KROLL

September 3, 2025

Kroll Cost of Capital Inputs Updated to Reflect a De-Escalation of Trade Tensions and Economic Support from Monetary and Fiscal Policies

Executive Summary

Kroll regularly reviews fluctuations in global economic and financial market conditions that may warrant changes to our equity risk premium (ERP) and accompanying risk-free rate recommendations. The risk-free rate and ERP are key inputs used to calculate the cost of equity capital in the context of the Capital Asset Pricing Model (CAPM) and other models used to develop discount rates. We also update country risk data on a quarterly basis for 175+ countries using various models.

On April 15, 2025, we raised our ERP recommendations for the U.S. and Eurozone to reflect the heightened uncertainty for the global economy and financial markets, following the rapid rise in trade conflicts between the U.S. and its trading partners. Since then, the likelihood of a full-scale global trade war has notably diminished, as several bi-lateral trade agreements have been negotiated or advanced through final stages. While trade tensions remain, clearer agreement frameworks are now enabling businesses to begin assessing the impact of tariffs and adapt their operations accordingly.

Meanwhile, key economies are deploying monetary and fiscal policy tools to stimulate investment and economic activity, which may help mitigate the impact of tariffs. In recent months, certain major central banks (e.g., Bank of England, European Central Bank, Swiss National Bank, Reserve Bank of Australia) have continued to lower their policy interest rates to support their economies. In the U.S., the Federal Reserve has recently suggested it may resume lowering interest rates as early as its September meeting.

Several countries have also approved or announced fiscal spending plans to support investments in various areas (targeting for example, manufacturing, energy, defense, and infrastructure), partly intended to counterbalance tariff pressures. In the U.S., this includes the enactment of the One Big Beautiful Bill Act (OBBBA), which is expected to provide a short-term boost to economic growth and create a positive environment for M&A and IPO activity.

These developments, coupled with massive business investments in artificial intelligence (AI), data centers and related technology, have contributed to record highs in stock markets across the U.S. and elsewhere.

Based on recent economic indicators and financial market conditions, **the Kroll Recommended U.S. ERP is lowered from 5.5% to 5.0%** when developing USD-denominated discount rates as of September 2, 2025, and thereafter, until further guidance is issued. This is matched with the higher of a U.S. normalized risk-free rate of 3.5% or the spot 20-year U.S. Treasury yield as of the valuation date.

The Kroll Recommended Eurozone ERP remains in the range of 5.5% to 6.0% when developing EUR-denominated discount rates as of September 2, 2025, and thereafter, until further guidance is issued. However, we now believe that an ERP towards the **lower end of the range (i.e., closer to a 5.5% ERP)** is likely more appropriate. This is matched with the higher of a German normalized risk-free rate of 2.5% or the spot 15-year German government bond yield as of the valuation date.

Incremental country risk adjustments for other Eurozone countries with a sovereign debt rating below AAA may be appropriate. Please note that this information does not supersede Germany's IDW (Institut der Wirtschaftsprüfer) guidance for projects that will be reviewed by German auditors or regulators.

We will continue to monitor economic and geopolitical events that may change our guidance in the coming months.

A more detailed alert describing the factors supporting our latest guidance is forthcoming and will be posted on the Kroll Cost of Capital Resource Center.

Please contact our support team with any questions: costofcapital.support@kroll.com.

Kroll Cost of Capital Inputs

Data as of September 02, 2025

	U.S. (in USD)	Eurozone ** (in EUR)	U.K. †† (in GBP)	Canada †† (in CAD)	Australia †† (in AUD)
Normalized Risk-Free Rate	Higher of 3.5% or Spot*	Higher of 2.5% or Spot†	Higher of 4.0% or Spot‡	Higher of 3.5% or Spot§	Higher of 3.5% or Spot#
Kroll Recommended Equity Risk Premium	5.0% *	5.5% to 6.0%†	n/a	n/a	n/a

* 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 02, 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 remains in the range of 5.5% to 6.0%, and we believe that an ERP towards the lower end of the range (i.e., closer to 5.5%) is likely more appropriate when developing EUR-denominated discount rates as of September 02, 2025, and thereafter.

‡ We recommend using the spot 20-year U.K. Gilt yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our U.K. normalized risk-free rate of 4.0%. This guidance is effective when developing GBP-denominated discount rates as of October 18, 2022, and thereafter.

§ We recommend using the spot Government of Canada Benchmark Long-Term Bond yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our Canada normalized risk-free rate of 3.5%. This guidance is effective when developing CAD-denominated discount rates as of October 18, 2022, and thereafter.

We recommend using the spot 10-year Australia Commonwealth Government bond yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our Australia normalized risk-free rate of 3.5%. This guidance is effective when developing AUD-denominated discount rates as of October 31, 2022, 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.

†† Although currently we do not have an official Kroll Recommended ERP for the U.K., Canada and Australia, historical and other forward-looking ERP information for these countries is available in the International Cost of Capital Inputs dataset within the Cost of Capital Navigator.