

Cost of Capital in the Current Environment

January 2026 Update



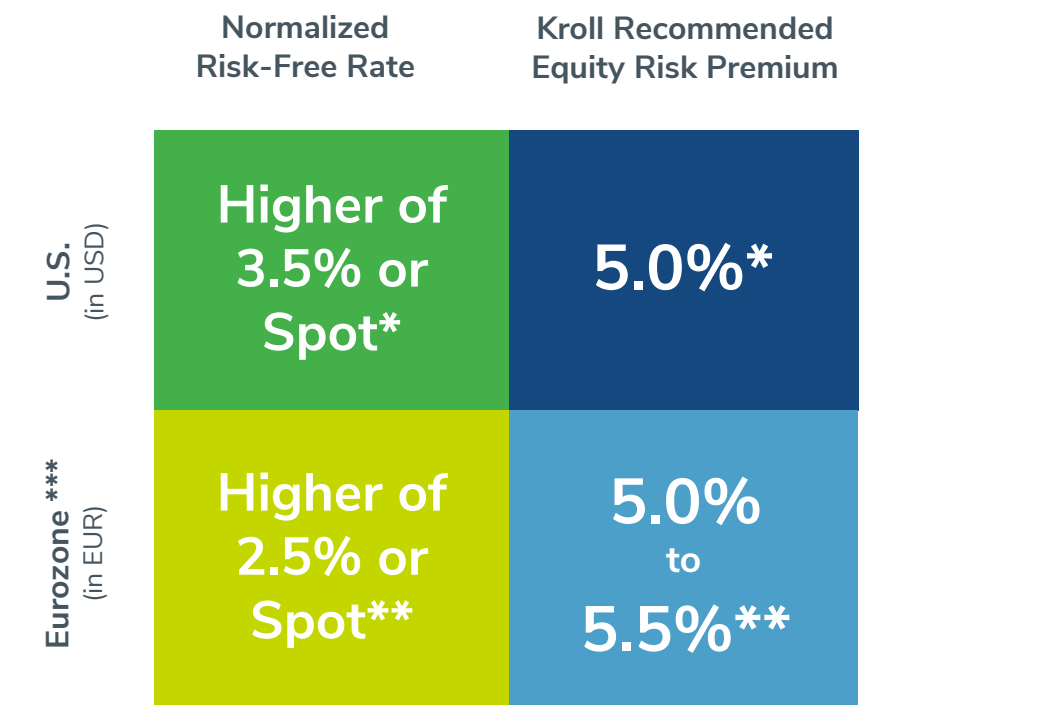
As 2026 begins, the world looks increasingly fragmented, and businesses must learn to operate in a global economy where geopolitical risks abound. The black-swan scenario predicted after the U.S. administration's "Liberation Day" in April 2025 proved to be too pessimistic. The global economy has shown unexpected resilience and growth expectations have been upgraded to match levels from a year ago. While trade tensions de-escalated, tariff threats are still being used by the U.S. as a negotiation tactic with its trading partners. This has led to significant depreciation of the U.S. dollar in 2025 and contributed to global investors diversifying away from U.S. assets like Treasuries, into gold and other precious metals, as well as a rotation into emerging-market debt and equities from non-U.S. markets. Several stock market indices around the world saw new record highs during 2025. U.S. policy uncertainty and the continued rise in the budget deficit and national debt may keep long-term U.S. interest rates high and volatile. As the U.S. labor market continues to show signs of cooling, the Federal Reserve may still lower its short-term policy rate later in 2026, following a cumulative 75 basis points of cuts in late 2025. A supportive monetary policy has helped fuel corporate debt issuance, as hyperscalers continue to finance construction of data centers and other AI related infrastructure, while other companies are using funds to refinance existing debt and pursue M&A opportunities. AI investment, deregulation and the rollout of OBBBA in the U.S. will also support business and consumer spending, likely driving U.S. real GDP growth to exceed that of its Western partners in 2026. In the Eurozone, a modest recovery is underway, but growth is expected to pick up in 2027 and beyond, as large-scale fiscal spending in infrastructure, climate and defense begin to have a positive effect on the bloc's economy. Meanwhile, the European Central Bank (ECB) is expected to keep policy rates unchanged in 2026, as inflation in the Eurozone is hovering around the ECB's 2.0% target, signaling that inflation is largely under control. In contrast, inflation remains stubbornly high in the UK, while growth continues to be subdued, which makes the Bank of England's job more difficult in setting its interest rate policy. Elsewhere, China continues to suffer from lackluster domestic demand and a deflationary environment, but the government has implemented several fiscal and monetary measures to revive the economy. In addition, subsidies have helped China divert exports from the U.S. to other countries, enabling it to avoid the negative impact of U.S. tariffs that had been previously anticipated. India continues to be a bright spot in the global economy, although growth is expected to decelerate relative to last year. On an ending note, we are pleased to expand our coverage of economic growth forecasts to Australia and Mexico in this edition of our infographic.

