

# Leading Indicators

Key economic and financial metrics, updated weekly

23<sup>rd</sup> April 2024

## Diverging paths: money markets vs economists

### 4.25%

Economist expectations of the Bank of England interest rate by December 2024

### 16%

Of net initial yields in the UK monthly MSCI index were compressing in March, while 61% were stable

### 16.4

The VIX volatility index has moderated back below the 19.5 LTA to 16.4 currently

### MONEY MARKETS AND ECONOMISTS AT ODDS

Money markets expect the Bank of England's (BoE) interest rate path to be closely aligned with the US. Since January, market expectations have moderated from six rate cuts to just two currently (the same as the US), with the first expected in August. Last week, following the release of above expectations UK inflation data, money markets were pricing in just one interest rate cut in November.

While the US Federal Reserve (Fed) has typically been a bellwether for global interest rates, economists argue that the UK's outlook is more aligned with the European Central Bank's than the Fed's. Economists widely expect the BoE's first 25bps rate cut in June, forecasting the base rate to fall to 4.25% by year-end. In the US, inflation lifted for the second consecutive month in March to 3.5%, while UK inflation fell to its lowest level in two and a half years at 3.2%. This is the first time it has come in below US inflation since April 2022. If the BoE were to diverge, it would be just the second time in nine cutting cycles since 1980 that the BoE moved before the Fed.

### YIELDS STABILISE

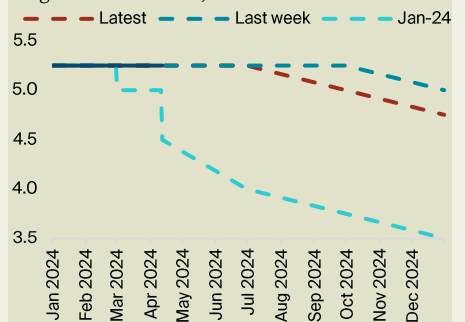
Across the UK Monthly MSCI index, commercial property yields continue to stabilise. In March, 61% of MSCI sector yields were stable on a three-month rolling average basis, the highest proportion of stable yields since April 2022. Meanwhile, 16% of NIYs in the index were compressing in March, its highest level since December 2023. 23% were softening, its lowest level since November 2023. 90% of Industrial yields were stable in March, while 53% of both Office and Retail yields saw no yield movement. [Our latest Investment Yield Guide](#) shows that a greater proportion of prime yields are stable compared to the MSCI index, indicating a lag in correction for non-prime properties. In April, 80% of prime yields were stable, whilst 12% were softening and 8% were compressing. We expect this polarisation in performance of prime and secondary assets to continue. Our Yield Guide points to positive or stable market sentiment for all Industrial and Retail subsectors, and almost all Specialist sectors.

### SPIKES IN VOLATILITY SHORT-LIVED

The CBOE VIX volatility index, also known as the "investor fear gauge," lifted above 20 last week, for the first time since 20<sup>th</sup> October last year. However, the index has since fallen back below the 19.5 LTA to 16.4 currently. Since the escalation in global geopolitical tension last week, oil prices have also moderated, with Brent Crude futures down 1.4% to \$86.04 barrels per day. While volatility continues to fluctuate, overall, markets have so far remained relatively resilient. The level of systemic or financial stress in the UK (-94%), Europe (-78%) and US (-68%) all remain comfortably below their long-term average and close to multi-year lows. Additionally, the FTSE 100 index closed at a record high yesterday.

### Money markets remain reactive to macro data releases

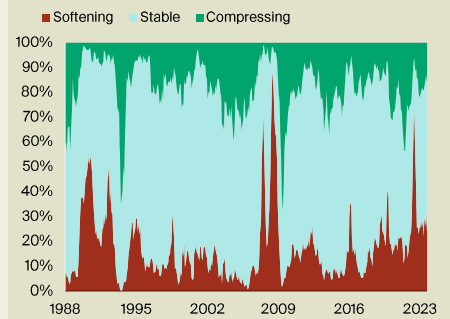
Money market expectations for the Bank of England interest rate, %



Source: Knight Frank Research, Macrobond, Bloomberg

### 61% of UK MSCI all sector yields were stable in March

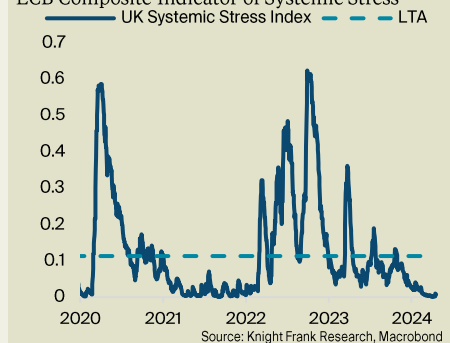
Proportion of UK MSCI all sector NIY's, softening, compressing, stable, 3-month rolling average, %



