



March 24, 2026

Impact of the Middle East Conflict on Cost of Capital Assumptions – March 2026 Update

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.

As of March 23, 2026, the **Kroll Recommended U.S. ERP is being reaffirmed at 5.0%** when developing USD-denominated discount rates. This guidance originally became effective on September 2, 2025. Similarly, **the Kroll Recommended Eurozone ERP is being reaffirmed in the range of 5.0% to 5.5%**, and we still believe that a **5.5% ERP (i.e., toward the higher end of the range)** is more appropriate when developing EUR-denominated discount rates. This guidance was originally established on January 30, 2026. Both U.S. and Eurozone recommendations will remain in place until further guidance is issued.

Notwithstanding the current recommendations, we are closely monitoring geopolitical events and related economic and financial market conditions that may affect our guidance during the first half of 2026.

First, an escalation of the ongoing armed conflict in the Middle East and a rise in related geopolitical risks could cause us to increase our ERP recommendations in the next few months. The longer the conflict continues, the more likely that higher oil and gas prices (among other commodities) will create upward inflationary pressures that will reverberate throughout the global economy. While the impact will vary significantly by country and geographic region, certain major central banks may be compelled to either hike interest rates (e.g., European Central Bank, Bank of Canada, Bank of England) or keep policy rates at elevated levels (e.g., Federal Reserve), thereby tightening financial conditions globally. A protracted conflict in the Middle East, combined with the still uncertain trade and tariff environment, could push the global economy into stagflation (i.e., stagnant growth with high inflation). Despite the U.S. economy being less exposed to oil shocks, it is not fully immune to a prolonged period of higher gasoline, fertilizers and other commodity prices. U.S. consumers are already struggling with affordability issues and a resurgence in inflation would further dampen consumer confidence, potentially leading to a retrenchment in spending.

Second, there are additional factors that could contribute to financial market disruptions in the next few months. A U.S. stock market correction driven by AI-related stocks remains a risk for 2026. In particular, recent market selloffs have centered on certain software companies (e.g., SaaS, or software-as-a-service), whose business model could be upended by AI, and financial services entities lending to those businesses. Significant exposure by some semi-liquid and evergreen private credit funds to data center and software companies is also causing jitters in markets. Certain financial institutions and alternative asset managers have already seen a significant negative impact on their share prices. For now, these risks appear to be confined to certain segments of the market and do not appear to be systemic.

Nevertheless, the combination of the risks outlined above could cause upheaval in global financial markets and might lead to a “risk-off” investor sentiment, with a corresponding increase in ERP for certain geographies (i.e., investors may demand a higher premium over the risk-free rate to induce them to invest in those equity markets).

Background

On February 28, 2026, the U.S. and Israel initiated coordinated military operations against Iran. These actions prompted Iran to retaliate by attacking Israel and several neighboring countries, with targets including U.S. military installations and critical energy infrastructure. These developments led to the suspension of navigation through the Strait of Hormuz, a major chokepoint for the world’s transit of oil supply. According to the U.S. Energy Information Administration (EIA), the Strait of Hormuz accounted for 20% of the world’s total oil supply and 26% of the world’s maritime trade in the first half of 2025.¹ In addition, about 20% of liquefied natural gas (LNG) trade flows transited through the Strait of Hormuz in 2024.²

The disruption severely affected global energy supply chains and intensified commodity market volatility, particularly after Iran began targeting merchant vessels. Brent crude oil, the international oil benchmark, surged to \$106 per barrel (based on closing spot prices at the time of writing), representing a 46% increase since February 27, 2026.³ These prices are not quite as high as observed in June 2022, in the aftermath of Russia’s invasion of Ukraine. Member countries of the International Energy Agency (IEA) coordinated the release of 400 million barrels of oil to stabilize markets, but this action has not helped so far.

European natural gas prices increased sharply, further exacerbated when Qatar—the world’s second-largest exporter of LNG—declared “force majeure” following damage to its export facilities.⁴ Unlike the U.S., which is largely energy independent, Europe is a net importer of energy, making it especially vulnerable to supply disruptions.

¹ U.S. Energy Information Administration, “World Oil Transit Chokepoints”, March 3, 2026.

² U.S. Energy Information Administration, “About one-fifth of global liquefied natural gas trade flows through the Strait of Hormuz”, June 24, 2025.

³ Data through March 22, 2026. Source of underlying data: S&P Capital IQ. The West Texas Intermediate (WTI) was trading at approximately \$95/barrel at the time of writing, a 42% increase from the February 27, 2026 close.

