

Macro Roundup Article

Headline: [Data Update 5 for 2023: Pathways to Profitability](#)

Article Link: <https://aswathdamodaran.substack.com/p/data-update-5-for-2023-pathways-to>

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Tweet: The median return on capital for an American firm in January 2023 is 7.4%, which is above the 5.6% cost of capital at the start of 2022, but below the 9.6% cost of capital at the start of 2023. @AswathDamodaran

Summary: The after-tax returns on capital, at least in the aggregate, are unimpressive, with the median return on capital of a US (global) firm being 7.44% (5.19%). There are a significant number of outliers in both directions, with about 10% of all firms having returns on capital that exceed 50% and 10% of all firms delivering returns that are worse than -50%. A combination of rising risk-free rates and surging risk premiums (equity risk premiums and default spreads) has conspired to push the cost of capital of both US and global companies more than any year in my recorded history (which goes back to 1960). A company generating a 7.44% return on capital (the median value at the start of 2023) in the US, would have comfortably cleared the 5.60% cost of capital that prevailed at the start of 2022, but not the 9.63% cost of capital at the start of 2023.

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