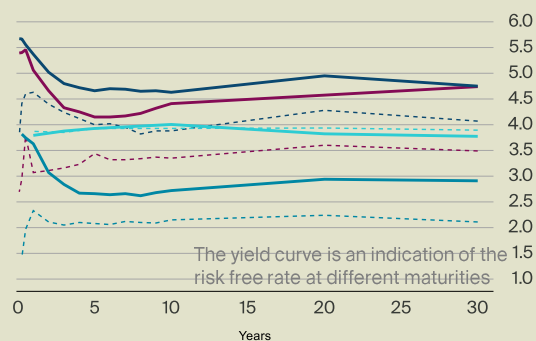
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.50	4.50	4.48	4.76	1.40
Japan	0.87	0.85	0.87	0.75	-0.03
Singapore	3.07	3.10	3.18	3.32	1.74
UK	4.31	4.31	4.27	4.39	0.82
US	4.63	4.63	4.58	4.63	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



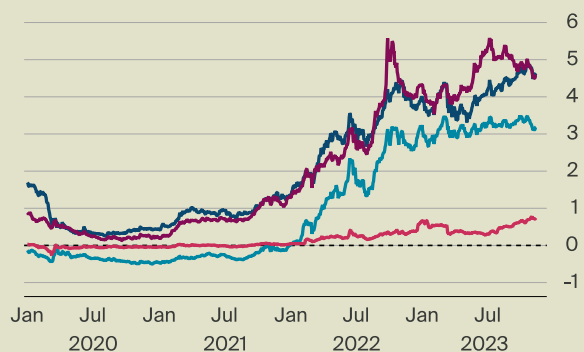
The yield curve is an indication of the risk free rate at different maturities

Source: Knight Frank, Macrobond

## Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



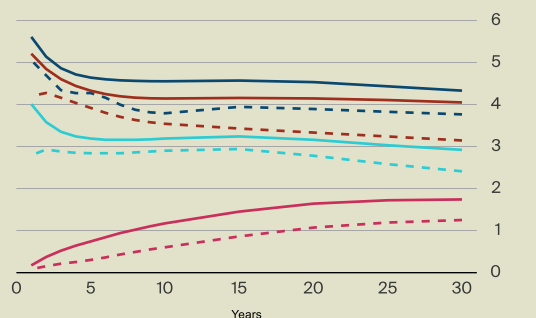
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.19	3.18	3.16	3.34	-0.13
Japan	0.74	0.72	0.72	0.61	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.56	4.58	4.59	4.77	0.88
US	4.64	4.62	4.56	4.67	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



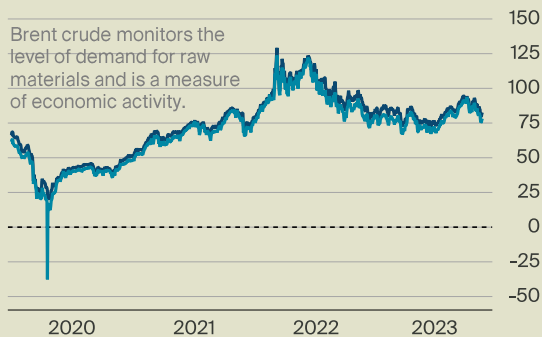
Source: Knight Frank, Macrobond

# 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	82.6	81.6	85.1	90.9	66.0
WTI, \$ per barrel	78.3	77.2	80.8	87.7	61.1

## Baltic dry index

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

— Baltic dry index



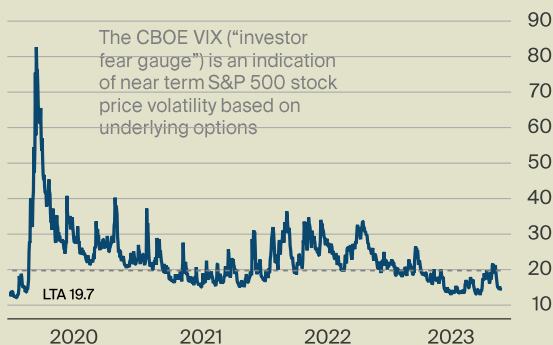
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1655	3.57	8.67	-14.9	51.8

