

# Leading Indicators

Key economic and financial metrics, updated weekly

15th August 2023

## Divergence emerges in the global inflation story

### 4.2%

UK unemployment rate, three months to June 2023

### 6.7%

Economist consensus forecast of July 2023 UK inflation rate

### +19.8%

Month on month increase in the CBOE VIX volatility index

### UK LABOUR MARKET CONTINUES TO LOOSEN

The UK's unemployment rate increased by 0.3ppts to 4.2% in the three months to June 2023, its highest level since September 2021 and above forecasts of 4.0%. Since October 2022, the UK unemployment rate has risen by just 0.5ppts, yet UK inflation has fallen from 11.1% to 7.9%. As a result, some are questioning whether unemployment is the right labour market metric to track. Job vacancies, which moderated for the 13th consecutive 3-month period in June, may be a more telling measure.

At 7.8%, June's annual growth in regular pay (excl. bonuses) reached the highest level since records began in 2001. With wages continuing to accelerate, economists widely expect at least one more rate hike from the Bank of England (BoE). Money markets are currently pricing in a 25bps rate hike from the BoE on 21st September and a further 50bps of tightening through March, taking its base rate to 6.0%.

### GLOBAL INFLATION STORY DIVERGES

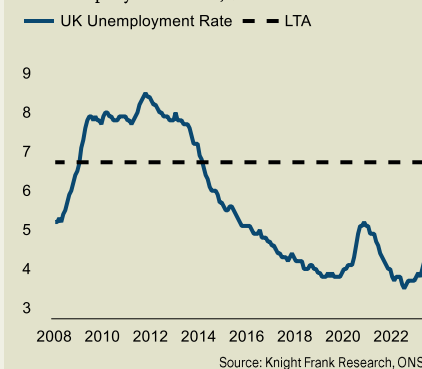
Inflation will remain the topic of conversation this week, when the UK figures for July are published tomorrow. The consensus forecast envisages a fall to 6.7% in July, from 7.9% in June, while the BoE forecasts a moderation to 6.8%. Overall, the central bank expects inflation will decline to 5.0% by the end of this year, and reach its 2.0% target by early 2025. In the eurozone, inflation fell for the third successive month to 5.3% in July, its lowest level since January 2022. Meanwhile, in the US, inflation accelerated slightly for the first time in 12 months to 3.2% in July from 3.0% in June. China has already moved into deflation, with prices falling by 0.3% y/y in July, the first decrease since February 2021. In response, China's central bank lowered its rate on one-year loans by 15bps to 2.5%, its second reduction since June. This aligns with China's subdued economic performance, with GDP expanding by just +0.8% q/q in Q2 2023.

### UNCERTAINTY RISING, AGAIN

The summer has witnessed a resurgence in global uncertainty, with political drivers at the forefront. Most recently, elections in Spain and Italy have made headlines, and the run-up to next year's elections in the UK and US has already started. More concerning, this month has seen a coup in Niger, ongoing conflict in Ukraine, and multiple live examples of climate change. These events are a stark reminder of the implications of uncertainty on global prices, growth, and stability – in addition to the obvious human cost. Financial markets are beginning to reflect this uncertainty, with the CBOE VIX volatility index up by +19.8% over the month. Experience suggests that some investors will favour private assets, including direct real estate, as a place to weather the storm.

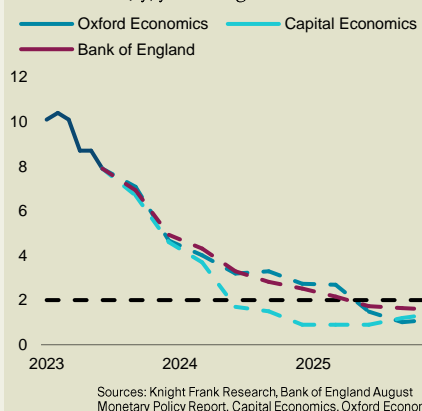
### UK unemployment elevated, but firmly below long term average

UK unemployment rate, %



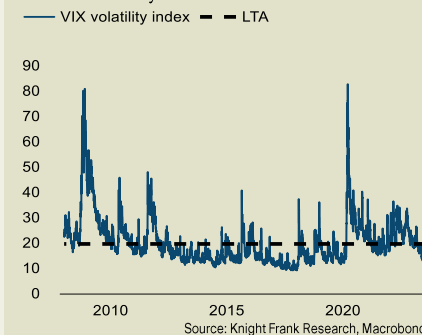
### UK Inflation at or below target by 2025

