

Leading Indicators

Key economic and financial metrics, updated weekly

27 June 2023

Is AI the answer to our productivity problem?

+50bps

Increase in the Bank of England base rate to 5.00% in June

\$7tn

Potential increase in global GDP through the adoption of AI technologies, according to Goldman Sachs

-40%

Reduction in carbon footprint of the 'Stockholm Wood City' project by using engineered timber instead of concrete and steel

MARKETS SHOCKED

Last week, the Bank of England (BoE) monetary policy committee (MPC) voted to lift its interest rate by +50bps to 5.00%, a move that was unexpected by some economists, and money markets, which had anticipated a +25bps hike. The BoE's decision came after UK inflation held steady at 8.7% in May, above BoE forecasts of 8.3%. Meanwhile, June's flash UK PMIs highlighted the challenge facing the MPC: momentum in activity is easing, but price and wage pressures remain. These inflationary forces will reassure the MPC of its decision to implement its largest rate hike since February. Since last week's decision, expectations for the UK's base rate have changed. Money markets are currently pricing in an interest rate of 6.00% this year, up from 5.50% last week. However, economist projections of the base rate peak vary between 5.25% - 5.75%, depending on the forecast house.

AI SAFETY UNIT TAKES SHAPE

In a further bid to make London the global home of AI regulation, Rishi Sunak has announced the creation of the UK's AI Foundation Model Taskforce. The Taskforce aims to lead AI safety research and assess the risks surrounding AI, and forms part of the government's aim to make the UK a science and technology "superpower" by 2030. The government has committed an initial £100m for the Taskforce.

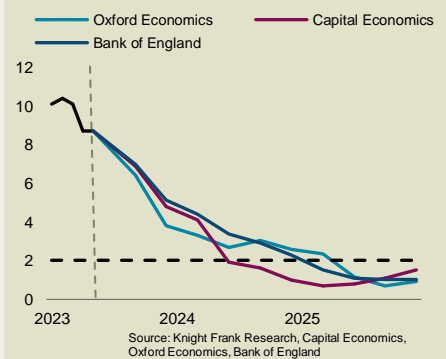
AI is expected to raise Global GDP by 7% or by c.\$7tn and lift productivity growth by 1.5ppts over the next ten years, according to Goldman Sachs. For the UK to benefit from this, the Taskforce aims to support businesses and public trust in these systems and drive their adoption.

There is significant focus on the possibilities of AI at present – from existential threat, to the next 'big thing'. The reality, as is usually the case, will lie somewhere between the extremes.

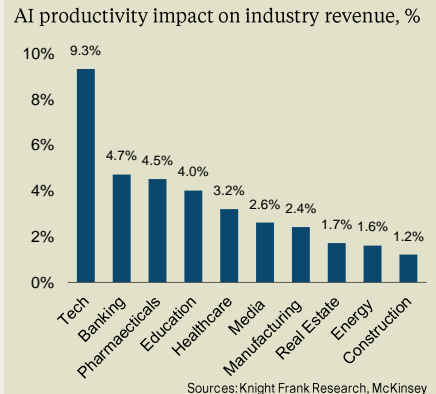
IS WOOD THE WAY TO GO?

There are plans to build the world's largest timber city in Sweden, named 'Stockholm Wood City'. Once the \$1.4bn 250,000 sq m project is complete in 2035, it aims to provide 2,000 homes and 7,000 offices together with retail offerings of restaurants and shops. Instead of predominantly using carbon-dense materials such as concrete and steel, the project will mainly use engineered timber to reduce its carbon footprint by 40%. Alongside the ESG benefits, with construction and material prices as high as they are currently, the use of timber in the UK could be a good option, as timber prices have moderated by up to -18% y/y in March 2023.

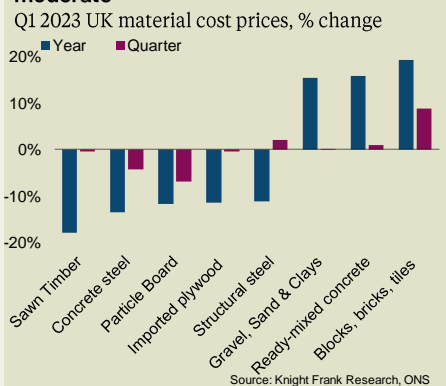
Forecasts diverge on when inflation will reach its 2% target



