



# A VIRAL MARKET UPDATE VI: THE PRICE OF RISK

Dynamic, not static...

# The crisis updates continued...

- It is a sign of how volatile that the last few weeks that a week like the last one, where index levels move only 2-3% a day, huge by historic standards, felt stable.
- As in prior weeks, I will start this one by looking at how the market action played out across asset classes, and within equity, across regions and industries first
- The bulk of this post will be an update on the price of risk and how it has changed in both bond and stock markets over the last six weeks.
- In the process, I will compare this crisis to the 2008 crisis, which was also global and shook the faith people had in markets, institutions and companies.

# The markets last week: Equities

	<i>Index</i>	<i>Country/Region</i>	<i>Level on 4/3</i>	<i>% Change</i>	
				<i>3/27-4/3</i>	<i>Last Month</i>
<i>Americas</i>	S&P 500	US	2489	-2.70%	-22.29%
	NASDAQ	US	7528	-2.08%	-20.49%
	TSX	Canada	12938	1.97%	-22.29%
	IPC Mexico	Mexico	33171	-1.86%	-23.57%
	Bovespa	Brazil	69538	-5.30%	-35.15%
<i>Europe</i>	FTSE 100	UK	5416	-1.72%	-20.54%
	DAX	Germany	9526	-1.11%	-21.45%
	CAC 40	France	4147	-4.69%	-23.98%
	S&P Euro 350	Europe	995	-3.38%	-23.32%
<i>Asia</i>	Nikkei 225	Japan	17820	-8.09%	-15.54%
	Shanghai 50	China	2709	0.27%	-8.10%
	Hang Seng	Hong Kong	23236	-1.06%	-11.39%
	BSE	India	27591	-7.46%	-28.71%
<i>Australia &amp; NZ</i>	ASX 200	Australia	5068	4.65%	-19.89%
	NZX 50	New Zealand	9935	3.96%	-12.99%
<i>Africa</i>	FTSE JSE top 40	South Africa	44599	3.85%	-15.74%
	NSE All-Share	Nigeria	21099	-3.49%	-20.13%

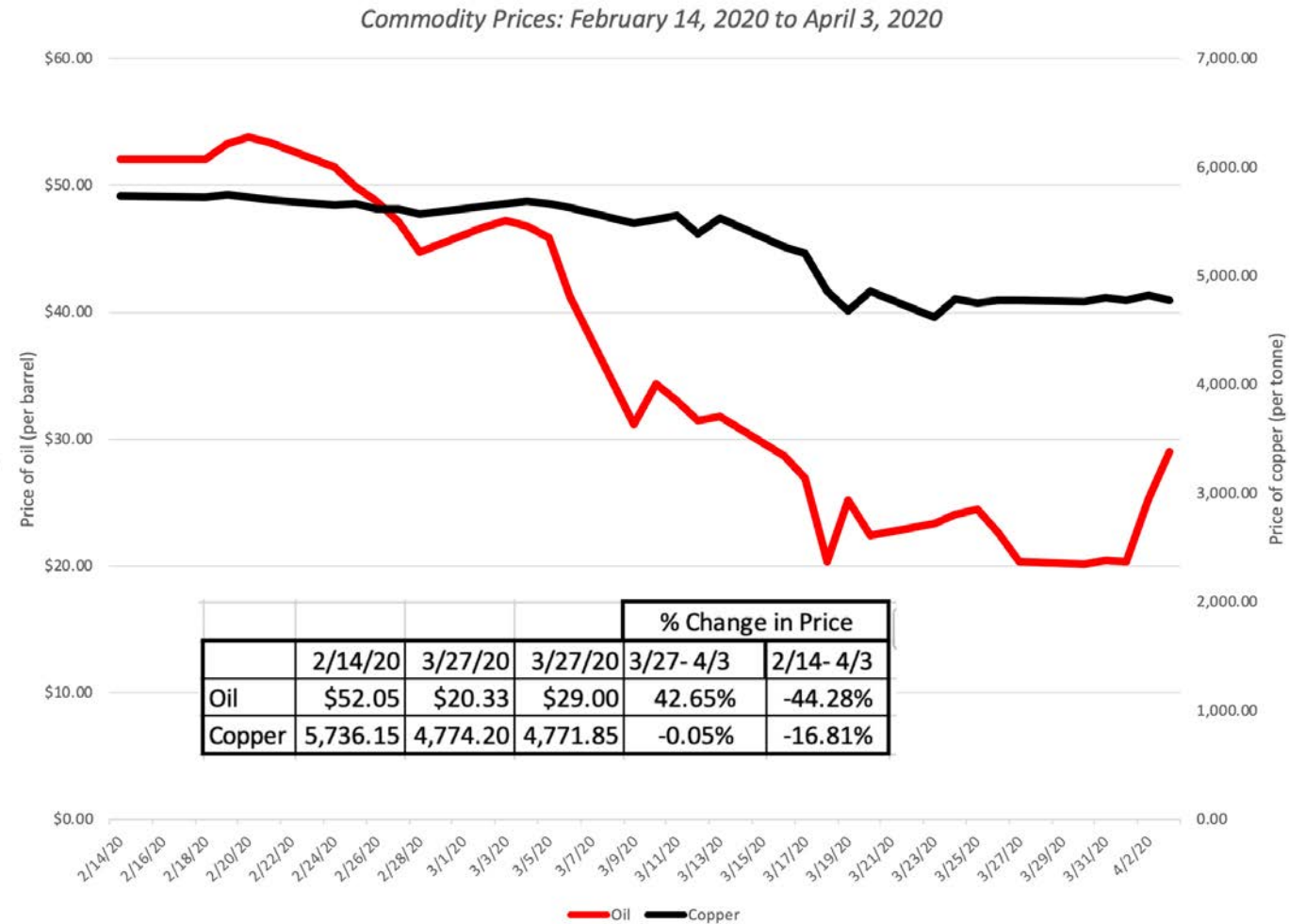
# The markets last week: Treasuries

	Yields on US Treasuries		
Maturity	2/14/20	3/27/20	4/3/20
3 month	1.58%	0.03%	0.10%
2 year	1.42%	0.25%	0.23%
5 year	1.42%	0.41%	0.39%
10 year	1.59%	0.72%	0.62%
20 year	1.89%	1.09%	1.05%
30 year	2.04%	1.29%	1.24%
	Yield curve slope		
2 yr - 3 month	-0.16%	0.22%	0.13%
10 yr - 2 yr	0.17%	0.47%	0.39%
30 yr - 10 yr	0.45%	0.57%	0.62%

