

Leading Indicators

A 'summer of angst': Fact or fiction?

+25bps

Current money market expectations for Bank of England interest rate hike on 21st September

25.5%

Of UK businesses surveyed in 10th August ONS BIC survey had assessed risks of climate change

£1bn

UK plan to enhance semiconductor development

DEBATING A 'SUMMER OF ANGST'

In most large economies, inflation is falling, unemployment remains low and economic growth is slowing but not stalling. When the US Federal Reserve Chair, Jerome Powell, hosts the Jackson Hole Economics Symposium on Thursday, attended by his international central bank peers, it is expected that he will hint at the end of the US tightening cycle, while underlining the need to keep interest rates higher for longer. Investors in the UK would welcome that messaging from the Bank of England. However, sterling money markets are currently pricing in a 25bps rate hike on 21st September and a further 50bps of tightening through March, taking the UK base rate to 6.0%. Whether well-founded or not, this anticipation of further rate hikes is stoking market volatility.

But where there is volatility lies opportunity. Brookfield stated recently that now is a "prime time to invest, selectively" in real estate. This aligns with our analysis of previous downturns where investment Managers were typically among the first investor types to come back to the market.

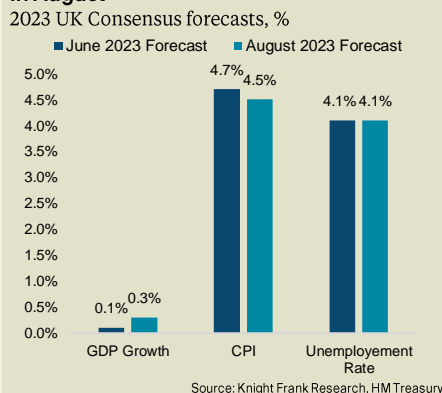
POSITIONING FOR CLIMATE CHANGE

In August's UK Business Insights and Conditions Survey (BICS), just 25.5% of businesses surveyed had assessed the risks of climate change. Of the companies taking action against climate change, 16.0% were adapting to temperature increases, 15.4% to supply chain disruption, 6.6% to increased flooding and 6.5% to water scarcity. For businesses yet to take action, 10.4% did not do so due to costs, 7.3% due to a lack of information or guidance and 17.8% because the businesses did not expect to be impacted by climate change effects. Meanwhile, a recent Cambridge Econometrics and Ortec Finance report assessed how a classic portfolio composed of 60% global equities and 40% bonds performed under varying climate situations. In the most optimistic "net zero" scenario, cumulative returns over 40 years were -10% lower than a baseline that assumed no climate change. The most pessimistic "failed transition" outcome (temp. rise above 4°C from pre-industrial levels by 2100) recorded cumulative returns -40% below the baseline. Businesses should therefore be positioning against climate change to mitigate the impact on returns.

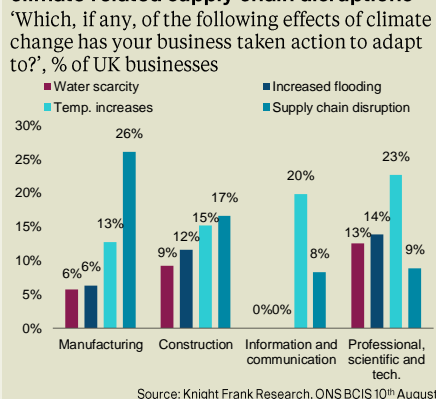
AI REGULATION RACE BEGINS

In an attempt to cement a position as the centre of AI talent and adoption, the UK will host a summit in November on the safety of AI, with world leaders, academics and AI executives in attendance. The event aims to drive targeted, rapid international action and to build on developing the regulatory guardrails needed for the safe and responsible development of AI. While investment in AI technologies may ultimately be dominated by the likes of the US and China, the UK may still benefit from growth in the sector via its influence on regulation.