Source: Knight Frank Research, MSCI

### UK systemic stress remains close to multiyear lows, despite recent volatility

ECB Composite Indicator of Systemic Stress



Source: Knight Frank Research, Macrobond

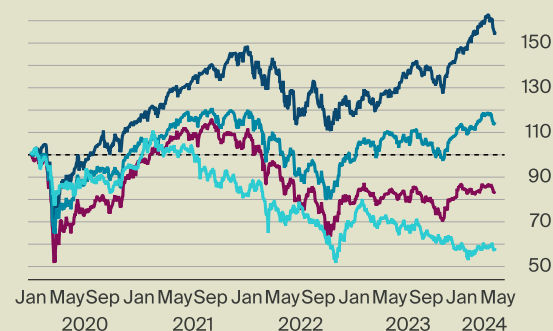
Sources: Capital Economics, Financial Times, Macrobond, MSCI, Trading Economics, Knight Frank Research

# Equities

## Equity markets

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

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



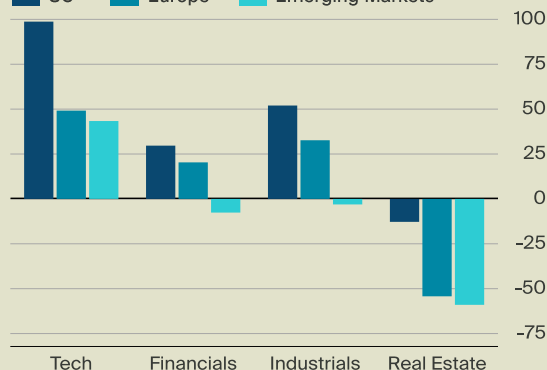
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
DAX 30	7,475	0.0	-0.4	-4.0	12.9
FTSE 250	24,170	-0.2	-1.5	-3.4	-16.6
Hang Seng	2,107	0.7	-1.2	-2.3	-41.8
IBEX 35	11,593	1.1	2.0	-1.8	8.2
MIB	35,900	-0.6	0.0	-3.7	36.4
S&P 500	5,011	0.0	-2.2	-4.4	55.1
STOXX 600	535	0.4	-0.5	-3.5	14.6
TOPIX	17	1.4	-3.4	-6.6	9.1

## Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



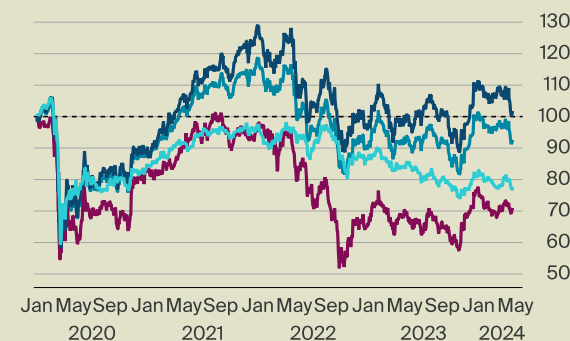
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	98.7%	49.2%	43.4%
Financials	29.7%	20.3%	-7.6%
Industrials	52.0%	32.7%	-3.1%
Real Estate	-12.8%	-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

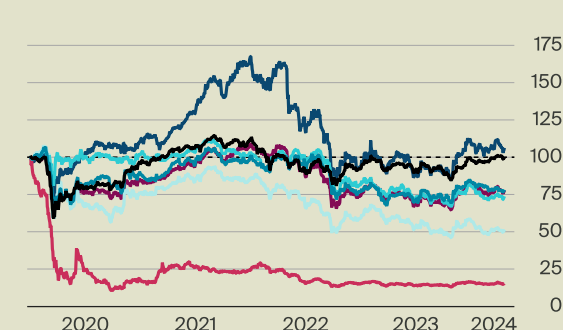
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
US	2,433	1.4	-2.2	-5.9	1.8
Europe	2,024	1.4	1.0	-1.5	-29.0
World	2,975	1.2	-1.9	-5.4	-7.4
Asia Pacific	3,044	0.2	-2.2	-2.8	-22.5

## 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

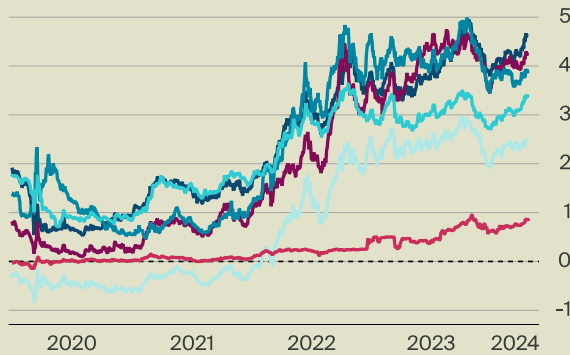
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
All REITs	796	1.6	0.7	-1.6	-22.2
Office	1,523	1.2	1.1	-1.6	-48.6
Industrial	1,318	2.0	0.1	-3.4	6.3
Retail	55	1.3	2.6	0.3	-84.7
Healthcare	1,673	1.7	0.0	-0.2	-26.2
Residential	1,193	1.3	0.7	-1.5	-21.8
FTSE 250	17,054	0.8	-0.5	-0.3	0.1