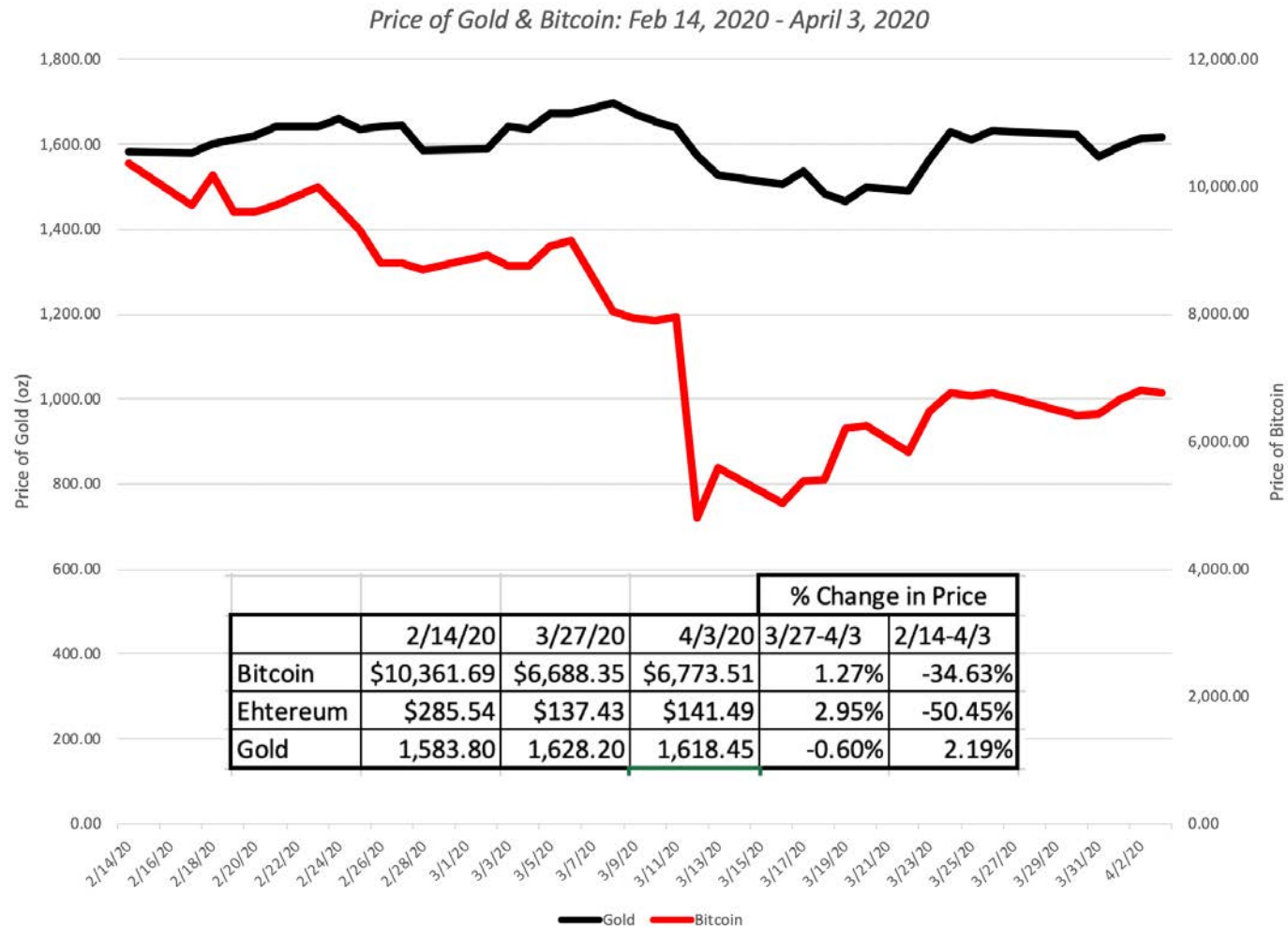
# The markets last week: Corporate Bonds

S&P Bond Rating	Yields and Spreads on Corporates					
	Spread over 10-yr Treasury			Yield on Bond		
	2/14/20	3/27/20	4/2/20	2/14/20	3/27/20	4/2/20
AAA	0.69%	1.52%	1.48%	2.28%	2.24%	2.10%
AA	0.72%	1.89%	1.79%	2.31%	2.61%	2.41%
A	0.80%	2.46%	2.30%	2.39%	3.18%	2.92%
BBB	1.33%	4.08%	3.97%	2.92%	4.80%	4.59%
BB	1.93%	6.44%	6.56%	3.52%	7.16%	7.18%
B	3.40%	9.59%	9.89%	4.99%	10.31%	10.51%
CCC or lower	9.65%	17.17%	18.25%	11.24%	17.89%	18.87%

# The markets last week: Commodities



# The markets last week: Gold & Bitcoin





# Equities: By Region

					3/27-4/3		2/14 - 4/3	
<i>Sub Region</i>	<i>count</i>	<i>Market Cap (2/14/20)</i>	<i>Market Cap (3/27/20)</i>	<i>Market Cap (4/3/20)</i>	<i>\$ Change</i>	<i>% Change</i>	<i>\$ Change</i>	<i>% Change</i>
Africa	607	\$ 573,381	\$ 371,111	\$ 354,215	\$ (16,896)	-4.55%	\$ (219,167)	-38.22%
Australia & NZ	1,359	\$ 1,615,100	\$ 1,014,786	\$ 1,038,400	\$ 23,614	2.33%	\$ (576,699)	-35.71%
Canada	1,574	\$ 2,277,586	\$ 1,522,703	\$ 1,543,387	\$ 20,684	1.36%	\$ (734,198)	-32.24%
China	6,176	\$ 14,031,496	\$ 12,672,163	\$ 12,654,134	\$ (18,030)	-0.14%	\$ (1,377,363)	-9.82%
EU & Environs	4,785	\$ 13,671,848	\$ 10,171,423	\$ 9,900,457	\$ (270,966)	-2.66%	\$ (3,771,390)	-27.59%
Eastern Europe & Russia	416	\$ 818,126	\$ 518,906	\$ 565,954	\$ 47,049	9.07%	\$ (252,172)	-30.82%
India	1,948	\$ 2,201,881	\$ 1,475,442	\$ 1,408,760	\$ (66,682)	-4.52%	\$ (793,121)	-36.02%
Japan	3,819	\$ 6,051,882	\$ 5,241,757	\$ 4,750,157	\$ (491,600)	-9.38%	\$ (1,301,725)	-21.51%
Latin America & Caribbean	933	\$ 2,380,521	\$ 1,461,726	\$ 1,402,204	\$ (59,523)	-4.07%	\$ (978,317)	-41.10%
Middle East	1,148	\$ 3,072,895	\$ 2,609,650	\$ 2,723,098	\$ 113,448	4.35%	\$ (349,797)	-11.38%
Small Asia	7,987	\$ 5,095,980	\$ 3,812,633	\$ 3,773,984	\$ (38,649)	-1.01%	\$ (1,321,996)	-25.94%
UK	1,102	\$ 3,070,875	\$ 2,152,456	\$ 2,052,847	\$ (99,609)	-4.63%	\$ (1,018,028)	-33.15%
United States	4,943	\$ 35,627,693	\$ 26,363,212	\$ 25,626,388	\$ (736,824)	-2.79%	\$ (10,001,306)	-28.07%
Global	36,797	\$ 90,489,264	\$ 69,387,968	\$ 67,793,985	\$ (1,593,983)	-2.30%	\$ (22,695,279)	-25.08%



# Equities: By Sector

					3/27-4/3		2/14 - 4/3	
<i>Primary Sector</i>	<i>count</i>	<i>Market Cap (2/14/20)</i>	<i>Market Cap (3/27/20)</i>	<i>Market Cap (4/3/20)</i>	<i>\$ Change</i>	<i>% Change</i>	<i>\$ Change</i>	<i>% Change</i>
Communication Services	1,697	\$ 7,350,093	\$ 5,846,937	\$ 5,773,776	\$ (73,161)	-1.25%	\$ (1,576,317)	-21.45%
Consumer Discretionary	5,009	\$ 10,154,302	\$ 7,749,212	\$ 7,313,709	\$ (435,504)	-5.62%	\$ (2,840,593)	-27.97%
Consumer Staples	2,314	\$ 7,125,951	\$ 6,011,003	\$ 6,105,602	\$ 94,599	1.57%	\$ (1,020,349)	-14.32%
Energy	1,320	\$ 5,939,342	\$ 4,081,909	\$ 4,339,487	\$ 257,578	6.31%	\$ (1,599,855)	-26.94%
Financials	3,958	\$ 14,954,874	\$ 10,680,135	\$ 10,116,924	\$ (563,212)	-5.27%	\$ (4,837,950)	-32.35%
Health Care	3,434	\$ 8,975,256	\$ 7,497,464	\$ 7,588,031	\$ 90,567	1.21%	\$ (1,387,225)	-15.46%
Industrials	6,584	\$ 10,122,394	\$ 7,565,330	\$ 7,163,429	\$ (401,901)	-5.31%	\$ (2,958,964)	-29.23%
Information Technology	4,882	\$ 13,619,285	\$ 10,642,356	\$ 10,345,371	\$ (296,985)	-2.79%	\$ (3,273,914)	-24.04%
Materials	4,469	\$ 4,995,434	\$ 3,781,593	\$ 3,739,145	\$ (42,448)	-1.12%	\$ (1,256,289)	-25.15%
Real Estate	2,303	\$ 4,046,102	\$ 2,985,253	\$ 2,855,025	\$ (130,228)	-4.36%	\$ (1,191,078)	-29.44%
Utilities	819	\$ 3,205,164	\$ 2,545,857	\$ 2,452,583	\$ (93,273)	-3.66%	\$ (752,580)	-23.48%

