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Cost of Capital in the Current Environment

January 2025 Update

> The inauguration of U.S. President Donald Trump in January 2025 is setting the stage for a global reevaluation of economic policies, while raising the specter of more contentious international trade relations. It is also creating new regulatory conditions that may reverberate across different asset classes and redirect global investments from certain industries/themes (e.g., energy transition) into others (e.g., fossil fuels, crypto assets). A more benign regulatory outlook is expected to fuel M&A and IPO activity, which has been restrained in the last two years by high interest rates. Looking forward, economists are resetting growth expectations for the U.S. vs. other geographies. The global economy is still expected to achieve soft landing in 2025, but the next two years are expected to fall short of the pre-pandemic levels of around 3.4% (based on 1980-2019 average). The U.S. economy continues to outperform, although a slowdown is expected in 2025, as labor markets cool down and consumers rely more on credit-card fueled spending. Since September 2024, the U.S. central bank has cut interest rates by a cumulative 1.0%, but the Fed is now expected to be more cautious, as Trump's threats of new trade tariffs and immigration policies could reignite inflation. In addition, the possibility of a continued rise in the U.S. government's budget deficit and overall debt, is keeping long-term U.S. interest rates high and volatile. In Europe, while a modest recovery is under way, challenges remain ahead for the UK and the Eurozone economies, with Germany remaining a weak spot. Inflation has decelerated significantly, but services inflation is proving to be sticky. Nonetheless, the Bank of England and ECB are expected to keep cutting policy rates in 2025, which may help with the recovery. Meanwhile, China continues to suffer from lackluster domestic demand and a deflationary environment. Additional trade tariffs on Chinese exports could weigh down growth in 2025. Trump has promised a resolution to ongoing Middle East conflicts and the Russia-Ukraine war, but the actual outcome is still uncertain. For now, equity investors appear to be largely ignoring geopolitical risks, with markets more focused on company earnings and growth expectations.

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Kroll Cost of Capital Inputs

Data as of January 22, 2025

	Normalized Risk-Free Rate	Kroll-Recommended Equity Risk Premium
U.S. (in USD)	Higher of 3.5% or Spot*	5.0%
Eurozone *** (in EUR)	Higher of 2.5% or Spot**	5.5% to 6.0%

* 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 recommended 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.