# Bonds & Rates

## Government bond yields

10 year government bond yields, %

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



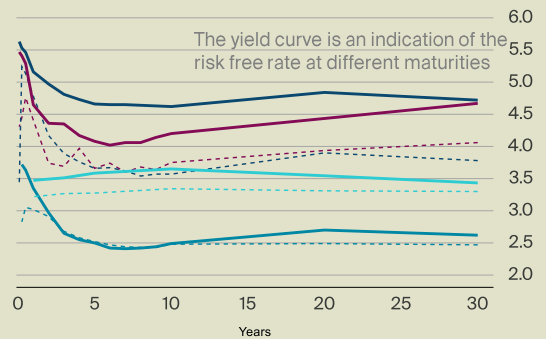
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.85	3.85	3.94	3.63	1.40
Japan	0.88	0.83	0.86	0.74	-0.03
Singapore	3.39	3.40	3.38	3.08	1.74
UK	4.21	4.21	4.30	3.93	0.82
US	4.62	4.62	4.67	4.22	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

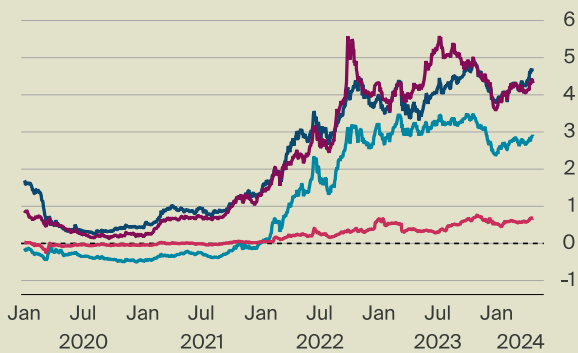


Source: Knight Frank, Macrobond

## Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



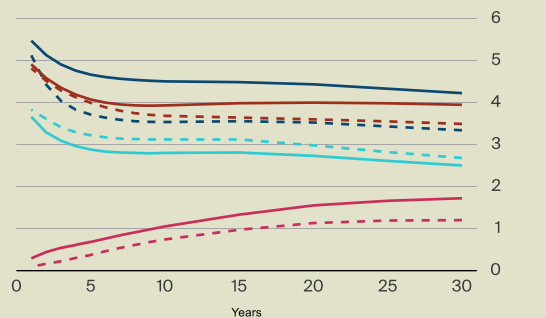
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.88	2.90	2.82	2.69	-0.13
Japan	0.68	0.67	0.68	0.60	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.31	4.36	4.36	4.04	0.88
US	4.66	4.66	4.68	4.24	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

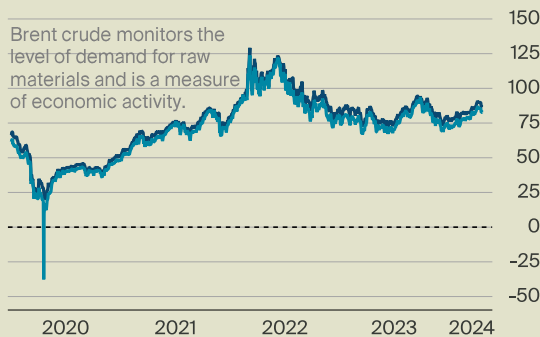
# Commodities & Volatility

## Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)

Brent crude monitors the level of demand for raw materials and is a measure of economic activity.



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	86.4	86.6	89.9	85.1	66.0
WTI, \$ per barrel	82.9	83.1	85.4	80.6	61.1

## Baltic dry index

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

— Baltic dry index

Baltic Dry Index is a measure of what it costs to ship raw materials and is a leading indicator of global demand



Source: Knight Frank, Macrobond

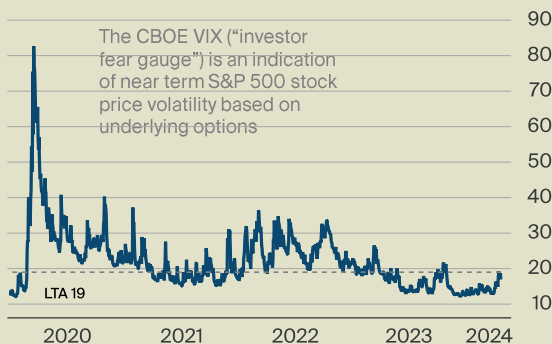
	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1882	-0.999	8.79	-14.3	72.7