# Equities: Most & least damaged Industries

Worst Performers: Week of 3/27 - 4/3								
Industry	count	Market Cap (2/14/20)	Market Cap (3/27/20)	Market Cap (4/3/20)	3/27-4/3		2/14 - 4/3	
					\$ Change	% Change	\$ Change	% Change
Homebuilding	147	\$ 247,004	\$ 149,911	\$ 126,936	\$ (22,974)	-15.33%	\$ (120,068)	-48.61%
Food Wholesalers	118	\$ 93,206	\$ 61,490	\$ 53,052	\$ (8,438)	-13.72%	\$ (40,154)	-43.08%
Aerospace/Defense	211	\$1,217,330	\$ 791,850	\$ 683,217	\$ (108,633)	-13.72%	\$ (534,114)	-43.88%
Trucking	179	\$ 238,158	\$ 171,688	\$ 152,694	\$ (18,994)	-11.06%	\$ (85,464)	-35.89%
Air Transport	151	\$ 559,587	\$ 341,073	\$ 306,939	\$ (34,134)	-10.01%	\$ (252,647)	-45.15%
Auto & Truck	128	\$1,199,980	\$ 909,397	\$ 822,022	\$ (87,375)	-9.61%	\$ (377,958)	-31.50%
Banks (Regional)	786	\$1,013,028	\$ 706,428	\$ 642,234	\$ (64,194)	-9.09%	\$ (370,794)	-36.60%
Hotel/Gaming	502	\$ 711,573	\$ 428,985	\$ 392,855	\$ (36,130)	-8.42%	\$ (318,718)	-44.79%
R.E.I.T.	761	\$2,212,624	\$1,525,793	\$1,402,508	\$ (123,285)	-8.08%	\$ (810,116)	-36.61%
Apparel	854	\$1,066,653	\$ 832,131	\$ 767,713	\$ (64,418)	-7.74%	\$ (298,940)	-28.03%
Best Performers: Week of 3/27 - 4/3								
Industry	count	Market Cap (2/14/20)	Market Cap (3/27/20)	Market Cap (4/3/20)	3/27-4/3		2/14 - 4/3	
					\$ Change	% Change	\$ Change	% Change
Oil/Gas (Production and Exploration)	480	\$ 692,989	\$ 342,189	\$ 386,550	\$ 44,361	12.96%	\$ (306,439)	-44.22%
Oil/Gas (Integrated)	50	\$3,679,307	\$2,775,504	\$2,974,298	\$ 198,793	7.16%	\$ (705,009)	-19.16%
Tobacco	38	\$ 483,737	\$ 374,434	\$ 393,723	\$ 19,288	5.15%	\$ (90,014)	-18.61%
Drugs (Pharmaceutical)	1,069	\$3,629,250	\$3,091,549	\$3,190,881	\$ 99,332	3.21%	\$ (438,369)	-12.08%
Oil/Gas Distribution	186	\$ 653,945	\$ 375,005	\$ 386,600	\$ 11,595	3.09%	\$ (267,345)	-40.88%
Coal & Related Energy	183	\$ 170,618	\$ 142,592	\$ 146,498	\$ 3,907	2.74%	\$ (24,120)	-14.14%
Drugs (Biotechnology)	915	\$1,411,386	\$1,216,821	\$1,246,095	\$ 29,274	2.41%	\$ (165,291)	-11.71%
Food Processing	1,031	\$1,793,037	\$1,582,975	\$1,616,810	\$ 33,835	2.14%	\$ (176,227)	-9.83%
Retail (General)	202	\$1,056,577	\$ 887,698	\$ 904,091	\$ 16,393	1.85%	\$ (152,486)	-14.43%
Healthcare Information and Technology	320	\$ 772,848	\$ 646,130	\$ 656,548	\$ 10,418	1.61%	\$ (116,300)	-15.05%

# Equities: By Class

- I also did the breakdown, looking at companies in PE classes, momentum classes (based upon price change over the year leading into 2/14/20, net debt classes and dividend/buyback classes).
- I found that the only categorization where there is significant differentiation is net debt, where more highly levered companies continue to be punished more than less levered companies.
- In short, there is no evidence so far that the punishment is being meted out to the stocks that have benefited the most from the long up run in stock prices.

# Equities; By bond rating...

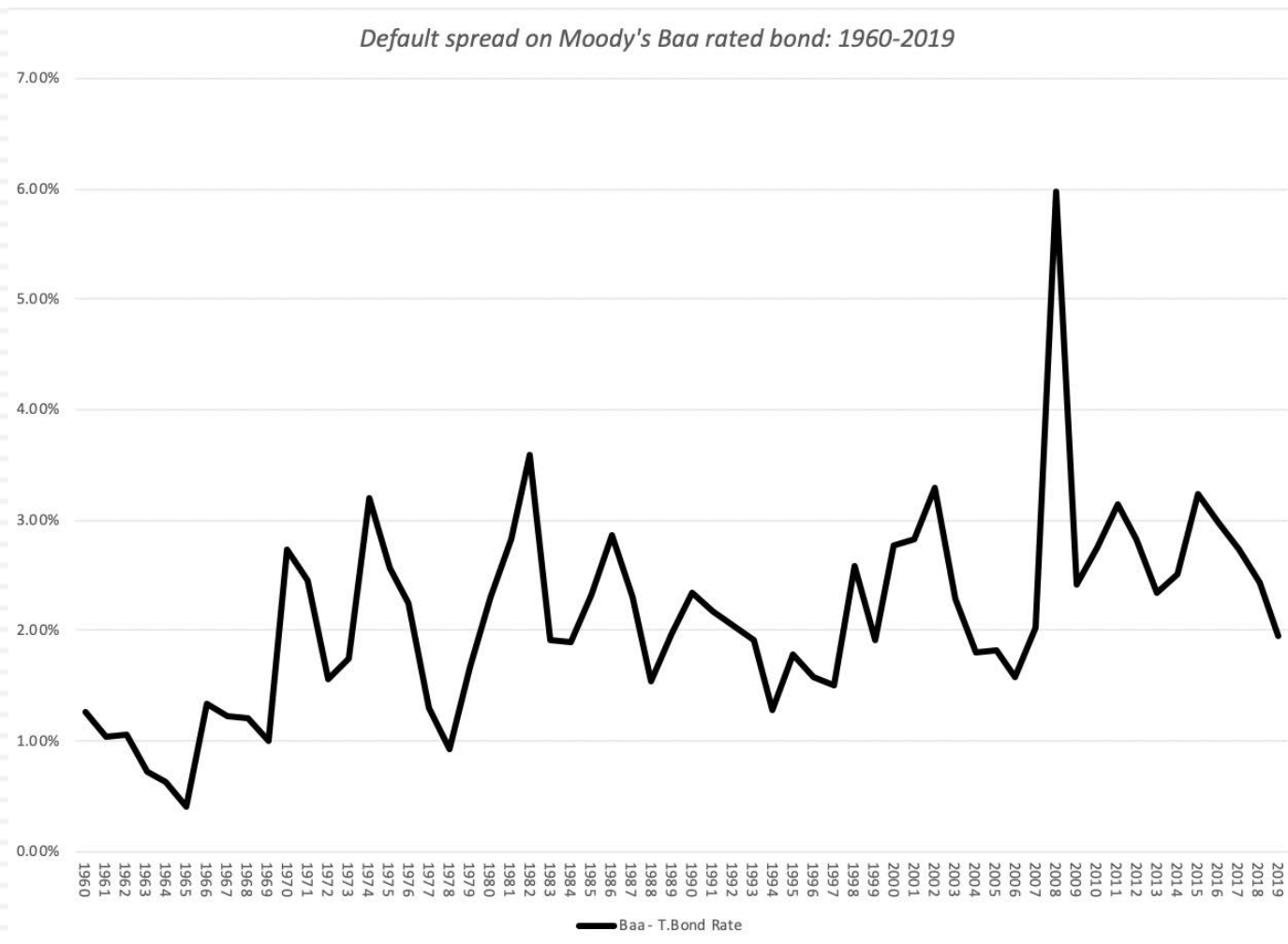
S&P Entity Credit Rating - Issuer Credit Rating - Foreign Currency LT [Latest] (Rating)	count	Market Cap (2/14/20)	Market Cap (3/27/20)	Market Cap (4/3/20)	3/27-4/3		2/14 - 4/3	
					\$ Change	% Change	\$ Change	% Change
AAA	3	\$ 1,814,526	\$ 1,469,979	\$ 1,530,640	\$ 60,661	4.13%	\$ (283,885)	-15.65%
AA+	4	\$ 2,505,479	\$ 1,882,014	\$ 1,844,511	\$ (37,503)	-1.99%	\$ (660,968)	-26.38%
AA	18	\$ 2,067,352	\$ 1,616,429	\$ 1,680,300	\$ 63,870	3.95%	\$ (387,052)	-18.72%
AA-	49	\$ 5,896,066	\$ 4,832,642	\$ 4,817,932	\$ (14,710)	-0.30%	\$ (1,078,134)	-18.29%
A+	81	\$ 5,445,976	\$ 4,321,637	\$ 4,272,141	\$ (49,496)	-1.15%	\$ (1,173,835)	-21.55%
A	152	\$ 6,465,210	\$ 5,045,792	\$ 4,861,914	\$ (183,878)	-3.64%	\$ (1,603,296)	-24.80%
A-	194	\$ 7,282,965	\$ 5,400,057	\$ 5,147,930	\$ (252,128)	-4.67%	\$ (2,135,035)	-29.32%
BBB+	296	\$ 7,196,511	\$ 5,247,472	\$ 5,088,034	\$ (159,438)	-3.04%	\$ (2,108,477)	-29.30%
BBB	363	\$ 6,266,440	\$ 4,499,248	\$ 4,360,998	\$ (138,251)	-3.07%	\$ (1,905,442)	-30.41%
BB+	185	\$ 1,646,204	\$ 1,136,306	\$ 1,088,619	\$ (47,688)	-4.20%	\$ (557,585)	-33.87%
BB	215	\$ 1,269,037	\$ 847,445	\$ 836,208	\$ (11,237)	-1.33%	\$ (432,829)	-34.11%
BB-	211	\$ 1,260,748	\$ 797,442	\$ 750,925	\$ (46,517)	-5.83%	\$ (509,822)	-40.44%
B+	146	\$ 429,089	\$ 263,856	\$ 251,880	\$ (11,976)	-4.54%	\$ (177,209)	-41.30%
B	144	\$ 261,985	\$ 153,770	\$ 140,142	\$ (13,628)	-8.86%	\$ (121,843)	-46.51%
B-	105	\$ 305,558	\$ 190,381	\$ 173,760	\$ (16,621)	-8.73%	\$ (131,798)	-43.13%
CCC+	61	\$ 36,018	\$ 15,567	\$ 15,949	\$ 382	2.45%	\$ (20,069)	-55.72%
CCC	18	\$ 4,833	\$ 2,539	\$ 2,816	\$ 278	10.95%	\$ (2,016)	-41.72%
CCC-	12	\$ 4,557	\$ 2,715	\$ 2,507	\$ (208)	-7.68%	\$ (2,050)	-44.99%
CC	7	\$ 820	\$ 238	\$ 176	\$ (62)	-26.11%	\$ (644)	-78.52%
D	7	\$ 439	\$ 153	\$ 104	\$ (49)	-31.93%	\$ (335)	-76.28%