—Carla S. Nunes, CFA – Managing Director, Valuation Digital Solutions/Office of Professional Practice, Kroll



Kroll Cost of Capital Inputs

Data as of January 30, 2026



* We recommend using the spot 20-year U.S. Treasury yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our U.S. normalized risk-free rate of 3.5%. This guidance is effective when developing USD-denominated discount rates as of June 16, 2022, and thereafter. Based on current economic indicators and financial market conditions, the Kroll Recommended U.S. ERP is 5.0% when developing USD-denominated discount rates as of September 2, 2025, and thereafter.

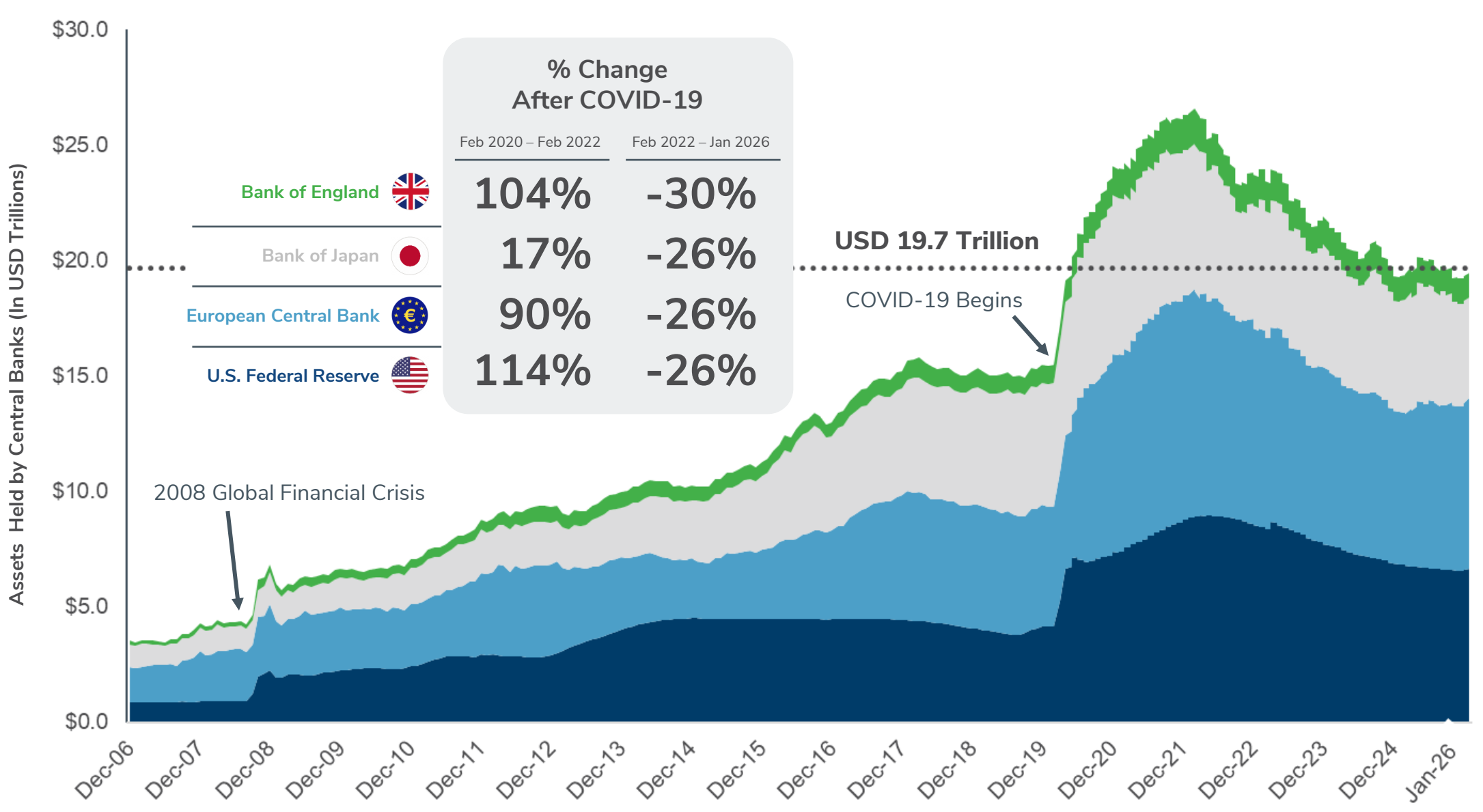
** We recommend using the spot 15-year German government bond yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our German normalized risk-free rate of 2.5%. This guidance is effective when developing EUR-denominated discount rates as of March 31, 2024, and thereafter. Based on current economic and financial market conditions, the Kroll Recommended Eurozone ERP has decreased to a range of 5.0% to 5.5%, but we believe that an ERP towards the higher end of the range (i.e., closer to 5.5%) is likely more appropriate when developing EUR-denominated discount rates as of January 30, 2026, and thereafter.