AI has the potential to generate value across industries



Some material prices have started to moderate



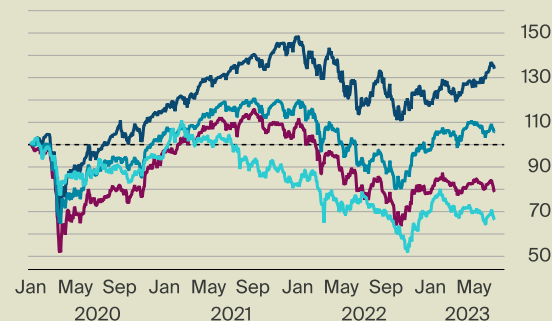
Sources: Bank of England, Bloomberg, Capital Economics, Economist, FT, Goldman Sachs, Macrobond, Mercer, ONS, Oxford Economics, Reuters, Knight Frank

Equities

Equity markets

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

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



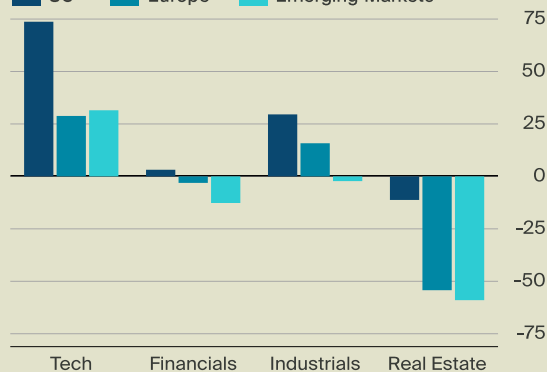
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,829	-1.6	-3.5	1.7	3.2
FTSE 250	22,845	-2.2	-6.3	-1.7	-21.2
Hang Seng	2,400	-2.2	-6.3	0.3	-33.7
IBEX 35	10,117	-1.4	-2.5	3.4	-5.6
MIB	29,718	-1.1	-2.4	4.9	12.9
S&P 500	4,329	-1.2	-1.8	4.3	34.0
STOXX 600	494	-0.9	-3.2	0.9	5.8
TOPIX	16	-0.4	-2.8	2.2	-0.6

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



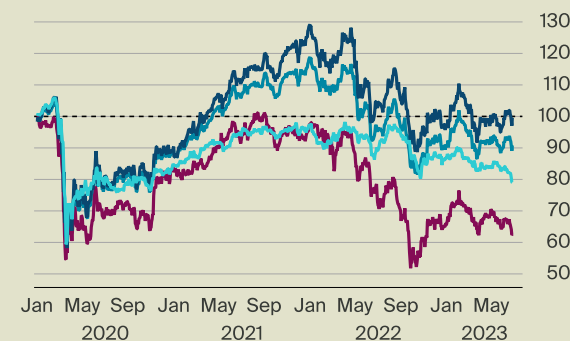
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	73.7%	28.8%	31.5%
Financials	3.2%	-3.1%	-12.7%
Industrials	29.6%	15.8%	-2.2%
Real Estate	-11.2%	-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

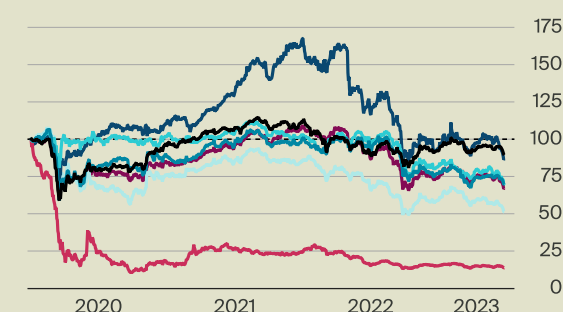
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,380	1.0	-2.3	4.8	-0.4
Europe	1,783	-2.5	-7.2	-3.2	-37.5
World	2,917	0.1	-3.1	2.7	-9.2
Asia Pacific	3,102	-1.8	-3.9	-4.3	-21.0

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

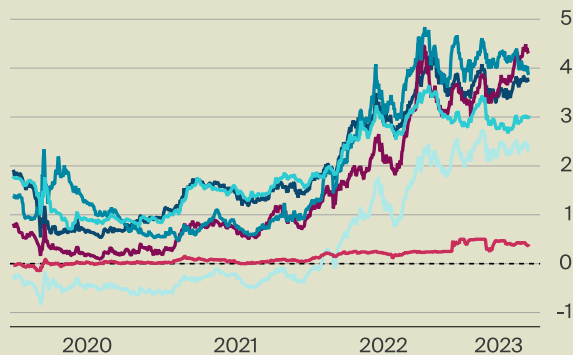
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	685	-2.5	-7.3	-8.2	-33.0
Office	1,520	-3.1	-8.2	-9.7	-48.7
Industrial	1,075	-2.3	-7.6	-10.4	-13.3
Retail	49	-2.7	-8.1	-2.5	-86.3
Healthcare	1,599	-3.0	-6.3	-7.8	-29.5
Residential	1,064	-2.2	-5.7	-6.2	-30.3
FTSE 250	15,225	-1.9	-5.5	-4.3	-10.6