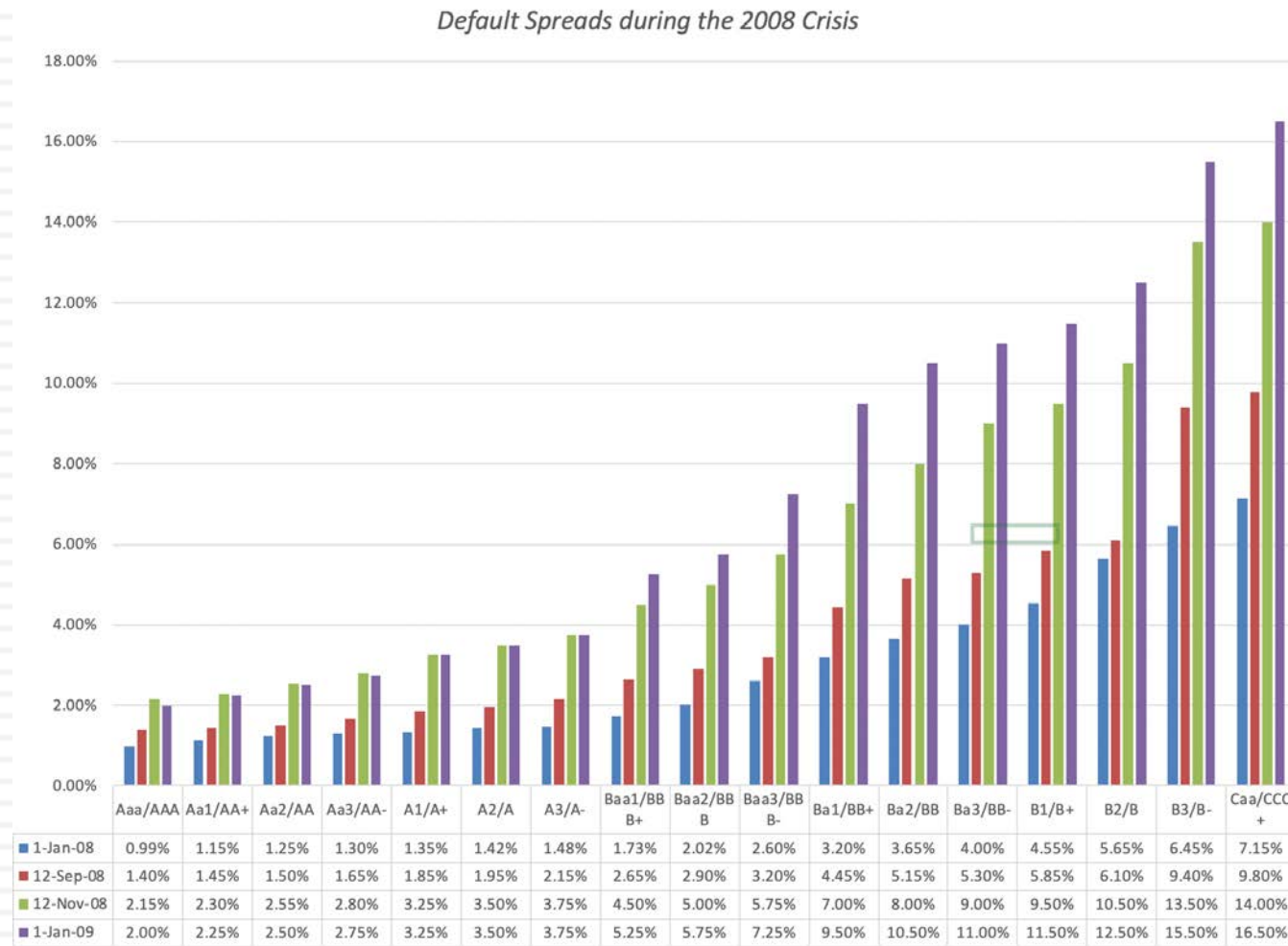
# The price of risk: Determinants

- The price of risk changes on a day-to-day basis, and is determined by a combination of variables that encompass almost everything going on in the world from
  - ▣ uncertainty about future economic growth (more uncertainty -> higher price for risk) to
  - ▣ political stability (more instability -> higher price for risk) to
  - ▣ worries about catastrophes/disasters (more worries -> higher price for risk) to
  - ▣ investor risk aversion (greater risk aversion -> higher price for risk) to
  - ▣ information availability/reliability (less reliable and accessible information -> higher risk premiums).
- The more general point though that emerges from identifying the determinants is that changes in these determinants will play out as changing prices for risk, and since investing and valuation has to be based upon current and update prices for risk, you need measurement approaches that capture these day-to-day changes.