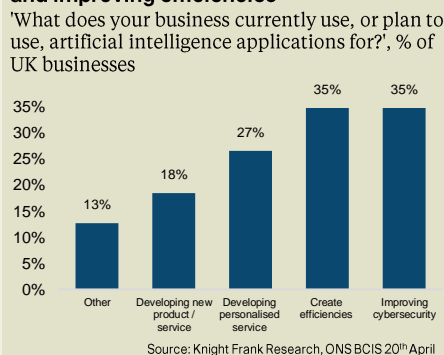
Consensus forecasts improving for the UK in August



UK manufacturing businesses adapting to climate related supply chain disruptions



UK businesses using AI for cybersecurity and improving efficiencies

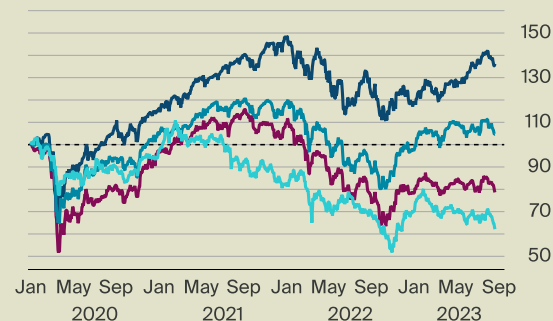


Equities

Equity markets

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

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



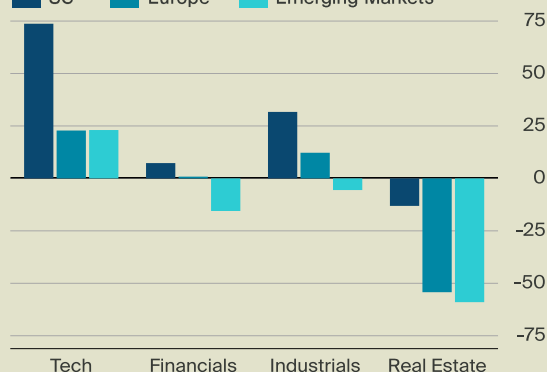
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,722	-0.5	-2.1	-6.0	1.6
FTSE 250	22,787	-2.7	-4.5	-8.2	-21.4
Hang Seng	2,248	-4.0	-7.9	-7.2	-37.9
IBEX 35	10,085	-0.2	-2.5	-5.0	-5.9
MIB	30,470	0.4	-1.7	-5.1	15.7
S&P 500	4,400	0.7	-1.4	-3.0	36.2
STOXX 600	488	-0.6	-3.0	-5.6	4.7
TOPIX	15	0.7	-1.3	-3.9	-1.9

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



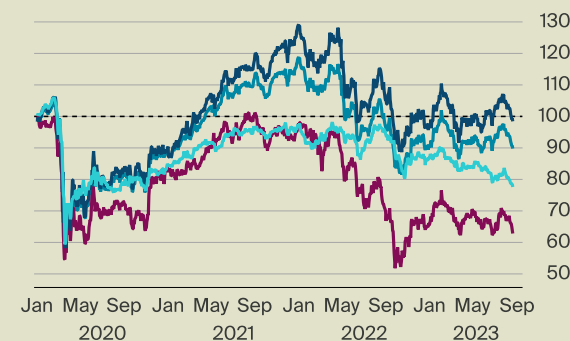
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	73.7%	22.8%	23.1%
Financials	7.3%	0.8%	-15.5%
Industrials	31.7%	12.2%	-5.6%
Real Estate	-13.1%	-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

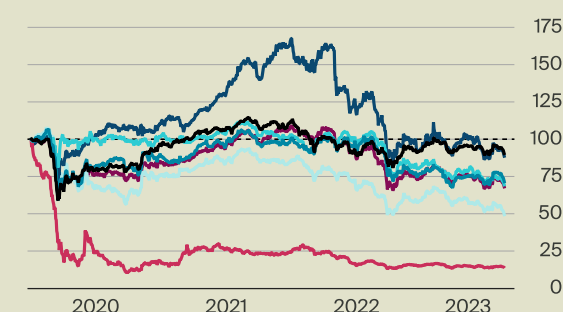
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,353	-0.6	-4.1	-7.0	-1.6
Europe	1,791	-3.4	-6.0	-10.8	-37.2
World	2,884	-1.0	-4.1	-7.3	-10.2
Asia Pacific	3,046	-1.2	-2.7	-5.0	-22.4