*** 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.

For more information, visit: <https://www.kroll.com/costofcapitalnavigator>

Total Assets Held by Major Central Banks Over Time

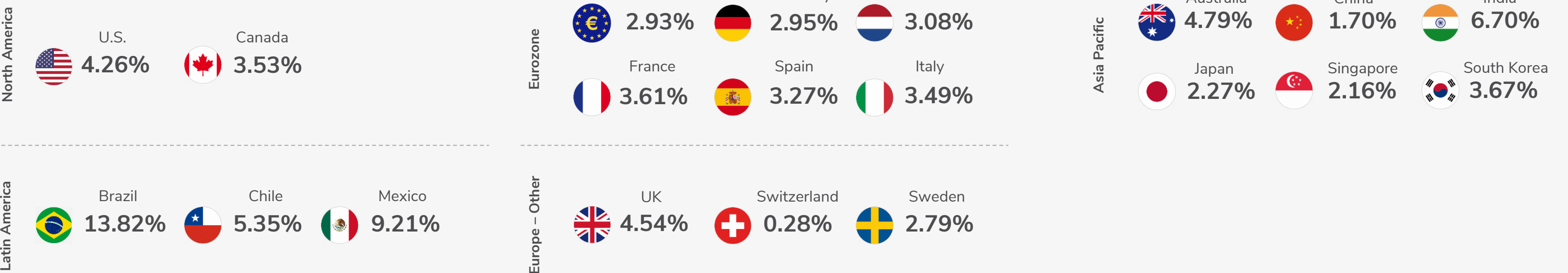
Data as of January 21, 2026



Sources: Capital IQ, FRED® Economic Data (for Federal Reserve Bank, Bank of Japan and European Central Bank data), and Bank of England. Data translated into U.S. dollars (USD), to allow for the balance sheet of these central banks to be aggregated. The percentage change after COVID-19 (until the present) in the balance sheet of each bank would be different in local currency.