# A Bond Market Price of Risk

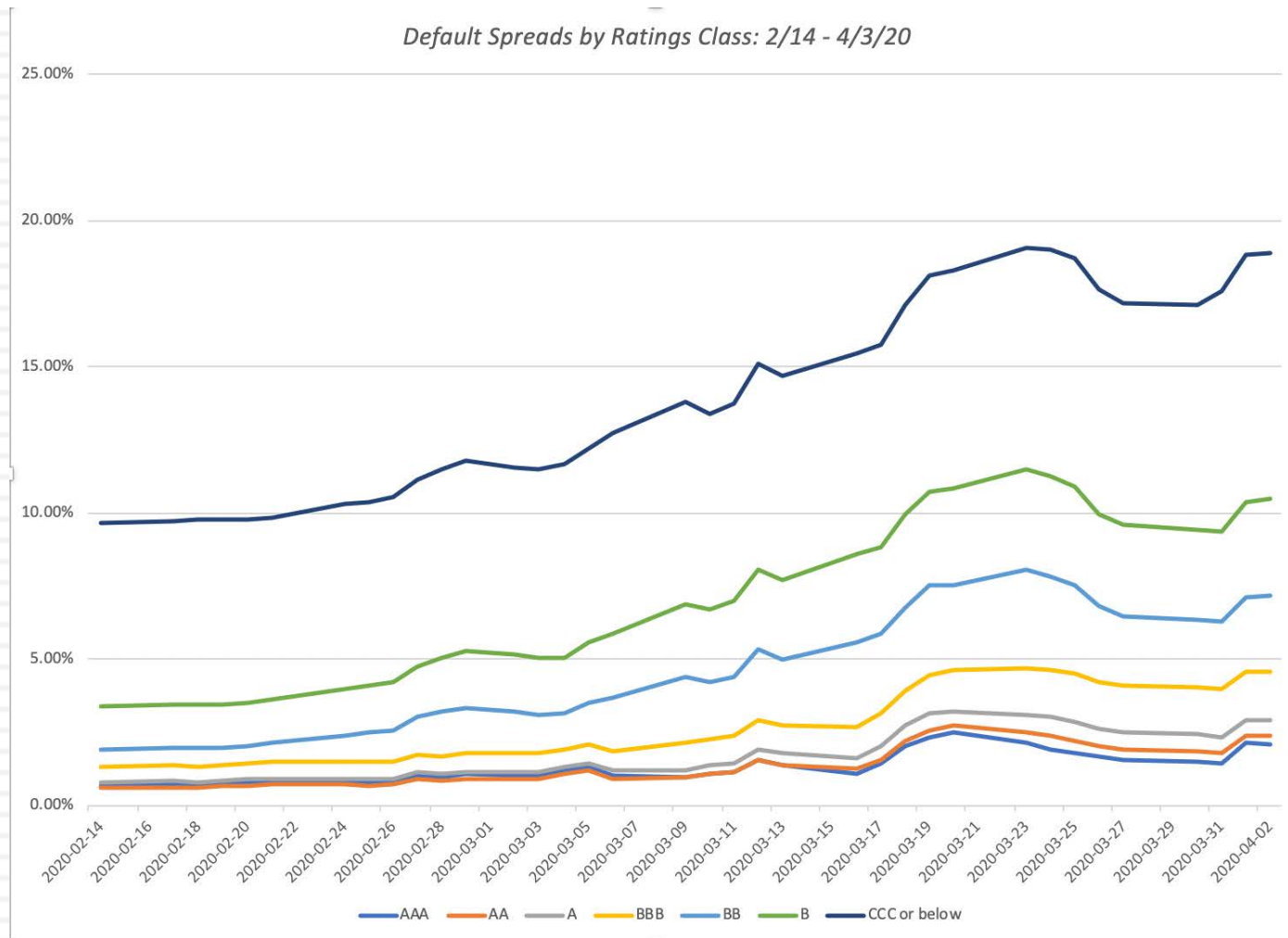


# Bond Default Spreads during the 2008 crisis

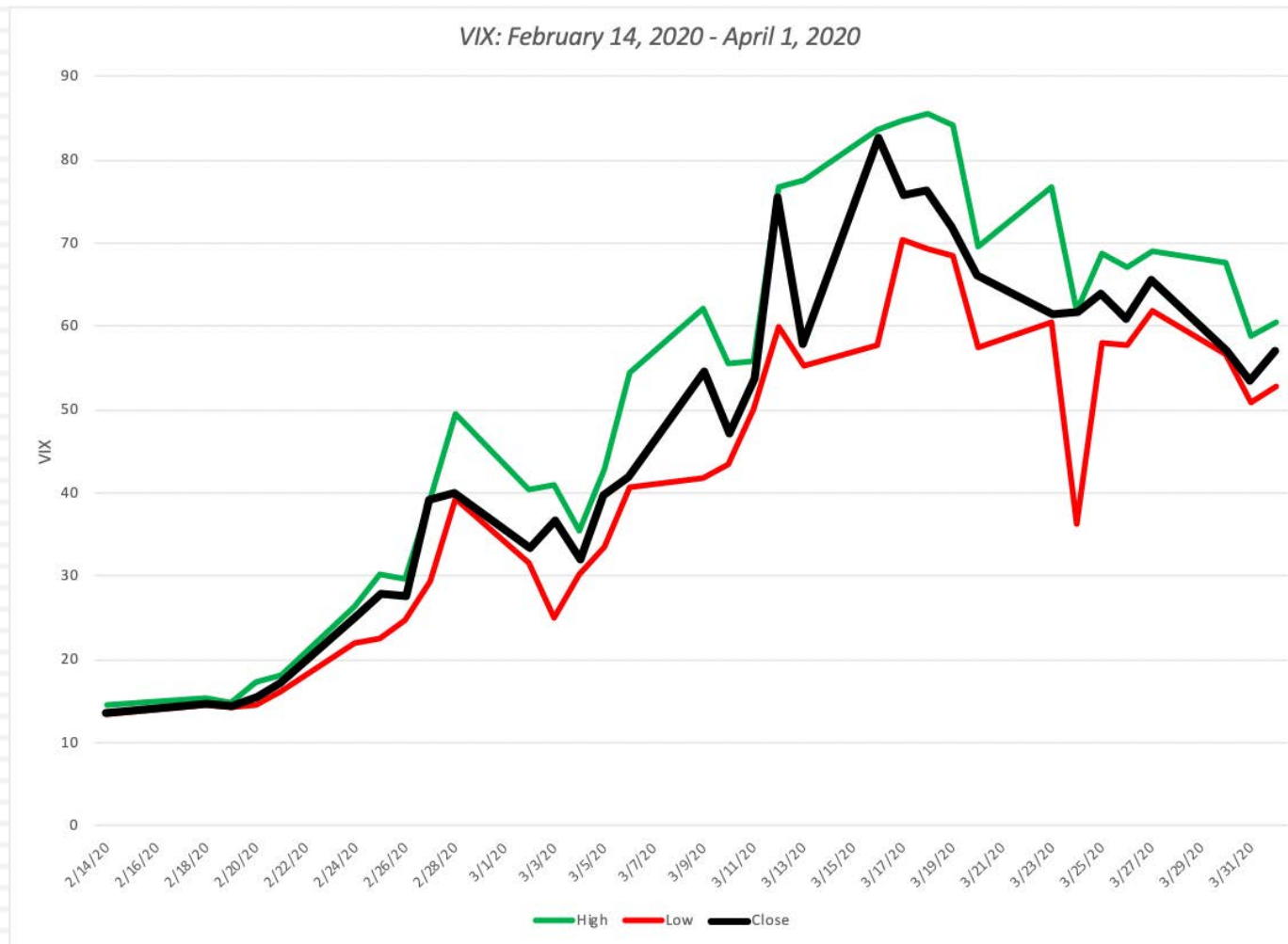




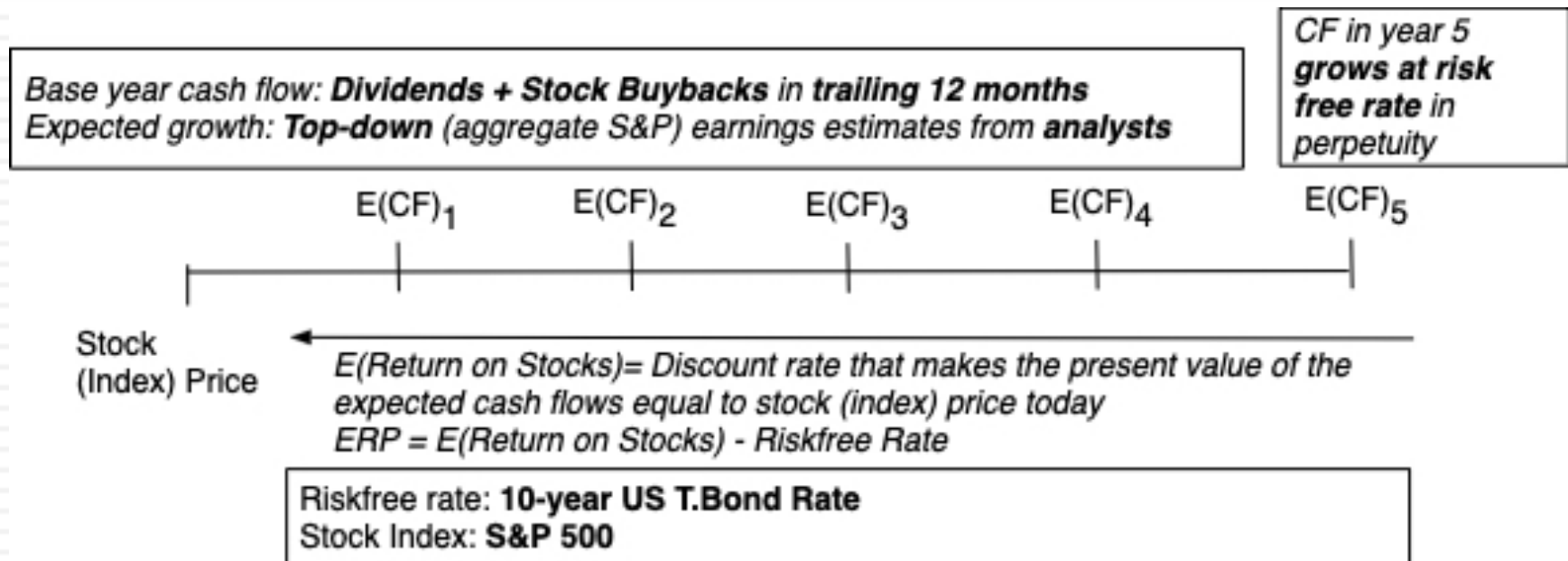
# Bond Market Default Spreads: The COVID crisis