⁴ Declaring force majeure enables Qatar to legally suspend its obligations to deliver LNG under long-term contracts. For additional details, see Qatar Energy press release titled “H.E. Minister Saad Sherida Al-Kaabi: The missile attacks reduced Qatar’s LNG export capacity by 17% and caused an estimated loss of \$20 billion in annual revenue”, March 19, 2026.

This shock to energy supplies may drive higher inflationary pressures, increase financial market uncertainty, and weaken investor sentiment—factors that tend to widen risk premia. Both the European Central Bank and the Bank of England are now considering whether interest rate hikes are needed to tame inflationary pressures. Nevertheless, natural gas prices in Europe are still much lower than in the aftermath of the Ukraine invasion in 2022. For perspective, the Title Transfer Facility (TTF), the primary price benchmark for European natural gas, surged 86% from €32 per megawatt-hour (MWh) on February 27 to €59/MWh on March 22, 2026.⁵ In contrast, at the height of the Russia-Ukraine conflict, TTF prices peaked at €349/MWh.

As the Middle East situation continues to evolve, global financial markets have begun to show signs of stress, as investors reassess the length of the conflict and the heightened geopolitical uncertainty. Equity markets have experienced substantial volatility, with major indices seeing a net decline since the conflict began. Since February 27, coincidentally a record high for the STOXX® Europe 600, the index fell by 9.0% through March 23, 2026. During the same period, the VSTOXX®, the volatility index for the Euro STOXX® 50, has hovered around 30.0, which is the highest level since April 2025 (after the so-called “Liberation Day”). In the U.S., the VIX index closed at 26.2 on March 23, while the S&P 500 index declined by 4.3% over the same period (and by 5.7% since its record high on January 27, 2026). The larger decline in Europe relative to the U.S. underscores the European economy’s heightened vulnerability to a potential energy crisis.

Thus far, given the ramifications of a potential global energy crisis, equity markets are reflecting weakening investor confidence, but not a sense of panic. The longer the conflict persists, however, the greater the likelihood that higher commodity prices and disrupted energy supplies will reshape negatively the expectations for economic growth and inflation. For now, elevated market volatility indicates increasingly cautious investor positioning, reinforced by a concurrent rise in long-term government yields.

Long-term yields in both the U.S. and Europe increased significantly following the beginning of hostilities, as investors priced higher inflation expectations. The 10-year U.S. Treasury yield increased from 4.0% on February 27 to 4.3% on March 23, 2026. Similarly, the 10-year German Bund yield rose from 2.7% to 3.0% over the same period. The UK has seen a sharper increase in long-term interest rates, with the 10-year government bond yield jumping from 4.3% to 5.0%, given its significant dependence on imported energy.⁶ The sharp rise in oil and natural gas prices has raised concerns that inflation may remain elevated for a longer period, eroding real returns and prompting investors to require higher yields on long-dated government securities. However, should transit through the Strait of Hormuz resume in the near term, energy prices would likely stabilize and appease some of investors’ concerns.

We are monitoring the situation closely, but at this time we believe current conditions do not warrant changes to our ERP recommendations for the U.S. or Eurozone. That said, circumstances can evolve quickly, and we will issue updated guidance should market conditions shift materially.

⁵ Source of underlying data: S&P Capital IQ.

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U.S. and Eurozone ERP Recommendations – Reaffirmed March 23, 2026

United States

The underlying economic conditions are still favorable for the U.S. economy. Based on recent economic indicators and financial market conditions, the **Kroll Recommended U.S. ERP remains at 5.0%**, 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 until further notice. We last changed the Recommended U.S. ERP on September 2, 2025, and this recommendation was re-affirmed at year-end 2025.

Eurozone (From a German Investor Perspective)

Based on recent economic indicators and financial market conditions, the **Kroll Recommended Eurozone ERP remains in the range of 5.0% to 5.5%** to be used in conjunction 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. **We believe that an ERP toward the higher end of the range (i.e., closer to a 5.5% ERP)** is still more appropriate. This guidance was originally established on January 30, 2026.

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 Institut der Wirtschaftsprüfer (IDW) guidance for projects that will be reviewed by German auditors or regulators.

We will continue to monitor economic and financial market conditions, as well as geopolitical events that may change our guidance in the coming months. Please contact our support team with any questions: costofcapital.support@kroll.com.

Kroll Cost of Capital Inputs

Data as of March 23, 2026		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% *	5.0% to 5.5% †	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 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.

‡ 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.