Global 10-Year Government Bond Yields

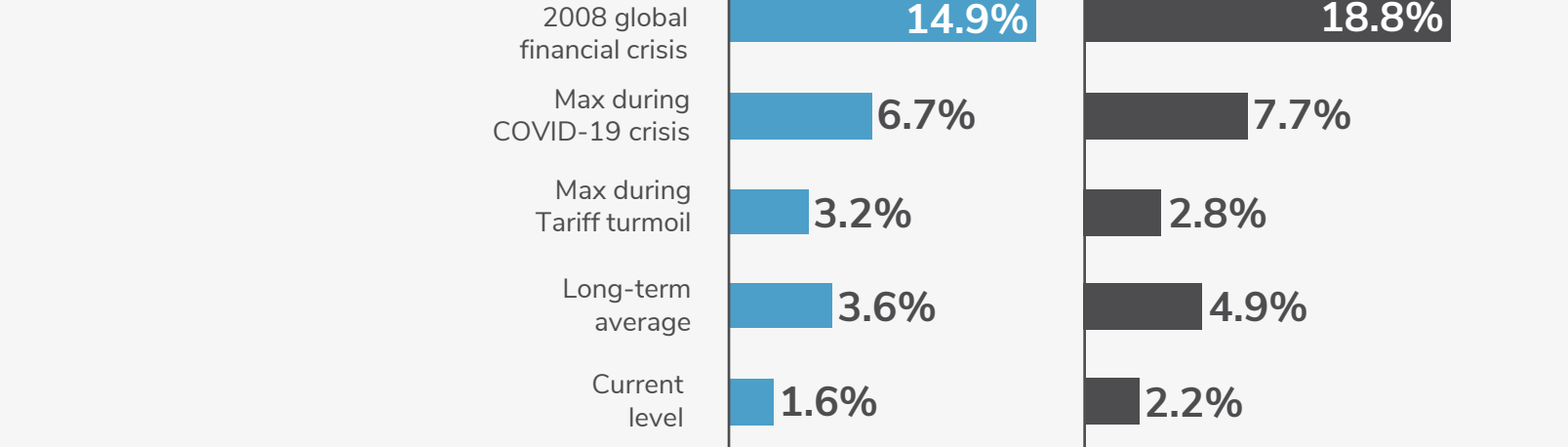
Data as of January 21, 2026



Sources: Refinitiv (Brazil, Chile, India, Mexico), European Central Bank (Eurozone aggregate yield) and Capital IQ (other countries)