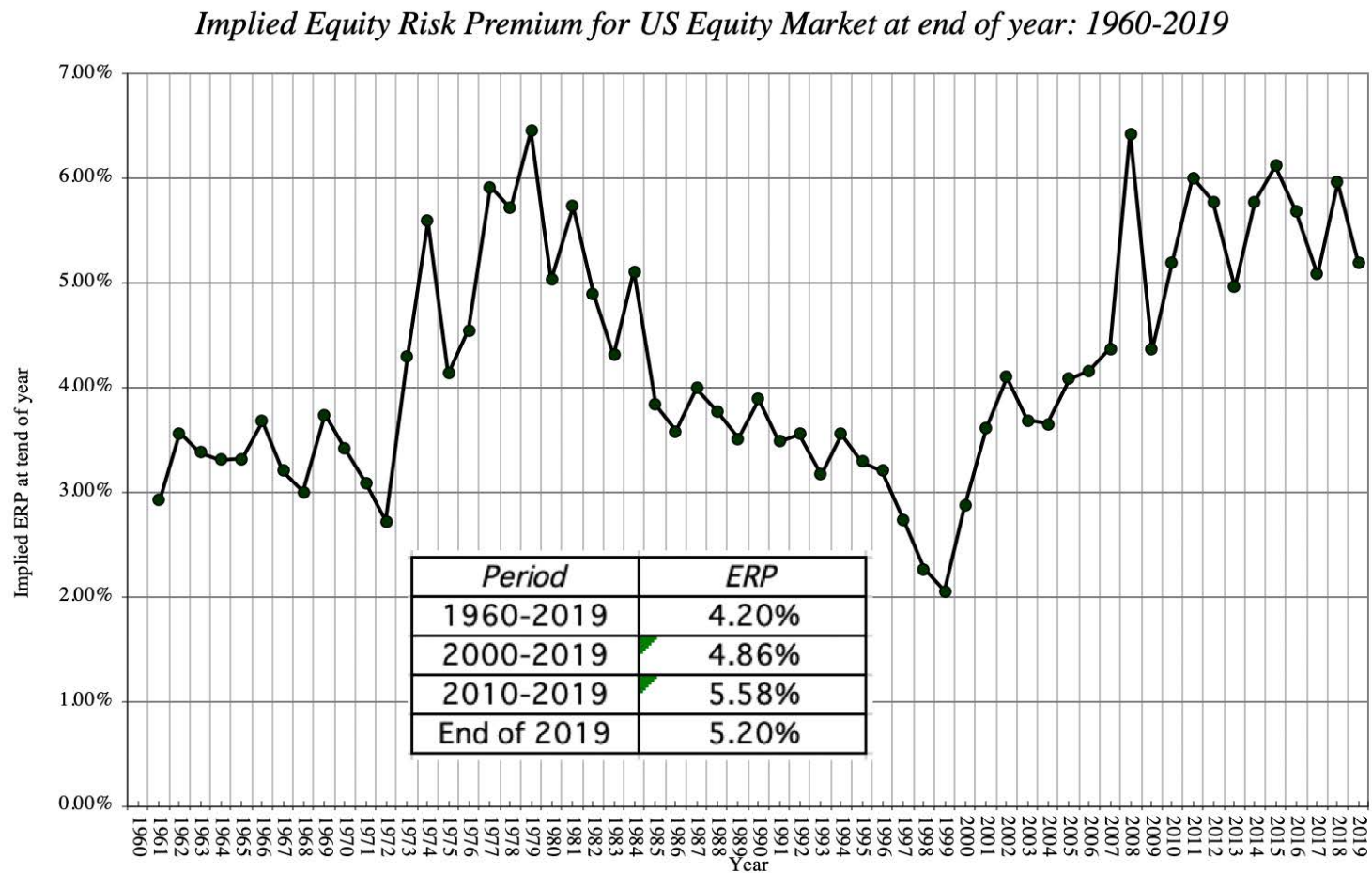
# Equity Risk: VIX



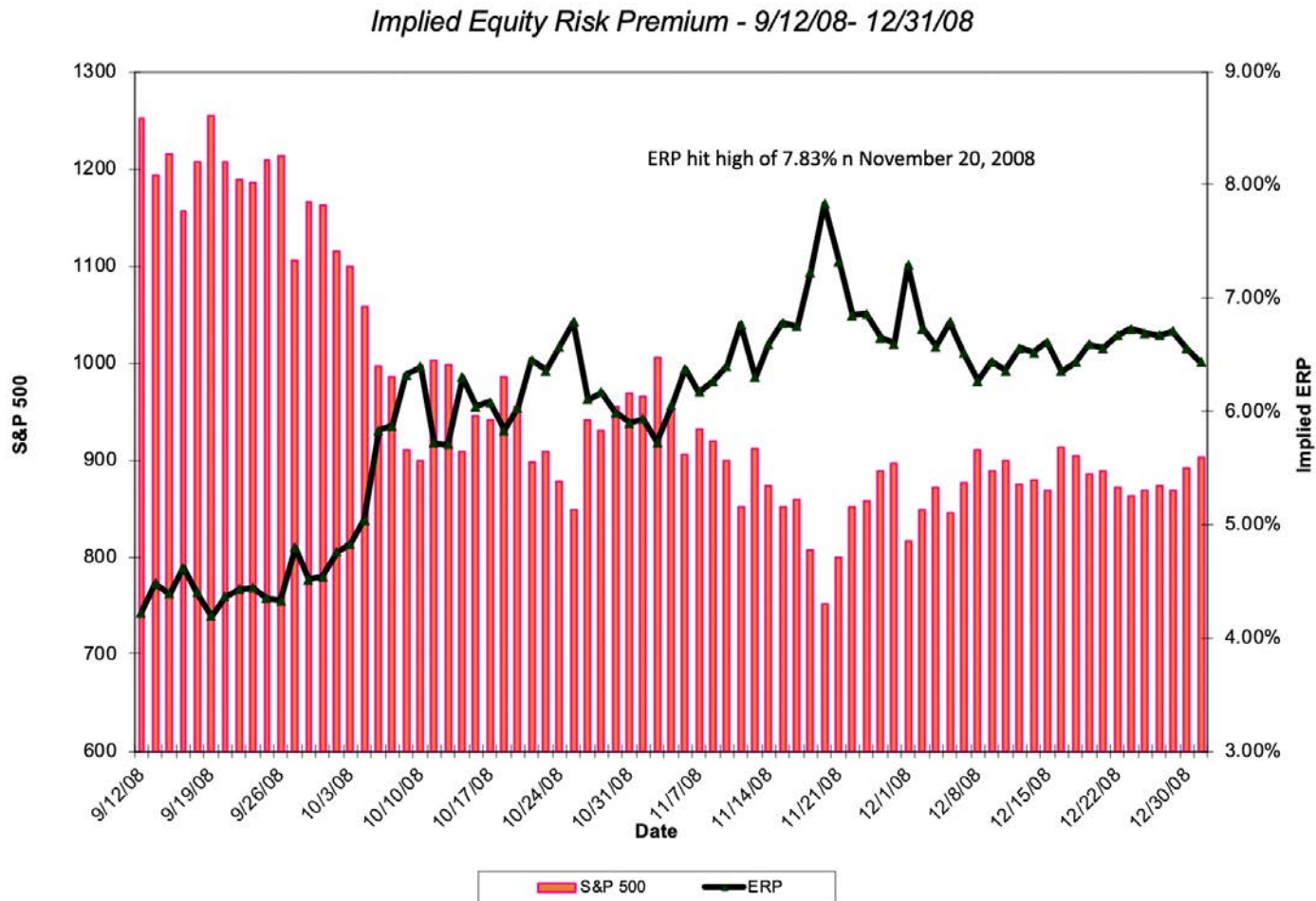
# An Equity Market Price of Risk



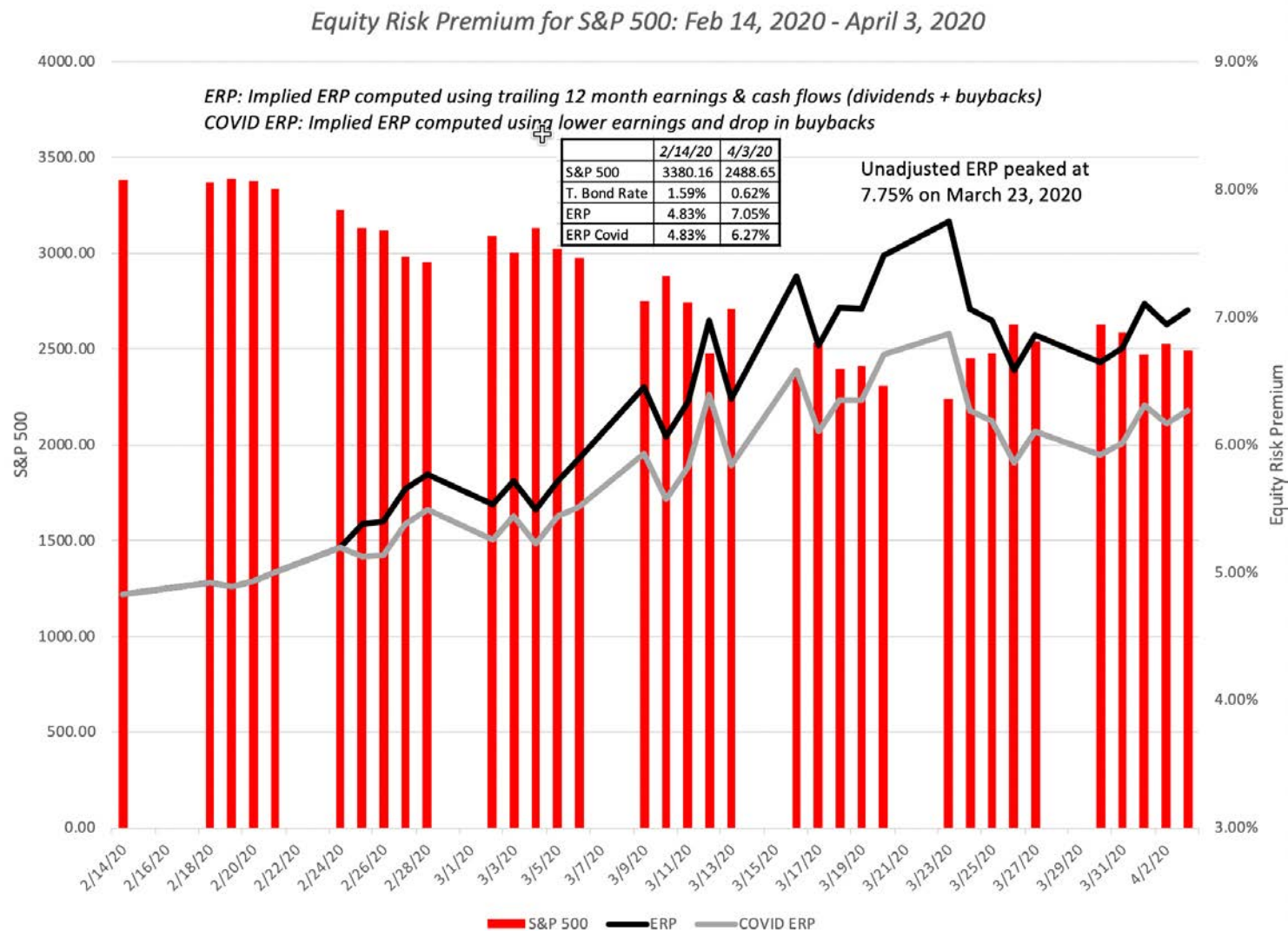
# With historical perspective



# The 2008 Crisis

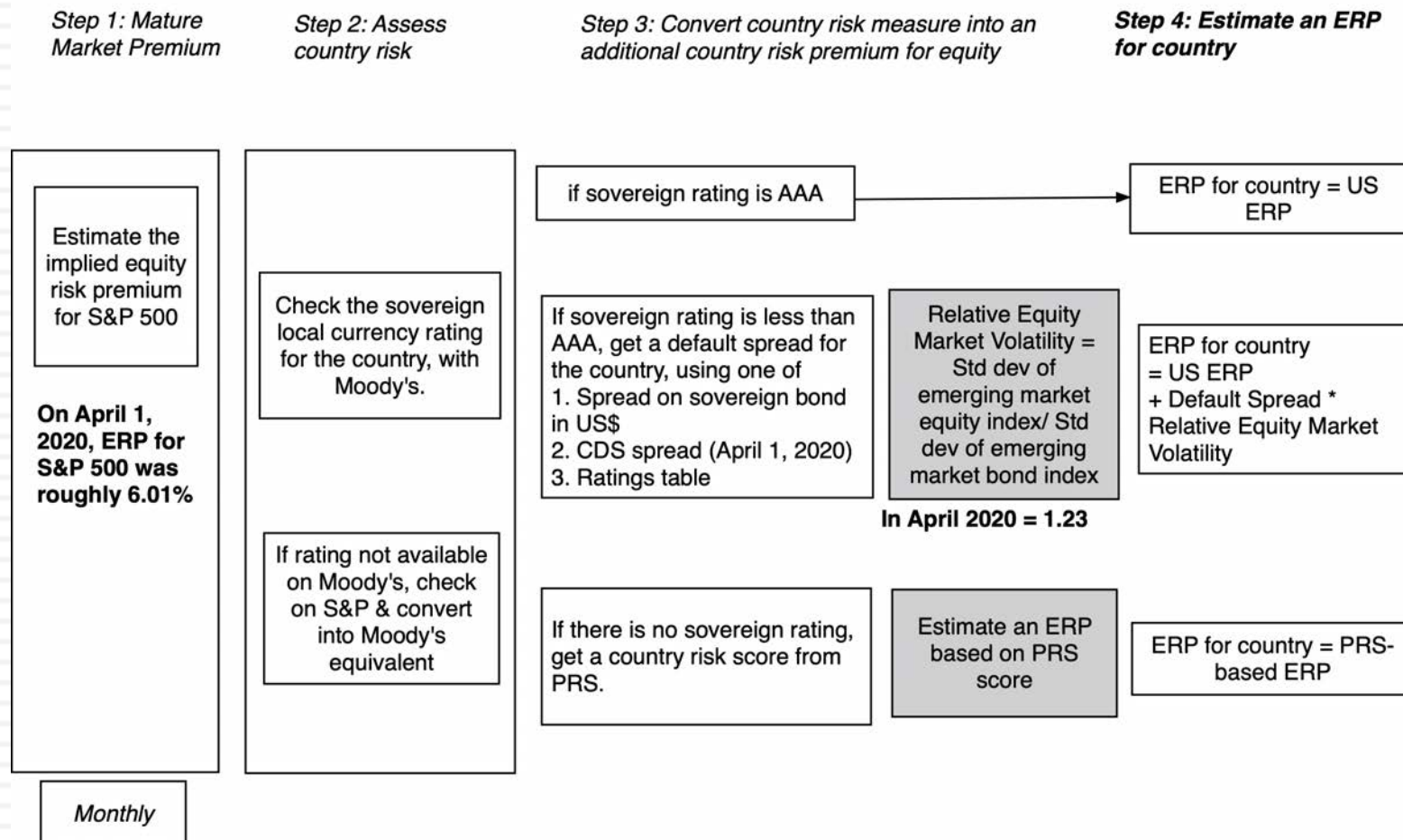


# The COVID crisis



# Country Risk Premiums: Resetting the base numbers

## ERP Estimation Procedure - April 1, 2020





Andorra	9.49%	7.08%	Italy	10.04%	7.37%
Austria	6.74%	5.59%	Jersey (States of)	7.30%	5.89%
Belgium	7.12%	5.80%	Liechtenstein	6.01%	5.20%
Cyprus	11.51%	8.16%	Luxembourg	6.01%	5.20%
Denmark	6.01%	5.20%	Malta	7.56%	6.04%
Finland	6.74%	5.59%	Netherlands	6.01%	5.20%
France	6.92%	5.69%	Norway	6.01%	5.20%
Germany	6.01%	5.20%	Portugal	10.04%	7.37%
Greece	14.25%	9.64%	Spain	8.93%	6.77%
Guernsey (States of)	8.93%	6.77%	Sweden	6.01%	5.20%
Iceland	7.56%	6.04%	Switzerland	6.01%	5.20%
Ireland	7.56%	6.04%	Turkey	14.25%	9.64%
Isle of Man	6.92%	5.69%	United Kingdom	6.92%	5.69%
			<b>Western Europe</b>	<b>7.51%</b>	<b>6.01%</b>

Canada	6.01%	5.20%
United States	6.01%	5.20%
<b>North America</b>	<b>6.01%</b>	<b>5.20%</b>

Argentina	24.52%	14.08%
Belize	17.91%	11.62%
Bolivia	14.25%	8.75%
Brazil	11.51%	8.16%
Chile	7.30%	5.89%
Colombia	9.49%	7.08%
Costa Rica	16.08%	9.64%
Ecuador	24.30%	11.62%
El Salvador	17.91%	11.62%
Guatemala	10.58%	7.66%
Honduras	14.25%	9.64%
Mexico	8.21%	6.38%
Nicaragua	17.91%	10.63%
Panama	8.93%	6.77%
Paraguay	10.58%	7.66%
Peru	8.21%	6.38%
Suriname	16.08%	10.63%
Uruguay	14.25%	9.64%
Venezuela	24.52%	22.89%
<b>Latin America</b>	<b>11.79%</b>	<b>8.48%</b>

Angola	17.91%	11.62%
Benin	16.08%	10.63%
Botswana	7.56%	6.04%
Burkina Faso	16.08%	10.63%
Cameroon	16.08%	10.63%
Cape Verde	16.08%	10.63%
Congo (DR)	19.73%	12.59%
Congo (Republic of)	22.49%	14.08%
Côte d'Ivoire	12.60%	8.75%
Egypt	16.08%	10.63%
