

# Leading Indicators

## Navigating the next stage of the recovery

### 4.00%

Money markets currently anticipate 75bps of rate cuts by the end of next year

### +8%

y/y % change in Q1- Q3 UK CRE investment in 2024

### +10%

Monthly increase in the geopolitical risk (GPR) index, November 2024

### INTEREST RATES: WHAT'S NEXT FOR 2025?

The past year was one of overall economic resilience. The global battle against inflation has largely been won, and central banks have shifted gears, commencing their monetary easing cycles. The Bank of England (BoE), European Central Bank (ECB) and the US Federal Reserve (Fed) have each implemented interest rate reductions, cutting rates within a range of 50 – 100bps. These moves have brought benchmark rates to 3.25% in the Eurozone, and 4.75% in the UK and US.

With a lower inflationary environment, markets widely expect further rate reductions going into next year. However, the question remains, how far will policymakers go in 2025? There are still a few major monetary policy decisions pending before the year's end. One view from Capital Economics is that the ECB and Fed will cut rates by -25bps in December, whilst the BoE will see no change. Looking ahead, Capital Economics anticipate four 25bps rate cuts from the BoE next year, the first as early as February, bringing rates to 3.75% by Q4 2025. Meanwhile, money markets are currently pricing in 75bps of rate cuts next year, leaving the UK's base rate at 4.00%.

### CRE INVESTMENT: WILL MOMENTUM RISE?

Against a backdrop of improving economics and shifting geopolitical dynamics, 2024 marked a steady, albeit moderate year for global commercial real estate (CRE) investment. Q1-Q3 global CRE investment totalled \$552 billion in 2024, up +1% on the same period as last year. Meanwhile, UK CRE investment reached £29.4bn in the first three quarters of the year, up +8% y/y.

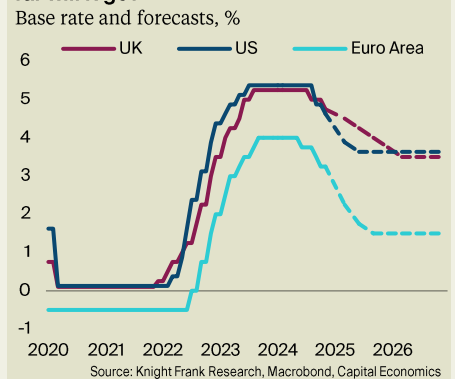
Looking ahead to 2025, we expect investment to improve further for a few key reasons. Firstly, interest and market rates are forecast to fall further in H1 2025, which will create a more favourable investment and CRE lending environment. Debt origination activity is already showing an upward trend, reflecting growing investor appetite. Additionally, the expected compression in the risk-free rate, from 4.24% currently to 4.00% by the end of next year, should help create a more attractive CRE market. Together, these factors suggests that 2025 could usher in a stronger phase of recovery, with increased capital flows and renewed momentum in the CRE sector.

### THE GEOPOLITICS FACTOR

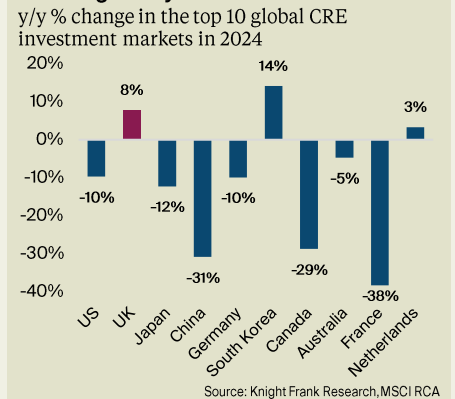
Global geopolitical tensions emerged as a dominant force impacting financial markets in 2024. Disruptions to supply chains and heightened volatility in commodity prices added layers of uncertainty to global trade and investment flows. The geopolitical risk (GPR) index surged by +10% m/m in November, reaching its highest level since August – highlighting the persistent instability.

As we look to next year, the question is whether some degree of geopolitical stability can be achieved. While there are reasons for cautious optimism, downside risks remain. The rise of protectionist policies continues to threaten cross-border trade and cooperation, whilst the potential for uneven regional recoveries could further strain economic stability.

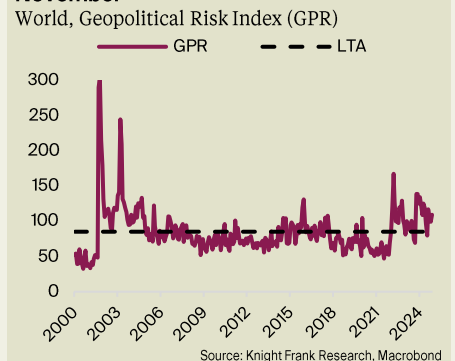
### Easing cycle to continue in 2025, but how far will it go?