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

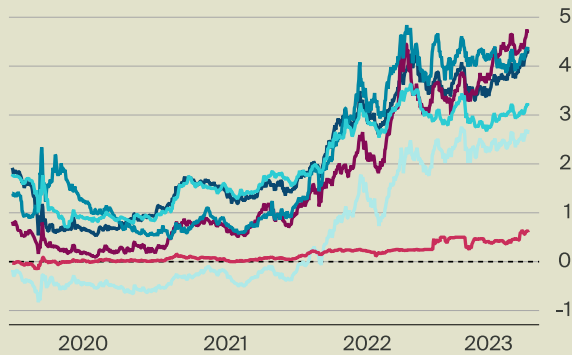
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	686	-3.6	-6.4	-10.6	-33.0
Office	1,433	-5.3	-8.7	-16.2	-51.7
Industrial	1,086	-2.8	-5.6	-9.7	-12.4
Retail	49	-4.1	-6.7	-6.1	-86.4
Healthcare	1,552	-3.4	-6.6	-11.6	-31.6
Residential	1,075	-3.8	-7.0	-9.3	-29.5
FTSE 250	15,234	-2.5	-4.7	-7.1	-10.6

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



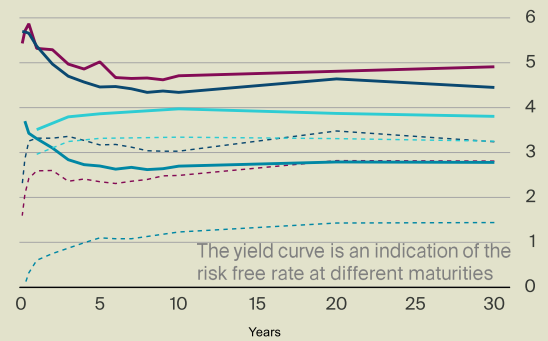
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.39	4.39	4.34	4.00	1.40
Japan	0.64	0.62	0.61	0.46	-0.03
Singapore	3.24	3.24	3.17	2.97	1.74
UK	4.68	n/a	4.59	4.28	0.82
US	4.34	4.34	4.21	3.84	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

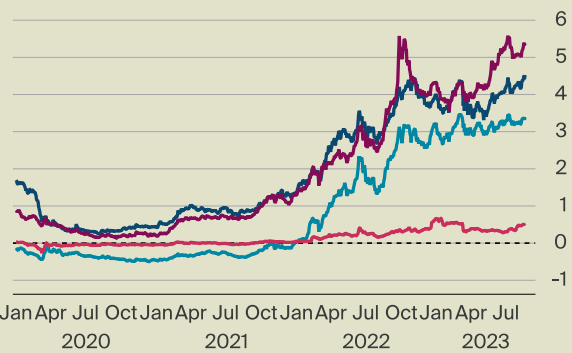


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



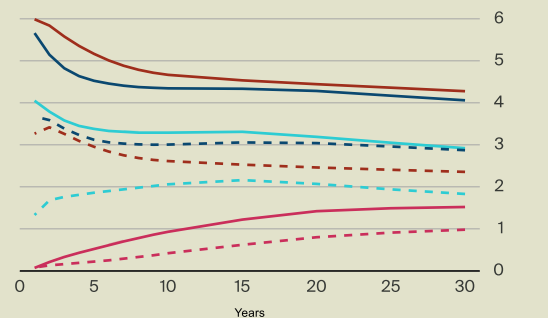
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.38	3.32	3.34	3.26	-0.13
Japan	0.52	0.50	0.50	0.33	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	5.38	5.33	5.20	5.03	0.88
US	4.53	4.41	4.38	4.16	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



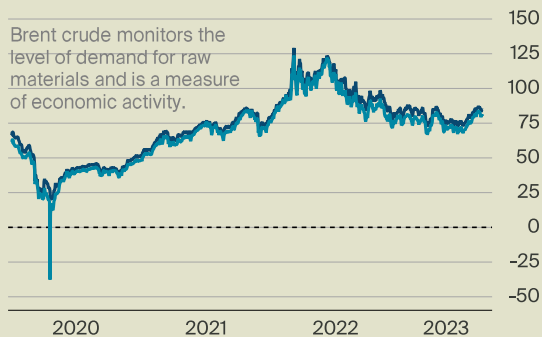
Source: Knight Frank, Macrobond

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	84.5	84.8	86.2	80.7	66.0
WTI, \$ per barrel	80.1	81.3	82.5	77.1	61.1