CPI Forecasts, y/y % change



### Volatility edges up

CBOE volatility index (VIX), near term stock market volatility

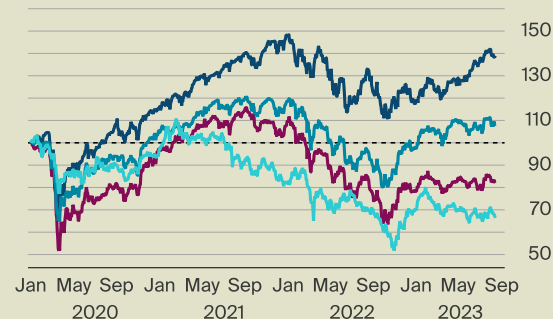


# Equities

## Equity markets

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

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



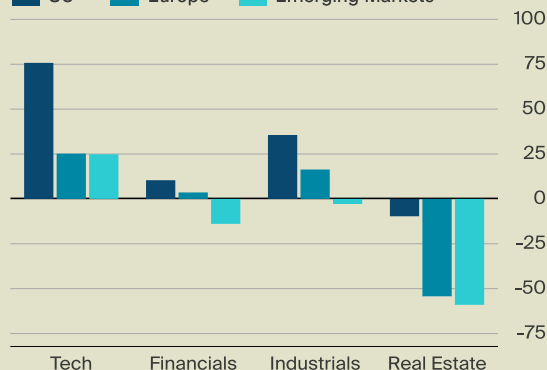
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
DAX 30	6,865	-1.5	-1.4	-4.0	3.7
FTSE 250	23,761	-1.7	-1.6	-2.8	-18.0
Hang Seng	2,401	-2.5	-4.0	-3.0	-33.6
IBEX 35	10,285	-1.7	-0.4	-3.1	-4.0
MIB	31,016	-1.4	-1.6	-3.7	17.8
S&P 500	4,490	0.5	0.3	-0.5	39.0
STOXX 600	502	-1.9	-0.9	-2.9	7.5
TOPIX	16	-1.2	-1.8	-2.9	-0.2

## Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



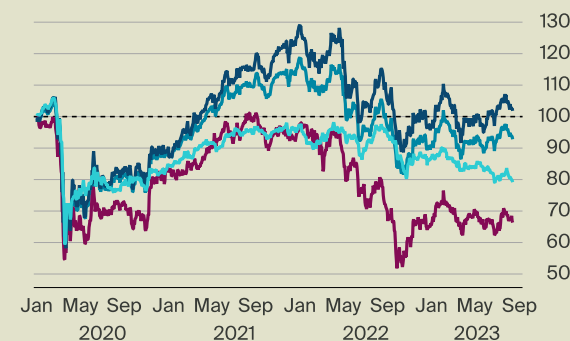
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	75.8%	25.2%	24.8%
Financials	10.4%	3.6%	-13.9%
Industrials	35.6%	16.4%	-2.8%
Real Estate	-9.7%	-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

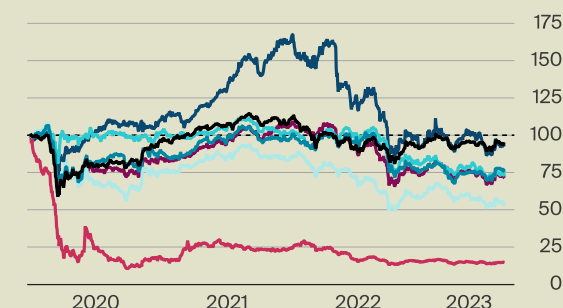
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
US	2,434	-0.6	-0.4	-3.5	1.8
Europe	1,891	-3.1	-2.3	-4.1	-33.7
World	2,982	-1.1	-1.0	-3.9	-7.2
Asia Pacific	3,108	-1.0	-1.3	-3.3	-20.8

## 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

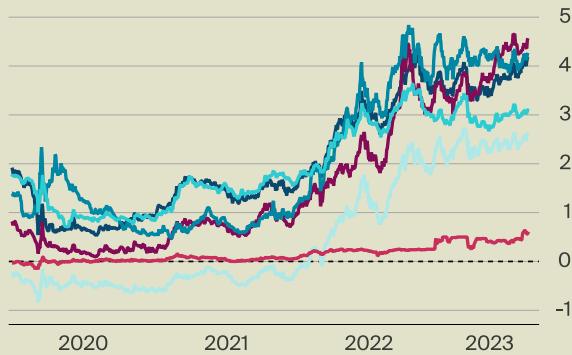
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
All REITs	728	-2.8	-2.1	0.3	-28.8
Office	1,557	-3.7	-5.7	-3.8	-47.5
Industrial	1,145	-2.4	-0.5	1.3	-7.7
Retail	52	-2.6	-1.1	1.0	-85.5
Healthcare	1,642	-3.4	-2.2	-0.9	-27.6
Residential	1,149	-2.4	-2.5	2.6	-24.7
FTSE 250	15,955	-1.2	-0.8	1.0	-6.4

