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Macro Roundup Article

Headline: Market Bipolarity: Exuberance versus Exhaustion

Article Link: https://aswathdamodaran.substack.com/p/market-bipolarity-exuberance-versus

Author(s)	Aswath Damodaran
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Tweet: .@AswathDamodaran writes that recent weakness in equities has primarily been driven by the change in the risk-free rate. He notes that the equity risk premium has declined from 5.9% in January of this year to 4.8% at the start of October.

Summary: The equity risk premium declined in the first half of the year, from 5.94% on January 1, 2023, to 5.00% on July 1, 2023, but has been relatively stable in the third quarter, albeit on top of higher risk-free rates. Thus, the equity risk premium of 4.84% on October 1, 2023, when added to the ten-year T.Bond rate of 4.58% on that day yields an expected return on equity of 9.42%, up from 8.81% on July 1, 2023. Put simply, notwithstanding the ups and downs in stock prices and interest rates in the third quarter of 2023, there is little evidence that changes in the pricing of risk had much to do with the volatility. Much of the change in stock and corporate bond prices in the third quarter has come from rising interest rates, not a heightened fear factor.

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Primary Topic: Business Cycle

Topics: Business Cycle, Financial Markets, GDP, Op-Ed/Blog Post

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