Global Credit Spreads

Data as of January 21, 2026

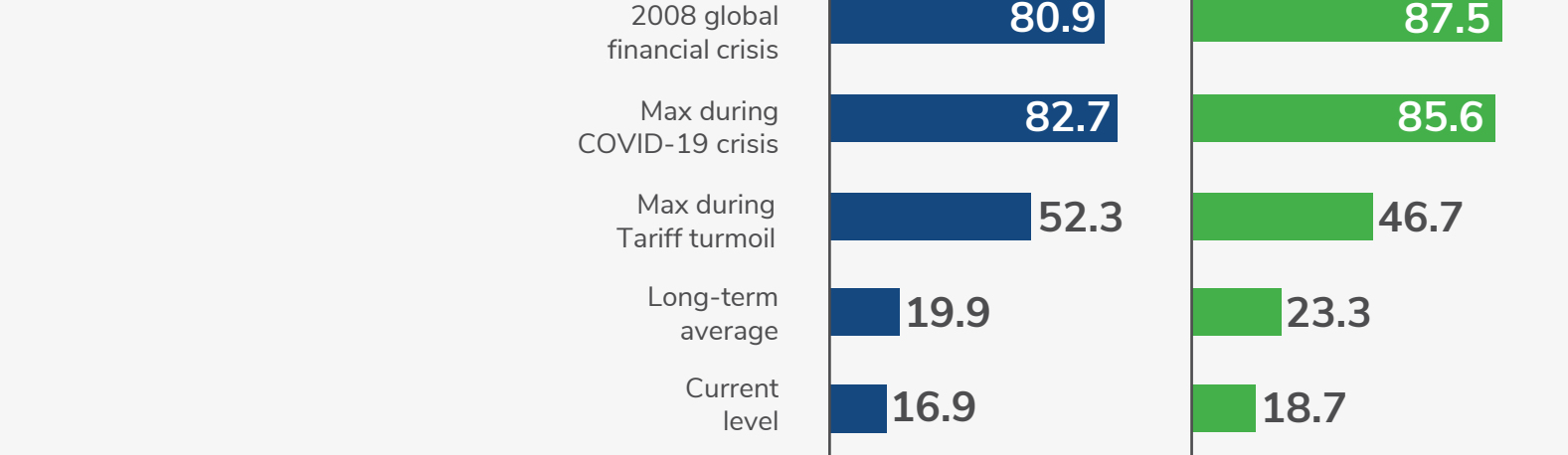


Sources: FRED® Economic Data, Bloomberg

U.S. corporate credit spreads are based on the difference in effective yields between the ICE BofA U.S. High Yield Index and the ICE BofA U.S. Corporate Index. Euro-denominated corporate credit spreads are based on the difference in effective yields between the Bloomberg Pan-European High Yield Index (EUR) and the Bloomberg Euro Aggregate Corporate Bond Index. Long-term averages are based on 1996 to present for U.S. credit spread daily series, and 1998 to present for EUR-denominated credit spread monthly series.

Global Market Volatility

Data as of January 21, 2026

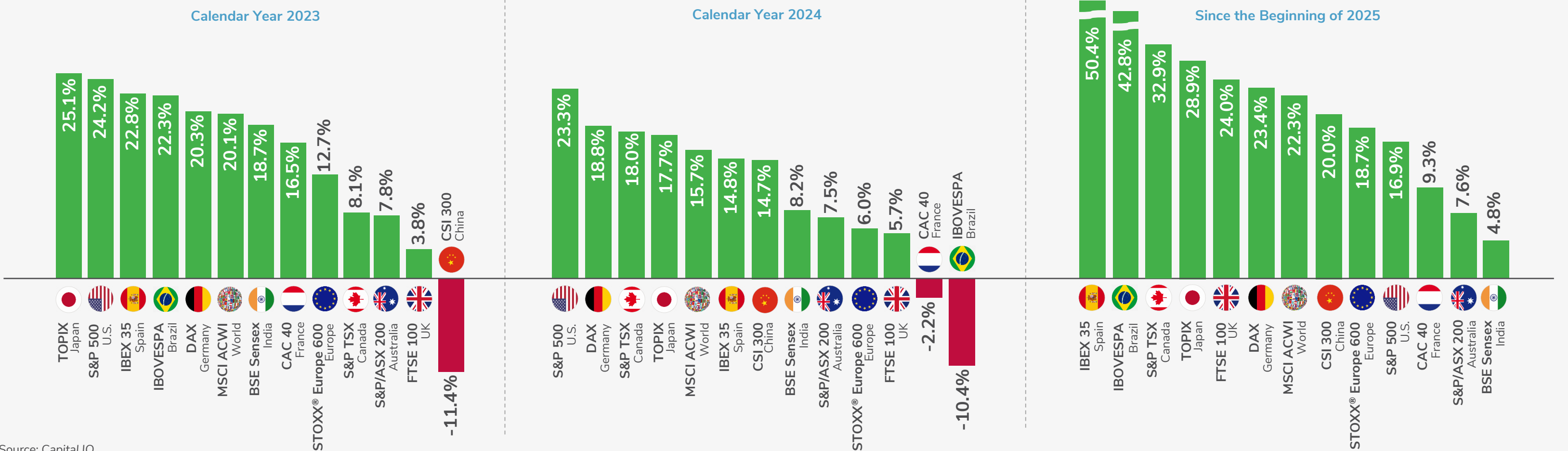


Source: Capital IQ

Long-term averages are based on 1995 to present for VIX daily series, 1999 to present for VSTOXX daily series.

