

# Leading Indicators

## Mountain high, valley low? What's next for interest rates?

### 6.7%

UK inflation rate, August 2023

### 24%

Of respondents in the latest ONS BIC survey had a high confidence in their business's ability to meet debt obligations

### 76%

Of respondents in our ESG Property Investor Survey aim to improve the efficiency of their existing properties

### WHAT'S NEXT FOR INTEREST RATES?

In a move that surprised money markets and economists, the Bank of England (BoE) voted to keep its interest rate steady at 5.25% last week, ending a run of 14 consecutive rate hikes. This was largely in response to UK inflation falling to 6.7% in August, from 6.8% in July and below the BoE's forecast of a 0.3ppts rise to 7.1%.

Economists widely expect that September's interest rate hike was the last of the BoE's tightening cycle, however, market pricing currently indicates a 75% chance that rates will rise again. The BoE aims to lower inflation while achieving a soft landing. The last three recessions in the UK were preceded by interest rate rises over 12 months prior.

Overall, last week's decision has been taken as a positive for UK CRE. Sterling has fallen almost 3.5% vs. the dollar over the month, making inbound investment cheaper. Meanwhile, some equity analysts believe a plateau in rates could be sufficient to drive renewed investor interest in UK REITs.

### WHERE WILL DEBT COSTS BITE HARDEST?

What impact is the current level of interest rates having on businesses? The latest ONS Business Insights and Conditions survey of c.10,000 UK companies revealed that only about half had any debt at all. Of the rest, however, only 24% had a high level of confidence when it came to being able to meet their debt obligations. Interestingly, respondents from two sectors currently in the spotlight - construction and manufacturing - were actually more positive about meeting their debt obligations, compared to the wider economy, with 30% and 29% of businesses highly confident their businesses could meet their debt obligations, respectively.

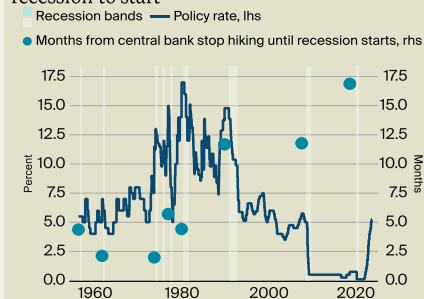
### CLIMATE POLICY U-TURN

Rishi Sunak has outlined a "new approach" to UK climate policy, including scrapping plans to enforce minimum EPC ratings on residential properties. Some have questioned whether a similar approach may be applied to commercial real estate. Our view is that both users of and investors in UK CRE are already focused on assets that adhere to high ESG standards, and altering EPC targets would not significantly change that. Our recent [ESG Property Investor Survey](#) found that 76% of respondents aim to improve the efficiency of their existing properties and 61% require an EPC Plus or pathway report before an acquisition.

If they succeed at the next general election, which some commentators expect to occur earlier than previously anticipated, Labour plans to invest £28bn per year on climate change measures. Climate policy will remain a sticking point for both parties in the run-up to the election, and during the upcoming party conferences.

### The last three UK recessions were preceded by interest rate hikes at least 12 months prior

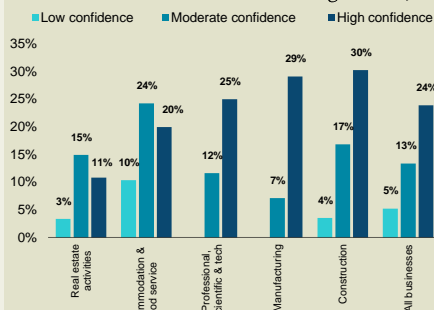
BoE's hiking cycle and time it takes for a recession to start



Source: Knight Frank Research, Macrobond, Bank of England

### Manufacturing and Construction businesses have the highest confidence their debt obligations will be met

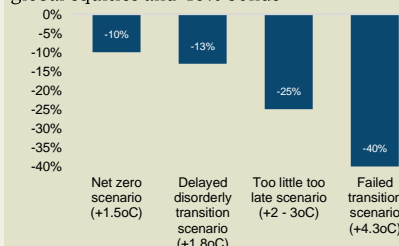
'How much confidence does your business have that it will meet its current debt obligations?', %