# Bonds & Rates

## Government bond yields

10 year government bond yields, %

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



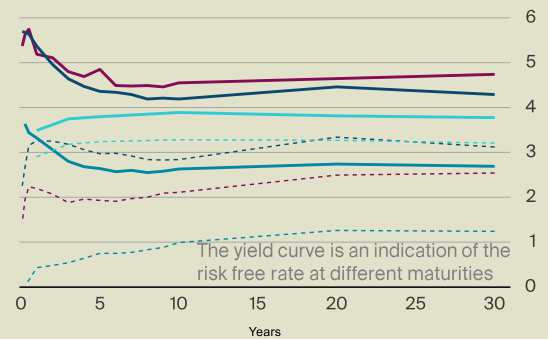
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.27	4.27	4.13	4.11	1.40
Japan	0.61	0.58	0.61	0.46	-0.03
Singapore	3.13	3.13	3.03	3.06	1.74
UK	4.57	4.57	4.39	4.44	0.82
US	4.19	4.19	4.02	3.83	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

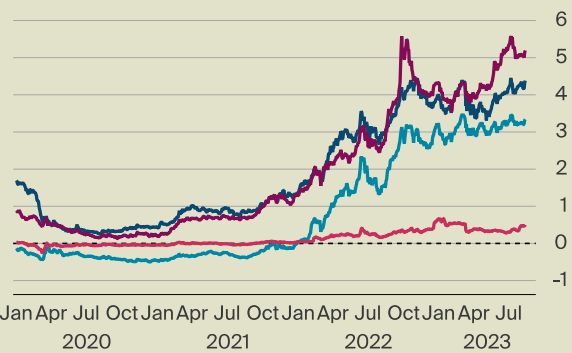


Source: Knight Frank, Macrobond

## Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



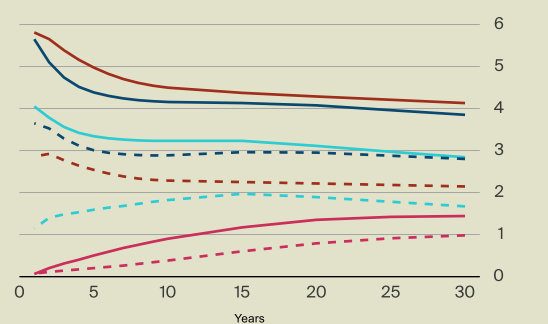
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.34	3.32	3.28	3.30	-0.13
Japan	0.50	0.47	0.47	0.39	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	5.20	5.15	5.09	5.29	0.88
US	4.38	4.33	4.22	4.07	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



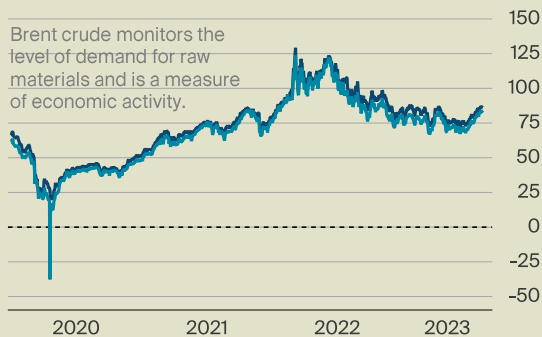
Source: Knight Frank, Macrobond

# 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	86.2	86.6	85.8	79.6	66.0
WTI, \$ per barrel	82.5	83.2	81.9	75.4	61.1

## Baltic dry index

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

— Baltic dry index



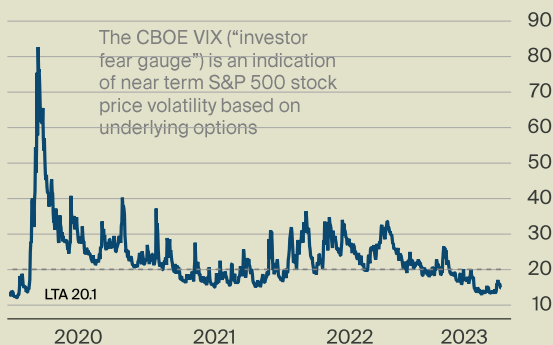
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1135	-0.176	-0.873	4.13	4.13