Ethiopia	14.25%	9.64%
Gabon	19.73%	12.59%
Ghana	17.91%	11.62%
Kenya	16.08%	10.63%
Mali	17.91%	11.62%
Morocco	10.58%	7.66%
Mozambique	22.49%	14.08%
Namibia	11.51%	8.16%
Niger	17.91%	11.62%
Nigeria	16.08%	10.63%
Rwanda	16.08%	10.63%
Senegal	12.60%	8.75%
South Africa	10.58%	7.37%
Swaziland	16.08%	10.63%
Tanzania	14.25%	9.64%
Togo	17.91%	11.62%
Tunisia	16.08%	10.63%
Uganda	16.08%	10.63%
Zambia	24.52%	14.08%
<b>Africa</b>	<b>14.71%</b>	<b>9.89%</b>

Albania	14.25%	9.64%
Armenia	12.60%	8.75%
Azerbaijan	11.51%	8.16%
Belarus	17.91%	11.62%
Bosnia and Herzegovina	17.91%	11.62%
Bulgaria	9.49%	7.08%
Croatia	11.51%	8.16%
Czech Republic	7.12%	5.80%
Estonia	7.30%	5.89%
Georgia	11.51%	8.16%
Hungary	10.04%	7.37%
Kazakhstan	10.04%	7.37%
Kyrgyzstan	16.08%	10.63%
Latvia	8.21%	6.38%
Lithuania	8.21%	6.38%
Macedonia	12.60%	8.75%
Moldova	17.91%	11.62%
Montenegro	14.25%	9.64%
Poland	7.56%	6.04%
Romania	10.04%	7.37%
Russia	10.04%	7.37%
Serbia	12.60%	8.75%
Slovakia	7.56%	6.04%
Slovenia	8.93%	6.77%
Tajikistan	17.91%	11.62%
Ukraine	19.73%	12.59%
Uzbekistan	9.49%	7.08%
<b>E. Europe &amp; Russia</b>	<b>9.98%</b>	<b>7.34%</b>

Abu Dhabi	6.92%	5.69%
Bahrain	16.08%	10.63%
Iraq	19.73%	12.59%
Israel	7.30%	5.89%
Jordan	14.25%	9.64%
Kuwait	6.92%	5.69%
Lebanon	24.52%	14.08%
Oman	11.51%	7.66%
Qatar	7.12%	5.80%
Ras Al Khaimah (Emirate)	19.73%	12.59%
Saudi Arabia	7.30%	5.89%
Sharjah	9.49%	6.38%
United Arab Emirates	6.92%	5.69%
<b>Middle East</b>	<b>8.93%</b>	<b>6.77%</b>

Country	PRS Risk Score	ERP (4/1/20)	ERP (1/1/20)
Algeria	63	17.91%	11.62%
Brunei	82.75	6.74%	5.59%
Gambia	63.75	17.91%	11.62%
Guinea	57	24.30%	15.06%
Guinea-Bissau	63.25	17.91%	11.62%
Guyana	63.75	17.91%	11.62%
Haiti	57.5	22.49%	14.08%
Iran	62.5	17.91%	11.62%
Korea, D.P.R.	50.5	27.03%	17.03%
Liberia	49.5	31.93%	21.71%
Libya	69.5	11.51%	8.16%
