MILL CREEK

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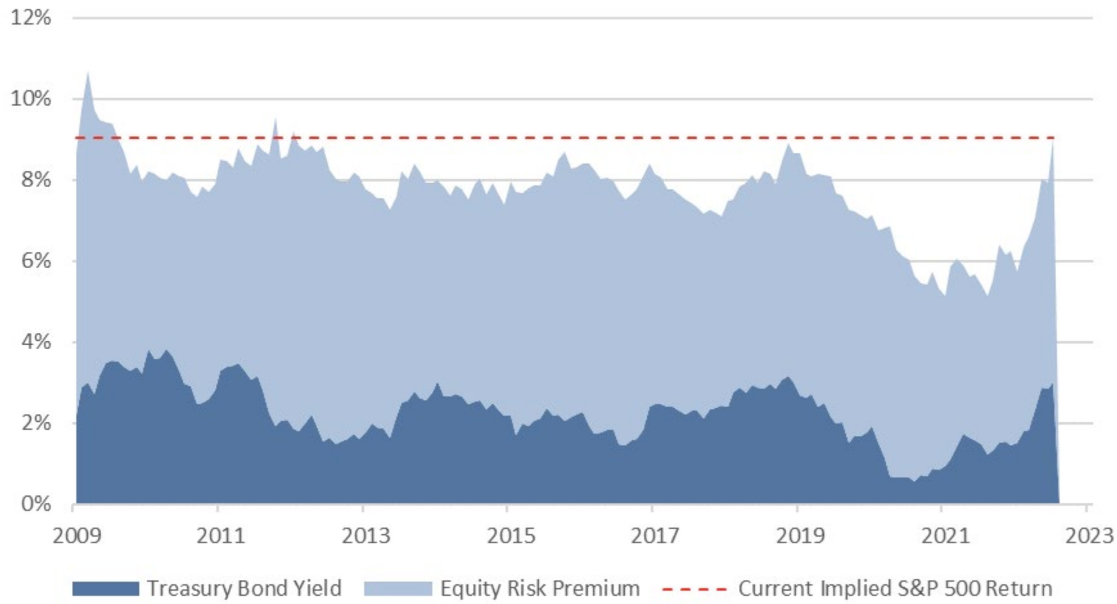
WEEKLY UPDATE
July 11, 2022

## MARKET COMMENTARY

**Fig. 1: S&P 500 Implied Return, (2009- July 2022)**




*Source: Mill Creek, Aswath Damodaran Online.*

The first six months of this year have been quite jarring for investors. Nowhere does that show up more starkly than in the repricing of the equity risk premium. The equity risk premium is a measure of the expected return on equities relative to a "safe" asset like US Treasuries. Investors who perceive the future as safe and uneventful might not require substantial compensation to accept equity market risk. On the other hand, if the future looks highly uncertain and forbidding, investors are likely to require more compensation to move from safe bonds to risky equities.

NYU Professor Aswath Damodaran (if the name sounds familiar, it might be because we've mentioned him previously in **our weekly commentary**) maintains a set of well-regarded equity risk premiums for a range of global equity markets. His mid-year outlook finds that the equity risk premium for the S&P 500 has jumped from 4.24% on January 1st to 6.01% today. Since Treasury yields have also risen, his implied annual return on the S&P 500 is now just over 9% (Fig. 1). The last time his forward-looking S&P 500 return exceeded 9% was in 2012, during significant concerns about the Eurozone stability.

Relatedly, we've also updated our Capital Market Assumptions (CMAs), which you can **access here**. Our CMAs are forward-looking returns estimates for a range of asset classes over one full market cycle. We're slightly more conservative with our earnings growth estimates than Professor Damodaran. Still, our return estimates are also meaningfully higher across the board for stocks and bonds than they were at the beginning of the year.

## QUICK LINKS



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