### The UK remains the 2nd most invested market globally in 2024



### Global geopolitical risk rises +10% m/m in November



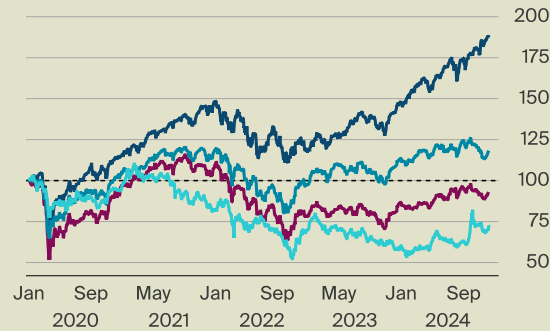
Sources: Bloomberg, Oxford Economics, Macrobond, Capital Economics, MSCI RCA, Financial Times, Knight Frank

# Equities

## Equity markets

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

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



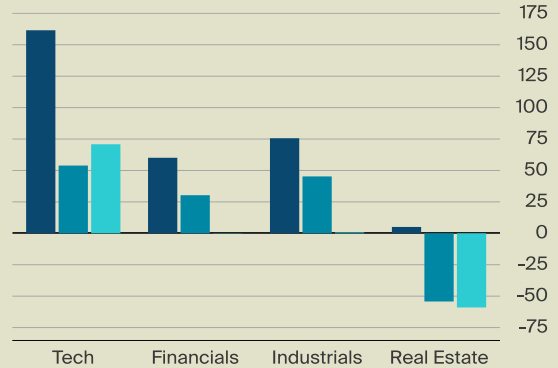
Source: Knight Frank, Macrobond

Index	Last	Percentage change since				
		Original value and base	1 day	1 week	1 month	Jan '20
DAX 30	8,277		0.1	4.0	3.0	25.1
FTSE 250	26,934		0.5	2.1	0.5	-7.1
Hang Seng	2,613		2.3	4.0	-3.1	-27.8
IBEX 35	12,720		-0.7	3.5	1.8	18.7
MIB	36,598		0.0	3.8	-0.3	39.0
S&P 500	6,053		-0.4	0.3	1.3	87.3
STOXX 600	552		0.5	2.5	0.2	18.3
TOPIX	18		-0.2	0.1	1.2	14.9

## Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



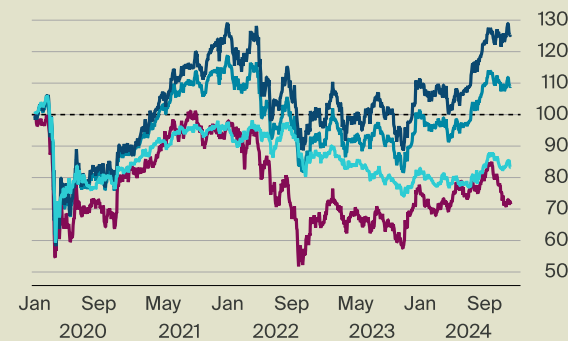
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	161.5%	53.9%	70.8%
Financials	60.1%	30.3%	-0.2%
Industrials	75.6%	45.2%	0.7%
Real Estate	5.1%	-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

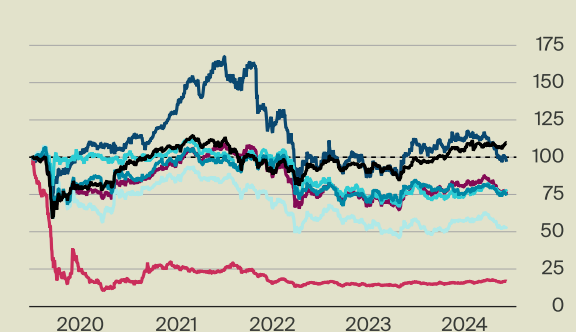
Index, total return	Last	Percentage change since				
		Original value and base	1 day	1 week	1 month	Jan '20
US	2,995		0.2	-2.3	1.1	25.3
Europe	2,039		-0.9	-2.2	-3.2	-28.5
World	3,499		0.0	-2.2	0.3	8.9
Asia Pacific	3,266		-0.4	-2.3	1.3	-16.8