Madagascar	65.5	16.08%	10.63%
Malawi	63.5	17.91%	11.62%
Myanmar	64	17.91%	11.62%
Sierra Leone	57	24.30%	15.06%
Somalia	53	27.03%	17.03%
Sudan	39.75	31.93%	21.71%
Syria	53	27.03%	17.03%
Yemen, Republic	54.5	27.03%	17.03%
Zimbabwe	50.5	27.03%	17.03%

Bangladesh	12.60%	8.75%
Cambodia	16.08%	10.63%
China	7.30%	5.89%
Fiji	12.60%	8.75%
Hong Kong	7.12%	5.69%
India	9.49%	7.08%
Indonesia	9.49%	7.08%
Japan	7.30%	5.89%
Korea	6.92%	5.69%
Laos	8.21%	NA
Macao	7.12%	5.80%
Malaysia	8.21%	6.38%
Maldives	16.08%	10.63%
Mauritius	8.93%	6.77%
Mongolia	17.91%	11.62%
Pakistan	17.91%	11.62%
Papua New Guinea	16.08%	10.63%
Philippines	9.49%	7.08%
Singapore	6.01%	5.20%
Solomon Islands	17.91%	11.62%
Sri Lanka	16.08%	10.63%
Taiwan	7.12%	5.80%
Thailand	8.93%	6.77%
Vietnam	12.60%	8.75%
<b>Asia</b>	<b>7.89%</b>	<b>6.21%</b>

Australia	6.01%	5.20%
Cook Islands	14.25%	9.64%
New Zealand	6.01%	5.20%
<b>Australia &amp; NZ</b>	<b>6.02%</b>	<b>5.20%</b>

# In conclusion...

- One of the biggest lessons that I learned from the 2008 crisis was to move away from static approaches for computing equity risk premiums, dependent on looking at long periods of history.
- The lessons that I learned during the last three months of 2008 made me switch completely to using implied equity risk premiums in my valuation and corporate financial analysis and to compute them on a monthly basis.
- This crisis has reinforced that practice. I have always found it difficult to grasp how companies can use hurdle rates that are not only set in stone, but set in stone a decade or two ago, even as the market environment shifts and the price of risk changes.
- The median cost of capital for a global company, which was 7.6% at the start of 2020, is now closer to 8.5%, with the increase in risk premiums more than compensating for the decline in risk free rates.