Stock Market Performance

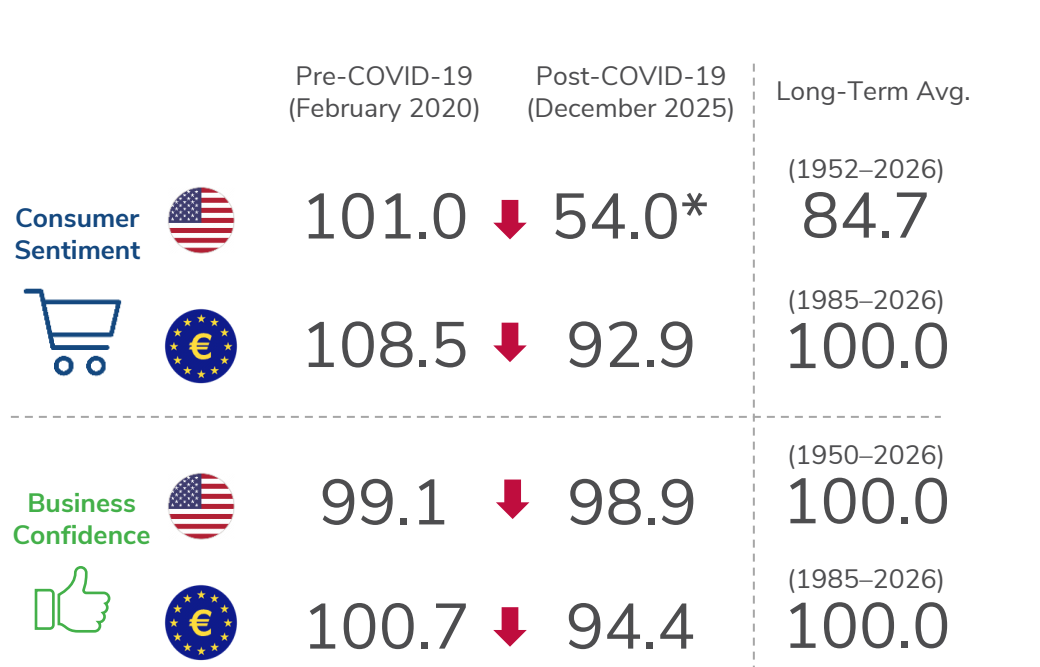
Data as of January 21, 2026



Source: Capital IQ

U.S. and Eurozone Consumer Sentiment vs. Business Confidence

Data as of January 21, 2026

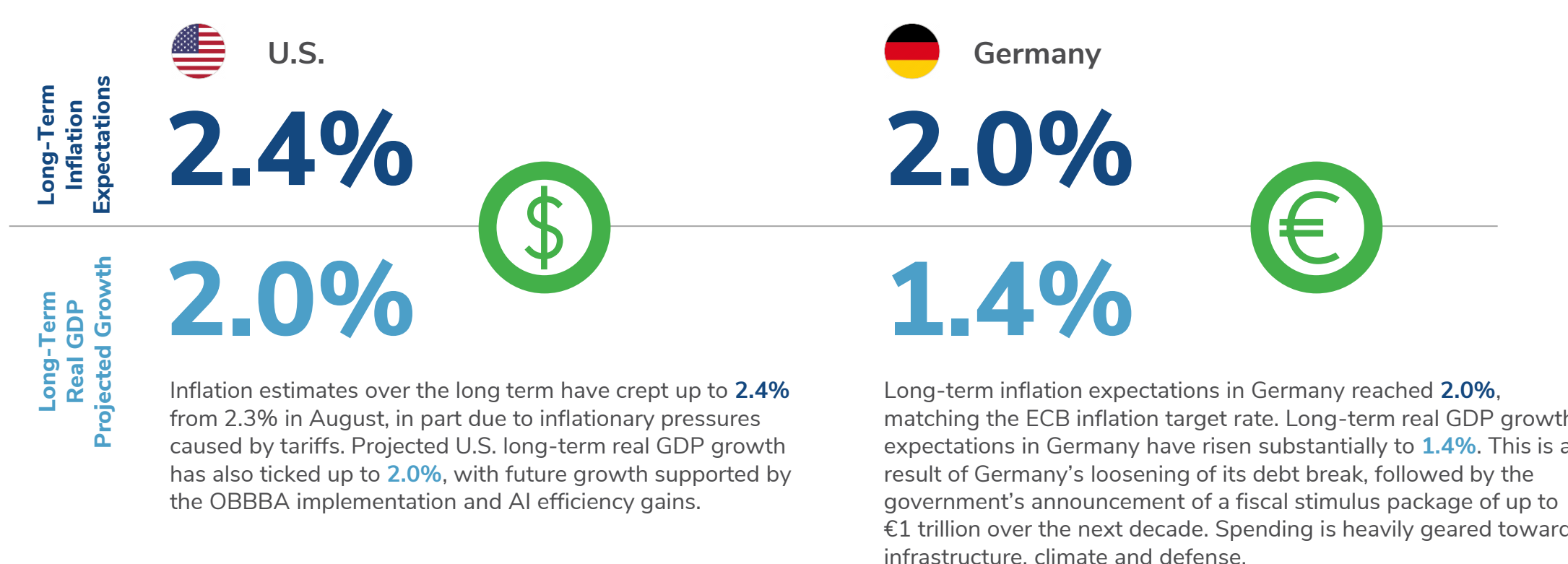


* Latest data available is as of January 2026 (preliminary)