## 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	14.8	14.8	14.8	19.3	13.8
Euro Stoxx 50 VIX	15.9	15.9	16.7	20.2	14.0
Nikkei VIX	18.7	19.5	19.9	21.0	14.8
KOSPI VIX	17.4	17.7	18.2	16.0	14.7

## Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



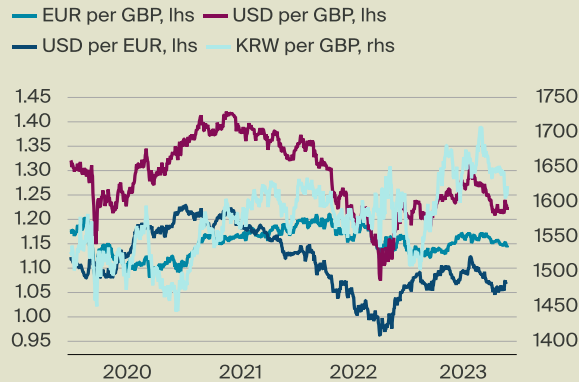
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.183	0.207	0.130	0.023
Equity markets stress sub index	0.072	0.119	0.068	0.009
Bond markets stress sub index	0.073	0.085	0.070	0.02
FX markets stress sub index	0.007	0.045	0.031	0.004

# Currencies & Monetary Policy

## Currencies

### Spot prices

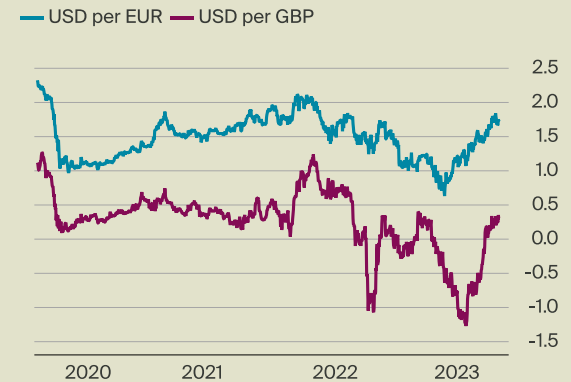


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.146	1.143	1.154	1.156	1.177
KOR per GBP	1,623	1,611	1,606	1,643	1,525
USD per GBP	1.225	1.220	1.240	1.214	1.321
USD per EUR	1.071	1.071	1.075	1.050	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	1.75	1.74	1.73	1.62	2.32
USD to GBP	0.31	0.30	0.25	0.17	1.12

## Inflation and monetary policy

### Inflation rate (%)

	Oct	Sep	Aug	Jul
Australia	n/a	5.3	5.3	5.3
Canada	n/a	3.8	4.0	3.3
China	-0.1	0.1	0.2	-0.2
Euro Area	2.9	4.3	5.2	5.3
France	4.0	4.9	4.9	4.3
Germany	3.7	4.5	6.1	6.1
India	4.9	5.0	6.8	7.4
Italy	1.8	5.3	5.4	5.9
Japan	n/a	3.0	3.2	3.3
Saudi Arabia	n/a	1.7	2.0	2.3
South Korea	3.8	3.7	3.4	2.3
Spain	3.5	3.5	2.6	2.3
Sweden	6.5	6.5	7.5	9.3
UK	n/a	6.7	6.7	6.8
US	n/a	3.7	3.7	3.3

### 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 (%)
	0.34 tn	-0.2
	240 bn	-7.4
	5.85 tn	2.6
	743 tn	-0.8
	1.74 tn	-1.8
	2.66 tn	-0.6
	382 bn	2.4
	1.35 tn	-0.4
	4.96 tn	1.1
	486 bn	3.4
	396 bn	-0.3
	487 bn	0.0
	124 bn	-0.3
	1.32 tn	-0.5
	7.86 tn	-1.2

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.

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## 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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