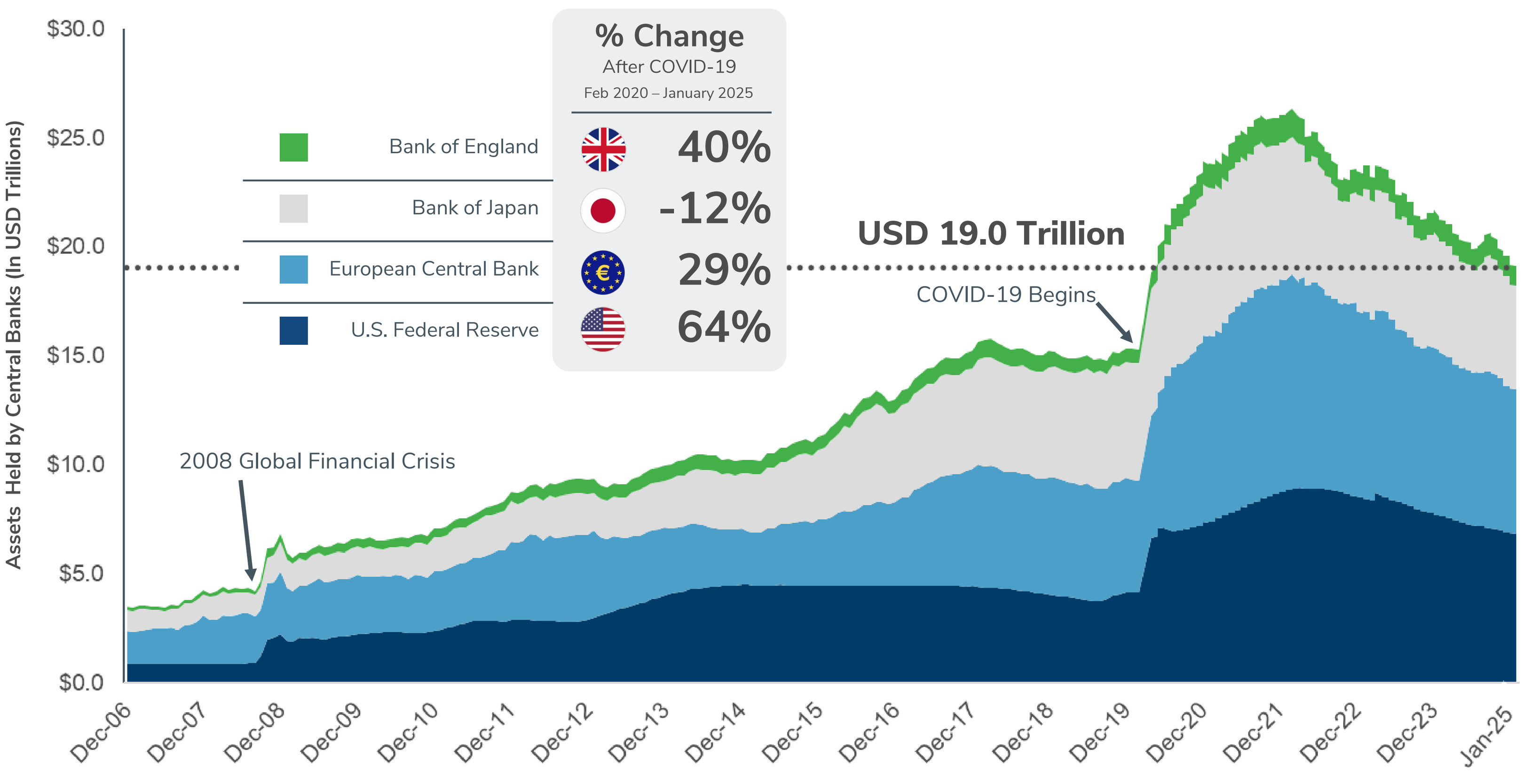
** We recommend using the spot 15-year German government bond yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our recommended Eurozone normalized risk-free rate of 2.5%. This guidance is effective when developing EUR-denominated discount rated as of March 31, 2024, and thereafter.

*** German normalized risk-free rate and Eurozone equity risk premium (ERP) for use in EUR-denominated discount rates from a Kroll perspective. Our current ERP recommendation is at the bottom of the range, which was effective February 5, 2024. 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 22, 2025



Sources: Capital IQ, FRED® Economic Data, Bank of England, Bank of Japan and European Central Bank. 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 22, 2025

North America	U.S.	4.60%
North America	Canada	3.29%
Eurozone	Eurozone	2.59%
Eurozone	Germany	2.49%
Eurozone	Netherlands	2.72%
Eurozone	France	3.25%
Eurozone	Spain	3.19%
Eurozone	Italy	3.56%
Asia Pacific	Australia	4.47%
Asia Pacific	China	1.64%
Asia Pacific	India	6.78%
Asia Pacific	Japan	1.20%
Asia Pacific	Singapore	2.96%
Asia Pacific	South Korea	2.84%
Latin America	Brazil	14.99%
Latin America	Chile	6.03%
Latin America	Mexico	10.09%
Europe – Other	UK	4.60%
Europe – Other	Switzerland	0.42%
Europe – Other	Sweden	2.33%

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

Global Credit Spreads

Data as of January 22, 2025

	U.S. Corporate Credit Spreads	Euro-Denominated Corporate Credit Spreads
Max during 2008 global financial crisis	14.9%	18.8%
Max during COVID-19 crisis	6.7%	7.7%
Long-term average	3.7%	5.0%
Current level	1.6%	2.5%