Sources: Michigan University's Index of Consumer Sentiment, OECD's Business Confidence Index and European Commission business and consumer surveys [The same methodology that the European Commission uses to standardize its Economic Sentiment Indicator (ESI)] was applied to the Eurozone Consumer Confidence and Business Climate Indicator series.]

Long-Term Inflation Expectations and Real GDP Growth (Median)

Data as of December 2025



Inflation estimates over the long term have crept up to 2.4% from 2.3% in August, in part due to inflationary pressures caused by tariffs. Projected U.S. long-term real GDP growth has also ticked up to 2.0%, with future growth supported by the OBBBA implementation and AI efficiency gains.

Long-term inflation expectations in Germany reached 2.0%, matching the ECB inflation target rate. Long-term real GDP growth expectations in Germany have risen substantially to 1.4%. This is a result of Germany's loosening of its debt break, followed by the government's announcement of a fiscal stimulus package of up to €1 trillion over the next decade. Spending is heavily geared toward infrastructure, climate and defense.

Sources of underlying U.S. data: 1) Real GDP growth data was sourced from Blue Chip Economic Indicators, Blue Chip Financial Forecasts, BMI, A Fitch Solutions Company, Consensus Economics, S&P Global Market Intelligence (formerly IHS Markit), and Federal Reserve Bank of Philadelphia (Livingston Survey, and Survey of Professional Forecasters), 2) Inflation expectations relied on the sources already listed under real GDP growth data, as well as data from the Federal Reserve Bank of Cleveland, the Federal Reserve Bank of Philadelphia (Anruha Term Structure of Inflation Expectations), and the University of Michigan's Surveys of Consumers Inflation Expectations.

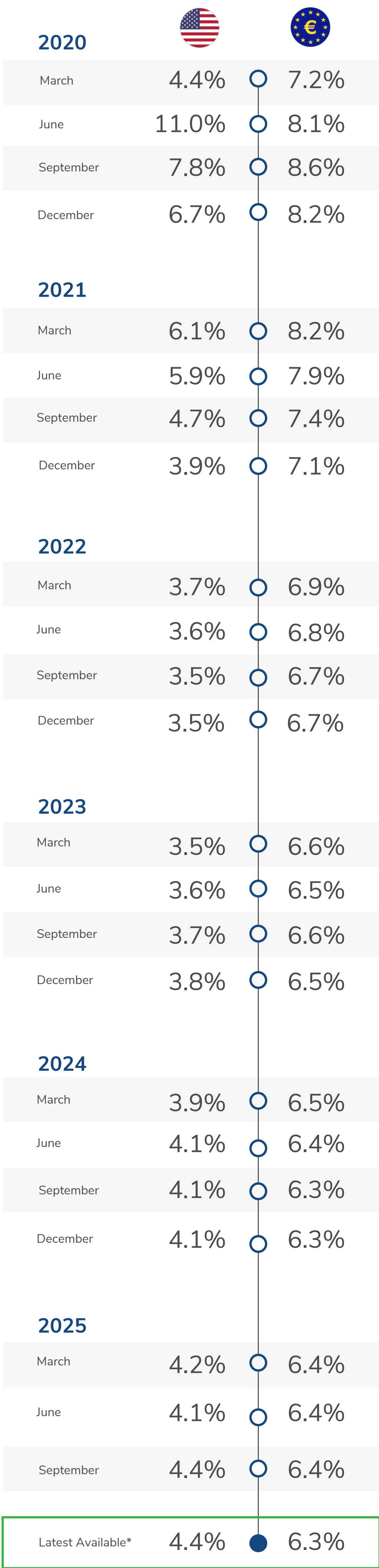
Sources of underlying German real GDP growth and inflation data: BMI, A Fitch Solutions Company, Consensus Economics, Economist Intelligence Unit, S&P Global Market Intelligence (formerly IHS Markit), International Monetary Fund, and PwC.

