

# Normalized Risk-Free Rates for Global Economies have Increased, Effective May 17, 2022

Kroll regularly reviews fluctuations in global economic and financial market conditions that may warrant changes to our equity risk premium (ERP) and accompanying risk-free rate recommendations. The risk-free rate and ERP are key inputs used to calculate the cost of equity capital in the context of the Capital Asset Pricing Model (CAPM) and other models used to develop discount rates.

Based on recent updates to long-term inflation expectations for Germany, **Kroll increased the German normalized risk-free rate from 1.5% to 2.0% when developing EUR-denominated discount rates as of May 17, 2022, and thereafter**, until further guidance is issued. The German normalized risk-free rate is to be used with our Recommended Eurozone ERP of 5.5% to 6.0%. Based on current economic and financial market conditions, we continue to believe that the top of this range (i.e., a 6.0% ERP) is likely more appropriate. Using the current top of the ERP range implies a eurozone base cost of equity capital from a German investor perspective of 8.0% (= 2.0% + 6.0%). Incremental country risk adjustments for other eurozone countries with a sovereign debt rating below AAA may be appropriate.

For similar reasons, the normalized risk-free rates for both CAD-denominated and GBP-denominated discount rates were **increased from 2.5% to 3.0% when developing discount rates respectively for Canada and the UK as of May 17, 2022, and thereafter**, until further guidance is issued.

The economic data that pointed to increased long-term inflation expectations for these geographies (which served as the basis for the new guidance) was available in late April 2022. For the underlying support for this new guidance, [click here](#).

As the Russia-Ukraine war continues to develop and inflationary pressures continue to rattle global financial markets, we will closely monitor whether this and other events warrant changes to our recommendations.

## Kroll Cost of Capital Inputs

Data as of May 17, 2022

|                                       | United States<br>(in USD) | Eurozone *<br>(in EUR) | U.K.<br>(in GBP) | Canada<br>(in CAD) |
|---------------------------------------|---------------------------|------------------------|------------------|--------------------|
| Normalized Risk-Free Rate             | 3.0%                      | 2.0%                   | 3.0%             | 3.0%               |
| Kroll Recommended Equity Risk Premium | 5.5%                      | 5.5%<br>to<br>6.0%     | n/a              | n/a                |

\* German normalized risk-free rate and Eurozone equity risk premium (ERP) for use in EUR-denominated discount rates from a German investor perspective. Additional country risk adjustments may be warranted when estimating discount rates for other countries in the Eurozone.