

Macro Roundup Article

Headline: **Cost of Capital**

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Tweet: .@mjmauboussin notes the mean weighted average cost of capital for companies in the Russell 3000 at the end of 2022 was 8.8%, up from the 1985-2022 average of 7.9%.

Summary: The average weighted average cost of capital for companies in the Russell 3000, a good proxy for the overall U.S. equity market, from 1985 to 2022 was 7.9 percent, and the estimate at the end of 2022 was 8.8 percent. Financial executives rely heavily on the capital asset pricing model (CAPM) but the investment community, led by quantitative funds, uses six factors widely. These include beta (stocks of companies with high betas earn higher returns than those with low betas), size (stocks of companies with small capitalizations generate higher returns than stocks of companies with large capitalizations), value (stocks with low multiples outperform those with high multiples), momentum (stocks that have done well continue to do well in the short term), quality (companies of high quality provide higher returns than companies of low quality), and asset growth (companies with low asset growth outperform those with high asset growth). Fama and French now recommend a five-factor model that includes all of the factors above except for momentum.

Primary Topic: Financial Markets

Topics: Database, Factoid, Financial Markets, GDP, Other Source, Sell-by Date, Weekly

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