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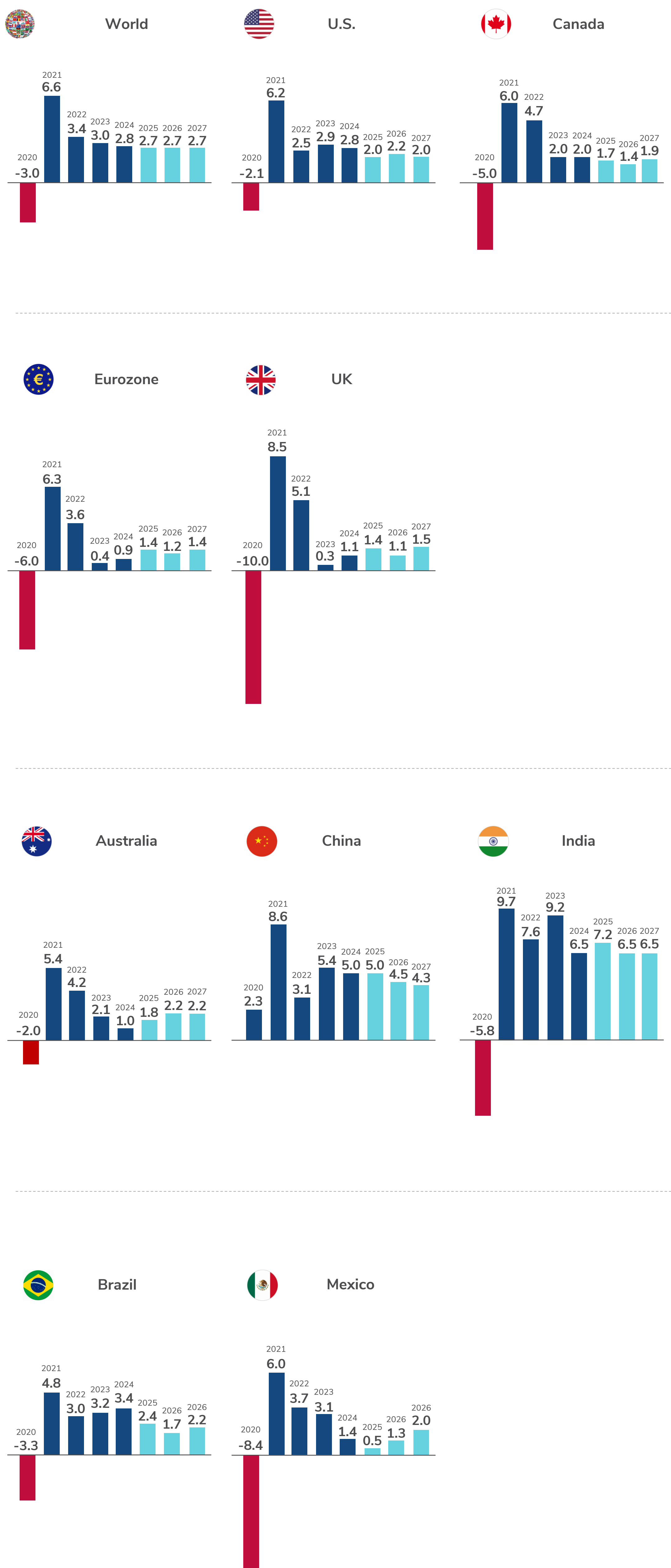
U.S. vs. Eurozone Unemployment Rate

Data as of January 21, 2026



Real GDP Growth (%) Estimates (Median)

Data as of January 21, 2026



Source: U.S. Bureau of Labor Statistics and Eurostat

* Data through December 2025 for U.S. and November 2025 for the Eurozone.

Sources: OECD, International Monetary Fund, World Bank, Blue Chip Economic Indicators, Consensus Economics, BMI, A Fitch Solutions Company, Economic Intelligence Unit, Fitch Ratings, S&P Global Market Intelligence (formerly IHS Markit), Oxford Economics and S&P Global Ratings. Some sources did not have data available for all countries and regions.

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