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Macro Roundup Article

Headline: Data Update 2 for 2023: A Rocky Year for Equities

Article Link: https://aswathdamodaran.substack.com/p/data-update-2-for-2023-a-rocky-year

Author(s)	Aswath Damodaran
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Tweet: .@AswathDamodaran writes that, if analyst earnings forecasts are correct, the equity risk premium has increased from 4.2% at the start of 2022 to 5.9% today, and equity markets are now priced to earn the highest expected return since 1996.

Summary: I note the increase in equity risk premiums during 2022 from 4.24% at the start of 2022 to 5.94% at the start of 2023. I posited that any debate about whether the market, as it stands now, is fair, under or overvalued is really one about whether the equity risk premium at the start of 2023 is too high (in which case, the market is undervalued) or too low (in which case, it is overvalued). To answer that question, and address the question of where the expected return of 9.82% stands in historical context, I report the expected returns and equity risk premiums for the S&P 500 from 1960 to 2022: At 5.94%, the implied equity risk premium is closer to top of the range of historical risk premiums, but the most striking feature of 2022 is that the expected return on stocks, at 9.82%, is now at its highest level since 1995.

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