## 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

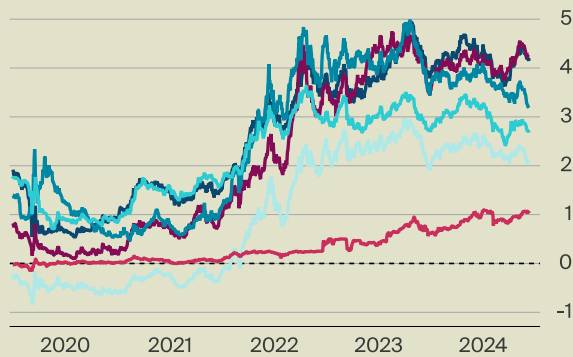
Index, total return	Last	Percentage change since				
		Original value and base	1 day	1 week	1 month	Jan '20
All REITs	771		-1.2	-3.0	-2.5	-24.7
Office	1,542		-1.3	-2.8	-3.1	-48.0
Industrial	1,202		-1.4	-3.9	-3.0	-3.1
Retail	61		0.0	0.2	1.2	-83.2
Healthcare	1,749		-0.8	0.1	0.7	-22.9
Residential	1,134		-0.9	-3.3	-1.1	-25.7
FTSE 250	18,705		0.2	1.4	2.2	9.8

# Bonds & Rates

## Government bond yields

10 year government bond yields, %

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



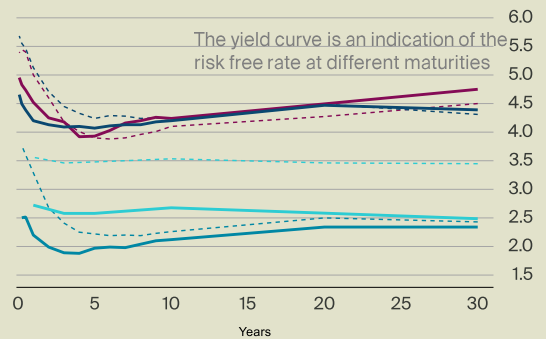
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.19	3.19	3.25	3.65	1.40
Japan	1.03	1.04	1.07	1.00	-0.03
Singapore	2.68	2.68	2.70	2.84	1.74
UK	4.28	n/a	4.24	4.44	0.82
US	4.20	4.20	4.23	4.30	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

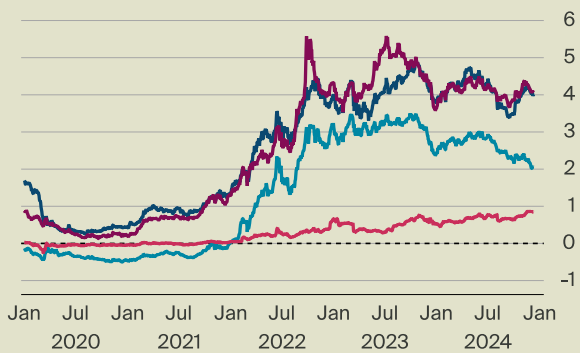


Source: Knight Frank, Macrobond

## Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



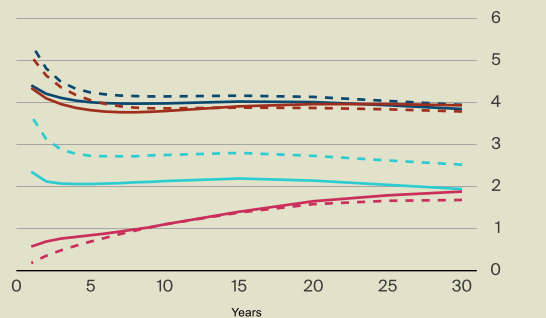
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.06	2.06	2.02	2.28	-0.13
Japan	0.84	0.84	0.88	0.78	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	4.06	4.09	4.06	4.27	0.88
US	4.01	3.97	4.03	4.11	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



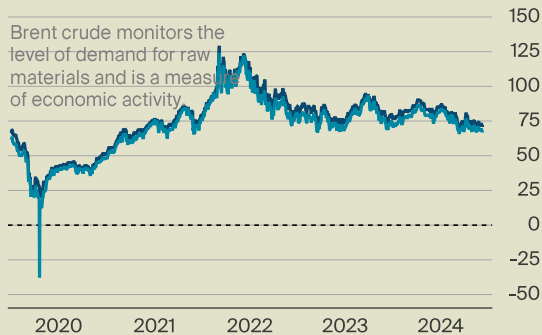
Source: Knight Frank, Macrobond

# 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	71.9	71.9	73.6	73.9	66.0
WTI, \$ per barrel	67.9	67.9	69.8	70	61.1

## Baltic dry index

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

— Baltic dry index



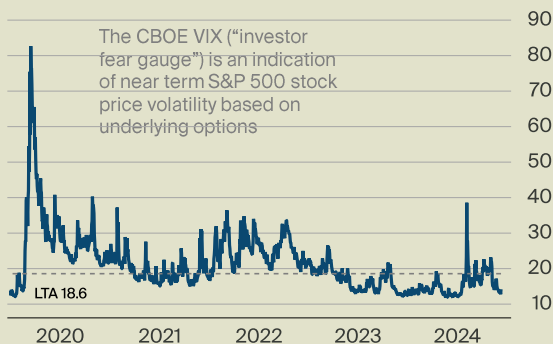
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1156	-0.943	-6.55	-22.7	6.06