Baltic dry index

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

— Baltic dry index



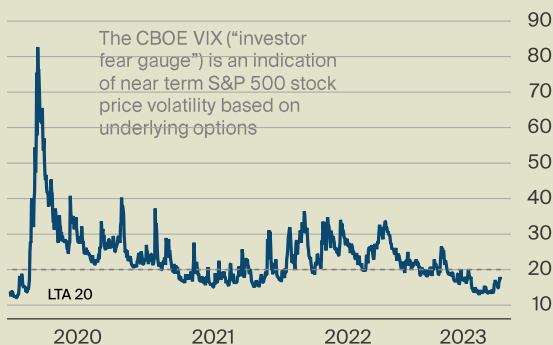
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1223	-1.92	7.75	25.1	12.2

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

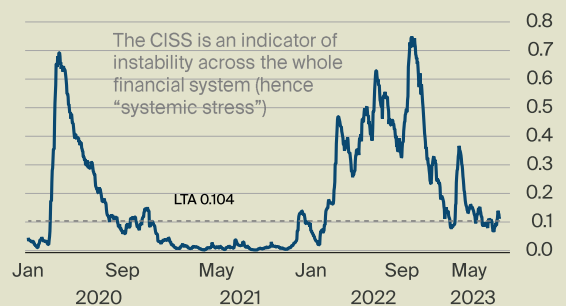
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	17.1	17.1	16.5	13.6	13.8
Euro Stoxx 50 VIX	19.8	19.8	18.9	14.9	14.0
Nikkei VIX	18.9	19.9	18.9	19.8	14.8
KOSPI VIX	15.3	16.0	14.1	13.4	14.7

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

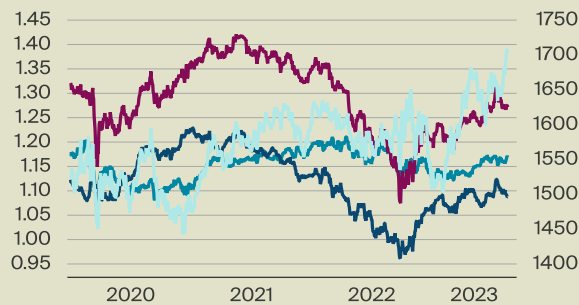
	Last	1 week	1 month	Jan '20
Systemic stress composite	0.181	0.201	0.187	0.023
Equity markets stress sub index	0.059	0.072	0.072	0.009
Bond markets stress sub index	0.070	0.082	0.079	0.02
FX markets stress sub index	0.009	0.031	0.051	0.004

Currencies & Monetary Policy

Currencies

Spot prices

— EUR per GBP, lhs — USD per GBP, lhs
— USD per EUR, lhs — KRW per GBP, rhs



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.170	1.172	1.159	1.164	1.177
KOR per GBP	1,704	1,707	1,689	1,651	1,525
USD per GBP	1.272	1.276	1.271	1.308	1.321
USD per EUR	1.088	1.087	1.096	1.122	1.123

Hedging benefits

Hedging benefit p.a. on a 5 year forward

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Source: Knight Frank, Macrobond

Last 1 day 1 week 1 month Jan '20

Inflation and monetary policy

Inflation rate (%)

	July	June	May	Apr
Australia	n/a	6.1	6.1	6.1
Canada	3.3	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	3.3	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	6.8	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 (%)
	0.38 tn	-1.8
	271 bn	0.1
	5.71 tn	-2.4
	787 tn	-0.5
	1.83 tn	-6.0
	2.8 tn	-0.7
	378 bn	5.5
	1.44 tn	-0.2
	5.13 tn	1.4
	489 bn	-2.1
	437 bn	5.0
	487 bn	-0.8
	130 bn	0.5
	1.37 tn	-0.5
	8.15 tn	-1.7

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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