Source: Knight Frank Research, 2<sup>nd</sup> September ONS BIC Survey

### Investors should position for climate change

Climate change scenarios vs a baseline of 40-year cumulative returns, on a portfolio comprised 60% global equities and 40% bonds



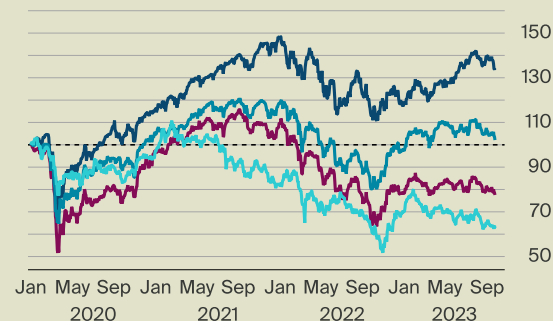
Source: Knight Frank Research, Cambridge Econometrics, GIC, Ortec Finance

# Equities

## Equity markets

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

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



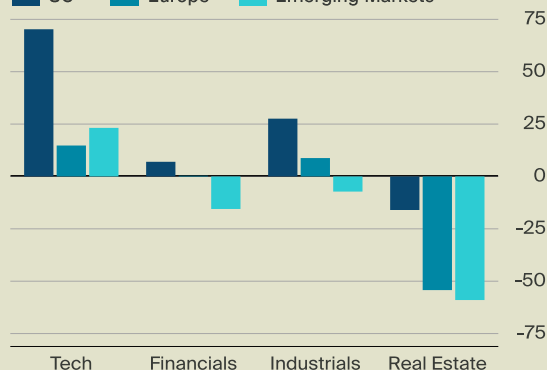
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
DAX 30	6,450	-1.8	-3.9	-3.7	-2.5
FTSE 250	22,471	-1.9	-3.4	-2.3	-22.5
Hang Seng	2,268	0.5	-2.4	-2.3	-37.3
IBEX 35	9,931	-2.4	-2.6	-1.7	-7.3
MIB	30,031	-1.9	-2.6	-1.3	14.1
S&P 500	4,337	0.2	-2.5	-0.9	34.3
STOXX 600	477	-1.7	-3.3	-2.6	2.1
TOPIX	16	-0.6	-3.1	1.4	0.9

## Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



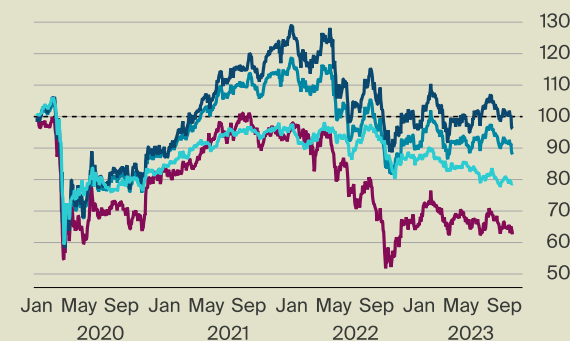
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	70.3%	14.8%	23.2%
Financials	7.0%	0.3%	-15.5%
Industrials	27.6%	8.8%	-7.2%
Real Estate	-16.0%	-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

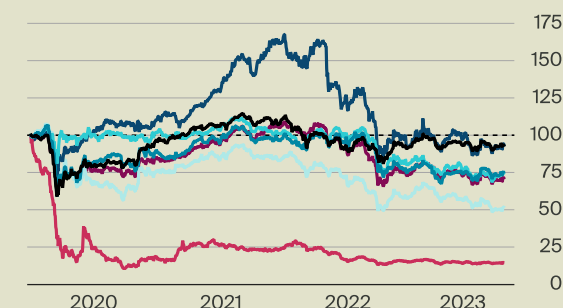
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
US	2,297	-0.8	-5.4	-3.8	-3.9
Europe	1,785	-2.7	-3.0	-3.4	-37.4
World	2,826	-1.0	-4.7	-3.6	-12.0
Asia Pacific	3,087	0.0	-1.6	-1.0	-21.4