## 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	14.2	14.2	13.3	14.9	13.8
Euro Stoxx 50 VIX	14.7	14.7	16.5	16.8	14.0
Nikkei VIX	22.6	21.4	22.8	26.0	14.8
KOSPI VIX	21.6	23.5	19.1	19.0	14.7

## Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



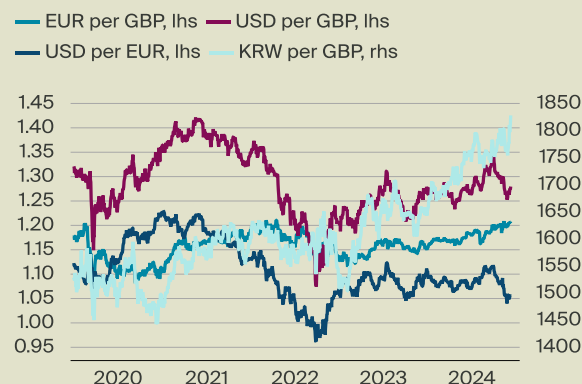
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.051	0.048	0.077	0.023
Equity markets stress sub index	0.049	0.050	0.078	0.009
Bond markets stress sub index	0.028	0.033	0.029	0.02
FX markets stress sub index	0.022	0.030	0.037	0.004

# Currencies & Monetary Policy

## Currencies

### Spot prices

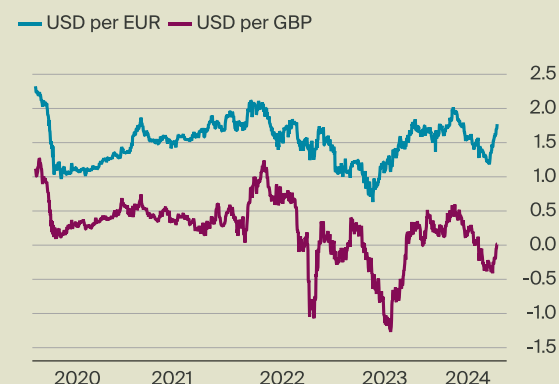


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.208	1.206	1.206	1.204	1.177
KOR per GBP	1,828	1,813	1,776	1,804	1,525
USD per GBP	1.280	1.274	1.263	1.294	1.321
USD per EUR	1.056	1.056	1.048	1.071	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	1.77	1.71	1.62	1.33	2.32
USD to GBP	0.02	0.02	-0.11	-0.33	1.12

## Inflation and monetary policy

### Inflation rate (%)

	Nov	Oct	Sep	Aug
Australia	n/a	n/a	2.9	2.9
Canada	n/a	2.0	1.6	2.0
China	0.2	0.3	0.5	0.7
Euro Area	2.3	2.0	1.7	2.2
France	1.3	1.2	1.1	1.8
Germany	2.3	2.1	1.6	1.8
India	n/a	6.2	5.5	3.7
Italy	1.4	0.9	0.7	1.1
Japan	n/a	2.3	2.5	3.0
Saudi Arabia	n/a	1.9	1.7	1.6
South Korea	1.5	1.3	1.6	2.0
Spain	2.4	1.8	1.5	2.2
Sweden	n/a	1.6	1.6	1.9
UK	n/a	2.3	1.7	2.2
US	n/a	2.6	2.4	2.6

### Interest rates (%)

	Last	Jan '21
	4.35	0.10
	3.75	0.25
	4.35	4.35
	3.40	0.00
	3.40	0.00
	3.40	0.00
	6.50	4.00
	3.40	0.00
	0.25	-0.10
	5.25	1.00
	3.00	0.50
	3.40	0.00
	2.75	0.00
	4.75	0.10
	4.75	0.25

### Asset purchasing

	Latest (\$)	1m change (%)
	0.269 tn	-3.2
	201 bn	0.2
	6.28 tn	-1.7
	6.69 tn	-0.7
	1.63 tn	0.9
	2.66 tn	-0.6
	425 bn	-6.8
	1.2 tn	-0.3
	5.06 tn	0.7
	477 bn	-4.3
	426 bn	1.5
	487 bn	-1.0
	104 bn	-2.4
	1.2 tn	-1.2
	6.9 tn	-1.5

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

Source: Knight Frank, Macrobond



### The London Office Market Report - Q3 2024

A quarterly report examining the performance of London's office leasing and occupier markets across the City, West End and Docklands & Stratford.

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#### UK Real Estate Navigator: Q3 2024

Explore the current trends in UK commercial real estate with the latest edition of our UK Real Estate Navigator, available now.

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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