## 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	16.0	13.3	13.8
Euro Stoxx 50 VIX	18.1	18.1	19.5	14.8	14.0
Nikkei VIX	18.9	19.7	20.1	20.5	14.8
KOSPI VIX	14.1	14.1	15.4	13.2	14.7

## Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



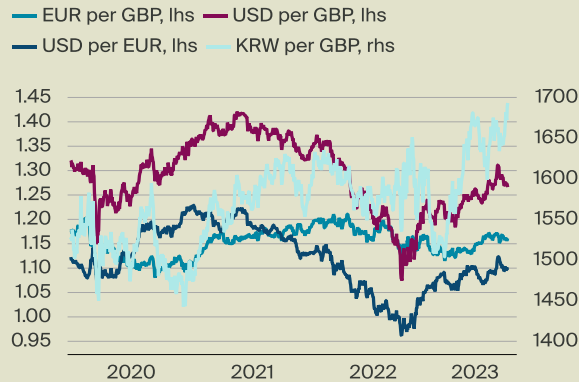
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.201	0.173	0.246	0.023
Equity markets stress sub index	0.072	0.064	0.075	0.009
Bond markets stress sub index	0.082	0.065	0.081	0.02
FX markets stress sub index	0.031	0.022	0.019	0.004

# Currencies & Monetary Policy

## Currencies

### Spot prices

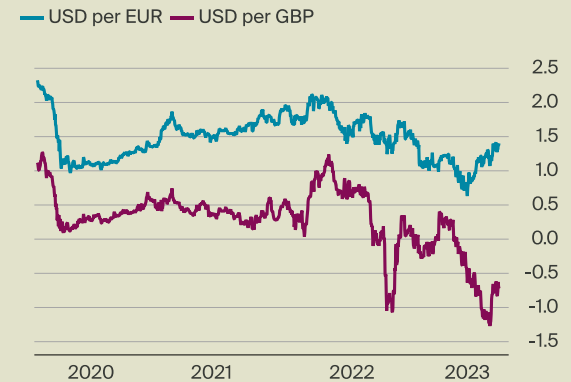


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.161	1.159	1.161	1.167	1.177
KOR per GBP	1,693	1,689	1,671	1,663	1,525
USD per GBP	1.266	1.271	1.277	1.312	1.321
USD per EUR	1.096	1.096	1.100	1.124	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	1.40	1.37	1.27	1.12	2.32
USD to GBP	-0.72	-0.69	-0.82	-1.23	1.12

## Inflation and monetary policy

### Inflation rate (%)

	July	June	May	Apr
Australia	n/a	6.1	6.1	6.1
Canada	n/a	2.8	3.4	4.4
China	-0.2	0.1	0.3	0.3
Euro Area	5.3	5.5	6.1	7.0
France	4.3	4.5	5.1	5.9
Germany	6.1	6.4	6.0	7.1
India	7.4	4.9	4.3	4.7
Italy	5.9	6.4	7.6	8.2
Japan	n/a	3.3	3.2	3.5
Saudi Arabia	2.3	2.7	2.8	2.7
South Korea	2.3	2.7	3.3	3.7
Spain	2.3	1.9	3.2	4.0
Sweden	9.3	9.3	9.7	10.5
UK	n/a	7.9	8.7	8.7
US	3.3	3.1	4.1	5.0

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

### Interest rates (%)

	Last	Jan '21
	4.10	0.10
	5.00	0.25
	4.35	4.35
	4.25	0.00
	4.25	0.00
	4.25	0.00
	6.50	4.00
	4.25	0.00
	-0.10	-0.10
	6.00	1.00
	3.50	0.50
	4.25	0.00
	3.75	0.00
	5.25	0.10
	5.50	0.25

### Asset purchasing

	Latest (\$)	1m change (%)
	0.39 tn	-1.5
	271 bn	0.1
	5.71 tn	-2.4
	787 tn	-0.7
	1.83 tn	-6.0
	2.83 tn	-1.1
	360 bn	2.6
	1.44 tn	-0.2
	5.15 tn	1.4
	489 bn	-2.1
	437 bn	5.0
	487 bn	-0.8
	132 bn	0.6
	1.37 tn	-0.5
	8.21 tn	-1.1

Source: Knight Frank, Macrobond



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#### 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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