## 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

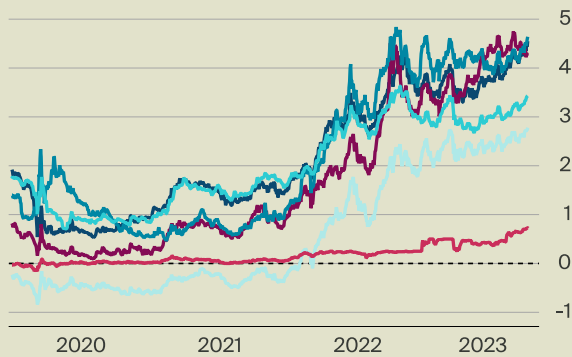
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
<b>Original value and base</b>					
All REITs	721	-1.7	-0.2	1.0	-29.5
Office	1,521	-1.0	0.9	2.3	-48.7
Industrial	1,148	-1.8	-0.5	1.7	-7.4
Retail	52	-1.6	0.9	1.3	-85.6
Healthcare	1,669	-1.4	-1.2	3.9	-26.4
Residential	1,137	-1.5	-0.3	1.4	-25.5
FTSE 250	15,735	-1.2	-1.9	1.5	-7.7

# Bonds & Rates

## Government bond yields

10 year government bond yields, %

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



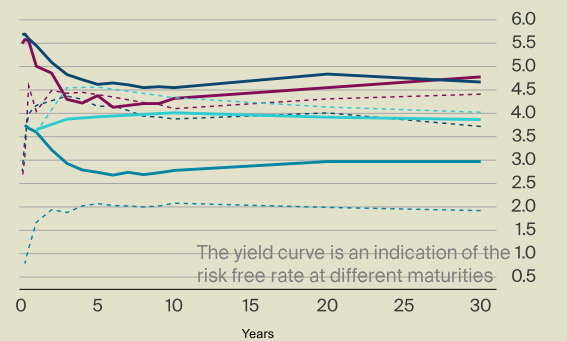
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.64	4.64	4.51	4.23	1.40
Japan	0.72	0.73	0.70	0.64	-0.03
Singapore	3.43	3.43	3.33	3.30	1.74
UK	4.25	n/a	4.34	4.44	0.82
US	4.55	4.55	4.37	4.25	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

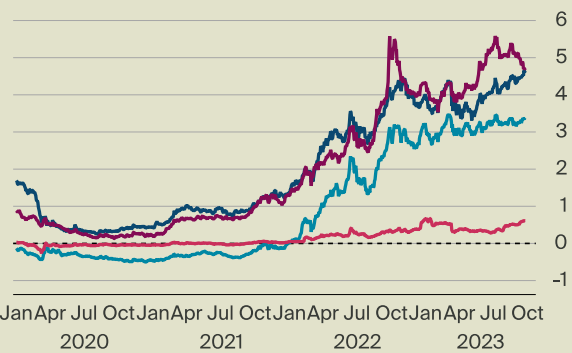


Source: Knight Frank, Macrobond

## Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



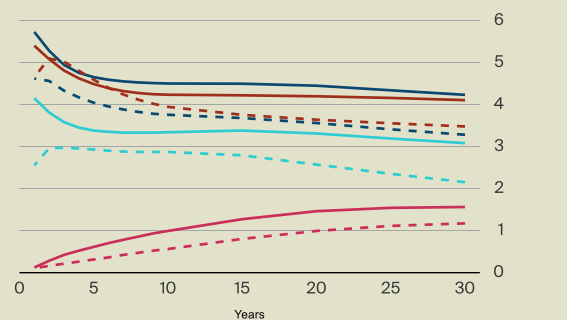
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.38	3.36	3.34	3.26	-0.13
Japan	0.61	0.61	0.59	0.51	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.72	4.68	4.90	5.14	0.88
US	4.65	4.61	4.51	4.50	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