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



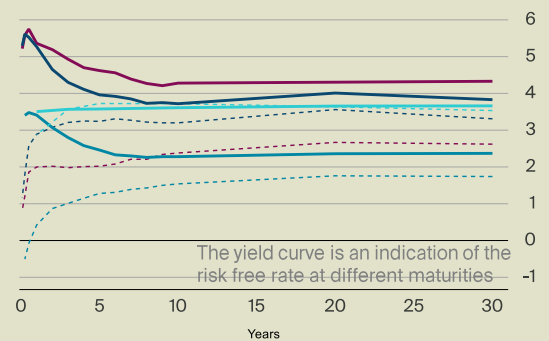
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.86	3.86	3.94	4.40	1.40
Japan	0.35	0.37	0.39	0.43	-0.03
Singapore	3.03	2.97	3.02	3.00	1.74
UK	4.30	4.30	4.34	4.33	0.82
US	3.72	3.72	3.74	3.80	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

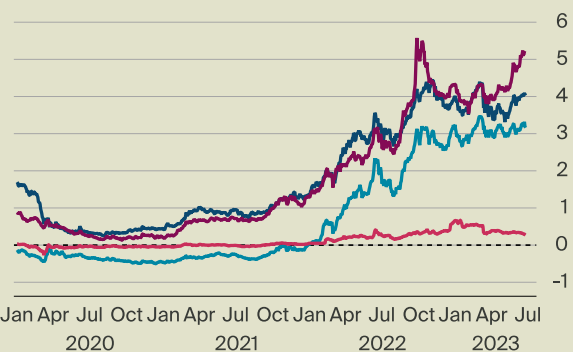


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



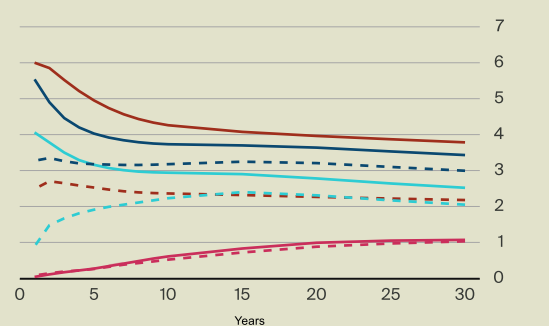
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.16	3.19	3.29	3.27	-0.13
Japan	0.27	0.28	0.31	0.36	0.03
Singapore	3.49	3.49	3.49	3.54	1.50
UK	5.17	5.18	5.24	4.86	0.88
US	4.03	4.06	4.04	4.04	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



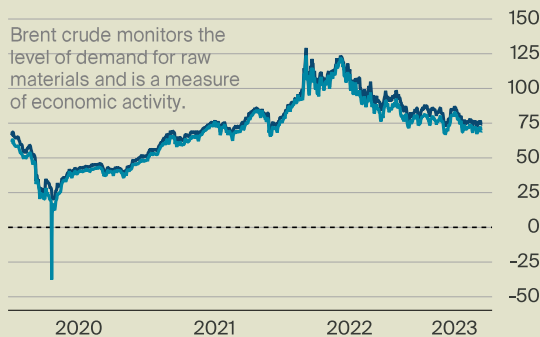
Source: Knight Frank, Macrobond

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	74.5	74.3	76.1	77.2	66.0
WTI, \$ per barrel	69.4	69.2	71.3	73.2	61.1

Baltic dry index

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

— Baltic dry index



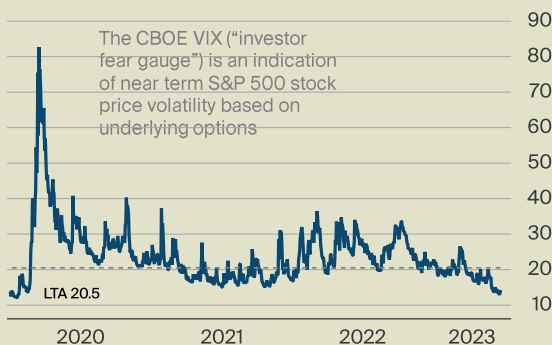
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1233	1.4	15.8	5.2	13.1