## Volatility index

Near term stock price volatility indicator

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

The CBOE VIX ("investor fear gauge") is an indication of near term S&P 500 stock price volatility based on underlying options



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	16.9	16.9	18.4	13.1	13.8
Euro Stoxx 50 VIX	17.1	17.1	19.6	12.4	14.0
Nikkei VIX	20.7	21.7	22.1	18.5	14.8
KOSPI VIX	18.9	19.8	20.0	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

The CISS is an indicator of instability across the whole financial system (hence "systemic stress")



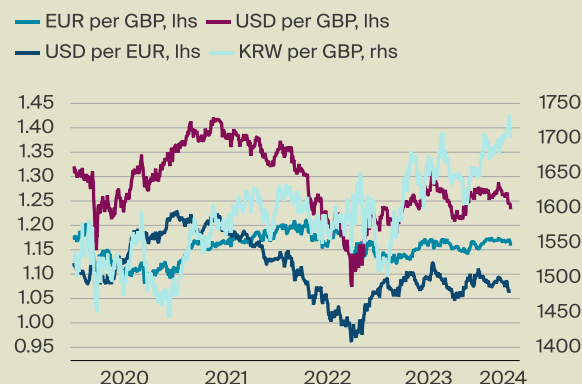
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.065	0.064	0.057	0.023
Equity markets stress sub index	0.027	0.030	0.031	0.009
Bond markets stress sub index	0.043	0.047	0.039	0.02
FX markets stress sub index	0.012	0.018	0.010	0.004

# Currencies & Monetary Policy

## Currencies

### Spot prices

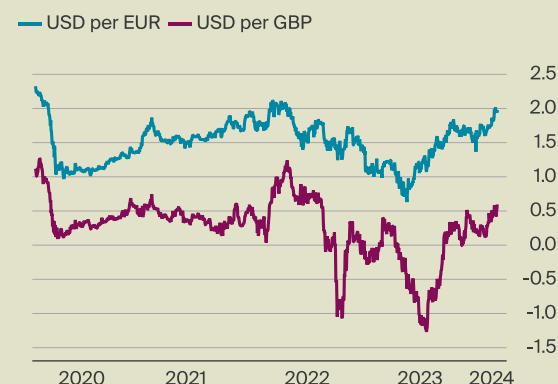


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.158	1.165	1.172	1.165	1.177
KOR per GBP	1,700	1,711	1,729	1,693	1,525
USD per GBP	1.233	1.243	1.245	1.260	1.321
USD per EUR	1.066	1.066	1.064	1.082	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	1.98	1.94	2.02	1.74	2.32
USD to GBP	0.60	0.53	0.53	0.40	1.12

## Inflation and monetary policy

### Inflation rate (%)

	Mar	Feb	Jan	Dec
Australia	n/a	n/a	n/a	4.0
Canada	2.9	2.8	2.9	3.4
China	0.0	0.7	-0.8	-0.3
Euro Area	2.4	2.6	2.8	2.9
France	2.3	3.0	3.1	3.7
Germany	2.2	2.5	2.9	3.7
India	4.9	5.1	5.1	5.7
Italy	1.2	0.8	0.8	0.6
Japan	2.7	2.8	2.2	2.6
Saudi Arabia	1.6	1.8	1.6	1.5
South Korea	3.1	3.1	2.8	3.2
Spain	n/a	2.8	3.4	3.2
Sweden	4.1	4.5	5.4	4.4
UK	3.2	3.4	4.0	4.0
US	3.5	3.2	3.1	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
	226 bn	-2.1
	6.08 tn	-1.5
	709 tn	-3.2
	1.72 tn	-0.3
	2.66 tn	-0.6
	430 bn	8.3
	1.26 tn	-6.1
	4.9 tn	-1.8
	474 bn	-2.2
	387 bn	0.5
	487 bn	0.3
	115 bn	2.1
	1.37 tn	-0.5
	7.41 tn	-1.6

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

Source: Knight Frank, Macrobond



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We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you



**William Matthews**  
Partner  
Head of Commercial Research  
+44 20 3909 6842  
william.matthews@knightfrank.com



**Victoria Ormond, CFA**  
Partner  
Head of Capital Markets Research  
+44 20 7861 5009  
victoria.ormond@knightfrank.com



**Antonia Haralambous**  
Associate  
Capital Markets Research  
+44 20 3866 8033  
antonia.haralambous@knightfrank.com



**Khadija Hussain**  
Analyst  
Capital Markets Research  
+44 20 8176 9671  
khadija.hussain@knightfrank.com