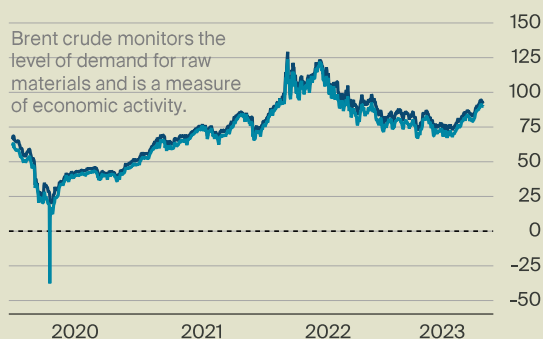
Source: Knight Frank, Macrobond

# 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	91.9	92.2	94.5	84.1	66.0
WTI, \$ per barrel	89.7	90	91.5	79.8	61.1

## Baltic dry index

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

— Baltic dry index



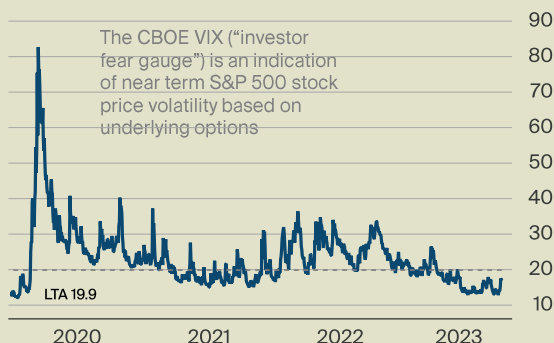
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1614	2.87	12.2	49.4	48.1

## Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

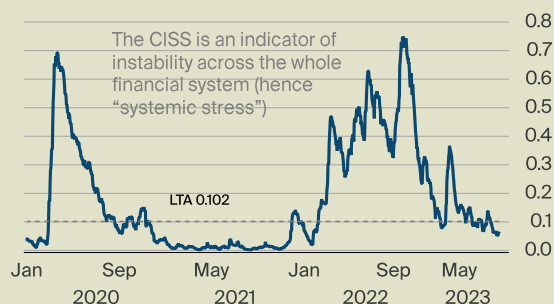
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	16.9	16.9	14.1	15.7	13.8
Euro Stoxx 50 VIX	19.1	19.1	16.4	18.5	14.0
Nikkei VIX	18.2	17.6	16.9	18.9	14.8
KOSPI VIX	14.7	14.1	13.0	14.9	14.7

## Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



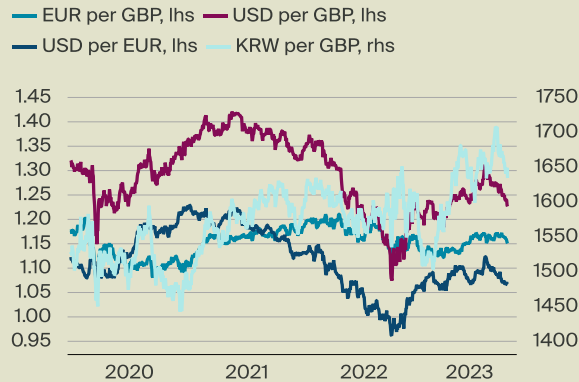
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.175	0.167	0.181	0.023
Equity markets stress sub index	0.077	0.071	0.059	0.009
Bond markets stress sub index	0.069	0.074	0.070	0.02
FX markets stress sub index	0.018	0.027	0.009	0.004