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

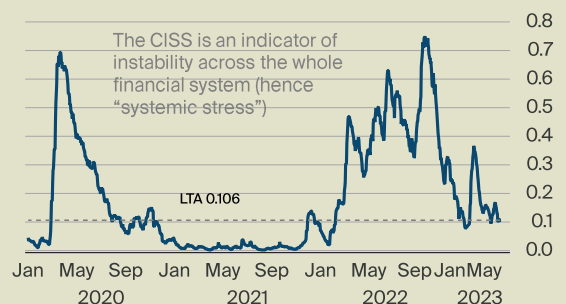
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	14.3	14.3	13.9	18.0	13.8
Euro Stoxx 50 VIX	15.9	15.9	14.7	17.6	14.0
Nikkei VIX	20.0	21.0	20.1	19.3	14.8
KOSPI VIX	13.2	13.5	13.0	15.0	14.7

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

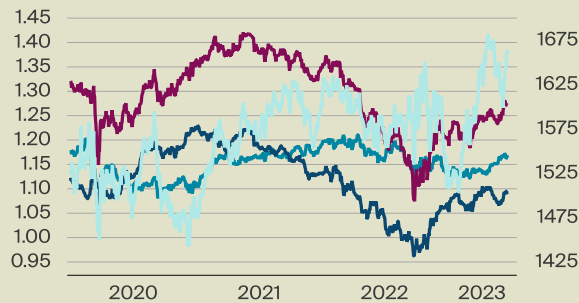
	Last	1 week	1 month	Jan '20
Systemic stress composite	0.307	0.256	0.217	0.023
Equity markets stress sub index	0.109	0.100	0.077	0.009
Bond markets stress sub index	0.096	0.085	0.073	0.02
FX markets stress sub index	0.038	0.055	0.018	0.004

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	1.165	1.168	1.172	1.152	1.177
KOR per GBP	1,660	1,664	1,642	1,635	1,525
USD per GBP	1.271	1.271	1.280	1.233	1.321
USD per EUR	1.089	1.089	1.093	1.071	1.123

Hedging benefits

Hedging benefit p.a. on a 5 year forward

— USD per EUR — USD per GBP



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
USD to EUR	1.19	1.19	1.07	1.08	2.32
USD to GBP	-1.13	-1.11	-1.14	-0.73	1.12

Inflation and monetary policy

Inflation rate (%)

	May	Apr	Mar	Feb
Australia	n/a	n/a	7.1	7.1
Canada	n/a	4.4	4.3	5.2
China	0.3	0.3	0.8	1.1
Euro Area	6.1	7.0	6.9	8.5
France	5.1	5.9	5.7	6.3
Germany	6.0	7.1	7.4	8.7
India	4.3	4.7	5.7	6.4
Italy	7.6	8.2	7.6	9.1
Japan	3.2	3.5	3.2	3.3
Saudi Arabia	2.8	2.7	2.7	3.0
South Korea	3.3	3.7	4.2	4.8
Spain	n/a	4.1	3.3	6.1
Sweden	9.7	10.5	10.6	12.0
UK	8.7	8.7	10.1	10.4
US	4.1	5.0	5.0	6.0

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

Interest rates (%)

	Last	Jan '21
	4.10	0.10
	4.75	0.25
	4.35	4.35
	4.00	0.00
	4.00	0.00
	4.00	0.00
	6.50	4.00
	4.00	0.00
	-0.10	-0.10
	5.75	1.00
	3.50	0.50
	4.00	0.00
	3.50	0.00
	5.00	0.10
	5.25	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.40 tn	-2.9
	269 bn	-4.3
	5.74 tn	-1.5
	8.37 tn	-0.3
	1.91 tn	-0.3
	2.92 tn	-1.1
	345 bn	1.7
	1.56 tn	0.5
	5.21 tn	-0.9
	486 bn	-1.7
	416 bn	-5.6
	487 bn	0.1
	129 bn	-2.1
	1.37 tn	1.4
	8.36 tn	-1.0

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](#)

Future Gazing

Resilience, Reshoring and Rethinking First Mile Logistics



Future Gazing 2023

In the latest edition of the Future Gazing Report, the sectors and locations which could benefit from reconfiguring supply chains are explored. Through the past three years, we have experienced a supply-side crisis. Simply restoring the old order is unlikely to solve the crisis and provide much-needed resilience amidst a shifting geopolitical landscape.

[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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