# Currencies & Monetary Policy

## Currencies

### Spot prices

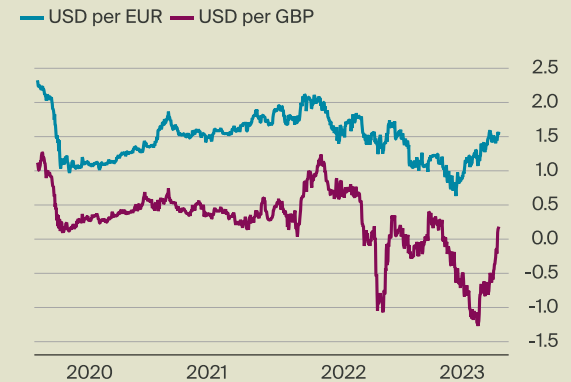


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.151	1.153	1.162	1.173	1.177
KOR per GBP	1.634	1.649	1.646	1.706	1,525
USD per GBP	1.227	1.229	1.240	1.273	1.321
USD per EUR	1.066	1.066	1.067	1.085	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	1.57	1.53	1.44	1.55	2.32
USD to GBP	0.18	0.16	-0.21	-0.52	1.12

## Inflation and monetary policy

### Inflation rate (%)

	Aug	July	June	May
Australia	n/a	n/a	6.1	6.1
Canada	4.0	3.3	2.8	3.4
China	0.2	-0.2	0.1	0.3
Euro Area	5.2	5.3	5.5	6.1
France	4.9	4.3	4.5	5.1
Germany	6.1	6.1	6.4	6.0
India	6.8	7.4	4.9	4.3
Italy	5.4	5.9	6.4	7.6
Japan	3.2	3.3	3.3	3.2
Saudi Arabia	2.0	2.3	2.7	2.8
South Korea	3.4	2.3	2.7	3.3
Spain	2.6	2.3	1.9	3.2
Sweden	7.5	9.3	9.3	9.7
UK	6.7	6.8	7.9	8.7
US	3.7	3.3	3.1	4.1

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

### Interest rates (%)

	Last	Jan '23
	4.10	3.10
	5.00	4.25
	4.35	4.35
	4.50	2.50
	4.50	2.50
	4.50	2.50
	6.50	6.25
	4.50	2.50
	-0.10	-0.10
	6.00	5.00
	3.50	3.25
	4.50	2.50
	3.75	2.50
	5.25	3.50
	5.50	4.50

### Asset purchasing

	Latest (\$)	1m change (%)
	0.36 tn	-4.3
	257 bn	-2.5
	5.72 tn	2.1
	765 tn	-0.3
	1.81 tn	0.2
	2.72 tn	0.0
	379 bn	1.3
	1.41 tn	-0.6
	5 tn	-1.0
	476 bn	-2.5
	424 bn	-5.6
	487 bn	-0.8
	125 bn	-0.3
	1.32 tn	-0.5
	8.02 tn	-1.4

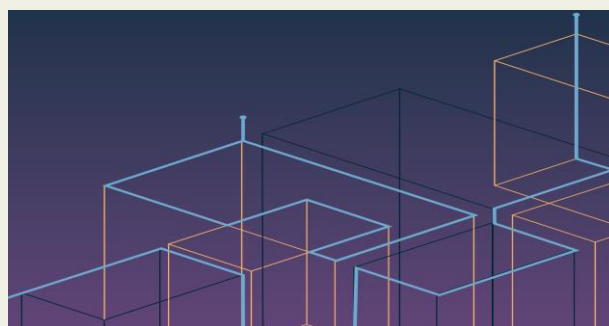
Source: Knight Frank, Macrobond



### Is the Logistics sector delivering on ESG?

The real estate sector is currently experiencing an ESG wake-up call. Recognising its contribution of around a third of total energy consumption and just shy of 40% of CO2 emissions, governments are introducing ESG-focused legislation and strategies to ensure corporations and the real estate sector take action.

[View Report](#)



### Healthcare Development Opportunities 2023

The continued interest in UK healthcare markets is based on strong fundamental drivers such as demographic shifts, secure income and consistency regarding performance – so understanding current and future supply levels is becoming increasingly important.

[View Report](#)

#### Recent research



#### Life Sciences & Innovation Insight – Q2 2023

Record company incorporations, highest ever quarterly life sciences real estate investment and UK Government proposes road to “science superpower”.



#### UK CRE Quarterly Review – August 23

The latest CRE Review analyses the Q2 2023 occupier and investment performance of the UK commercial real estate sectors.

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