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 22, 2025

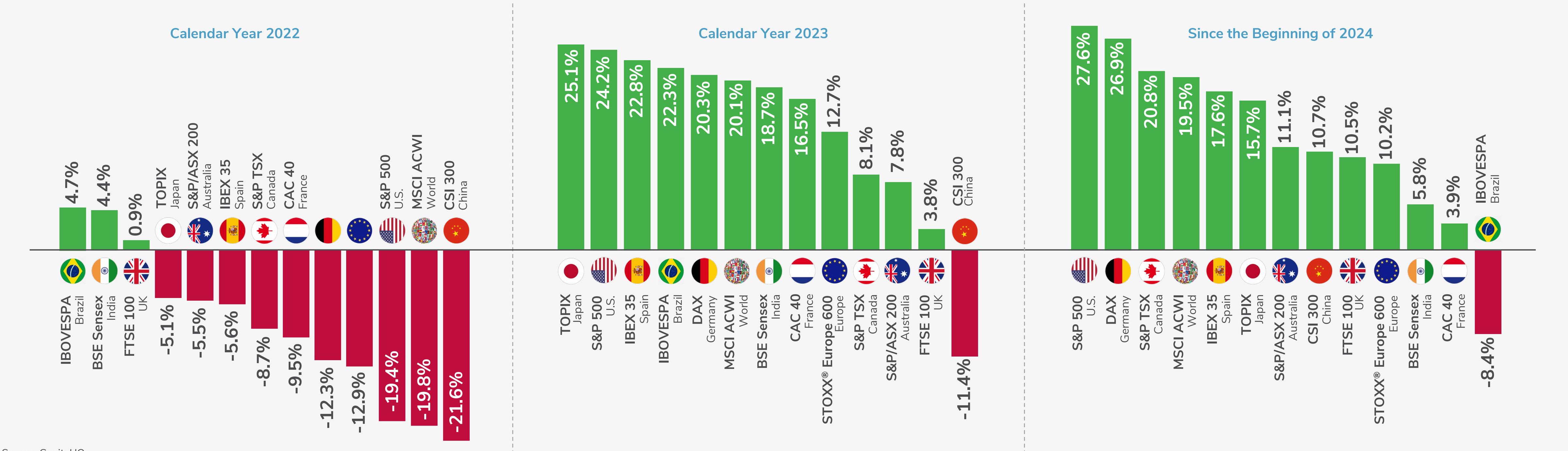
	VIX Index (U.S.)	VSTOXX® (Europe)
Max during 2008 global financial crisis	80.9	87.5
Max during COVID-19 crisis	82.7	85.6
Long-term average	19.9	23.4
Current level	15.1	15.0

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 22, 2025



Source: Capital IQ

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

Data as of January 22, 2025

		Pre-COVID-19 (February 2020)	Post-COVID-19 (December 2024)	Long-Term Avg.
Consumer Sentiment	U.S.	101.0	73.2*	(1952–2024) 85.2
Consumer Sentiment	Eurozone	108.5	92.6	(1985–2024) 100.0
Business Confidence	U.S.	99.0	99.3	(1950–2024) 100.1
Business Confidence	Eurozone	100.4	90.8	(1985–2024) 100.0

* Latest data available is as of January 2025

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 2024

	U.S.	Germany
Long-Term Inflation Expectations	2.3%	2.0%
Long-Term Real GDP Projected Growth	2.0%	1.0%

U.S.: Inflation estimates over the long term have stabilized at **2.3%** since May 2024. Projected long-term real GDP growth in the U.S. stood at **2.0%** in December 2024, same as in September, but an uptick from 1.9% in May and 1.8% in January.

Germany: Long-term inflation expectations in Germany have been stable at **2.0%** since January 2024. Long-term real GDP growth expectations in Germany stood at **1.0%** in December 2024, matching the level observed in May and September 2024.

Sources of underlying U.S. data: 1) Real GDP growth data was sourced from Blue Chip Economic Indicators, Blue Chip Financial Forecasts, Consensus Economics, S&P Global Market Intelligence (formerly IHS Markit), Federal Reserve Bank of Philadelphia (Livingston Survey, and Survey of Professional Forecasters), and Oxford Economics. 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 (Aruoba 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: Consensus Economics, Economist Intelligence Unit, S&P Global Market Intelligence (formerly IHS Markit), International Monetary Fund, Oxford Economics and PwC.

U.S. vs. Eurozone Unemployment Rate

Data as of January 22, 2025

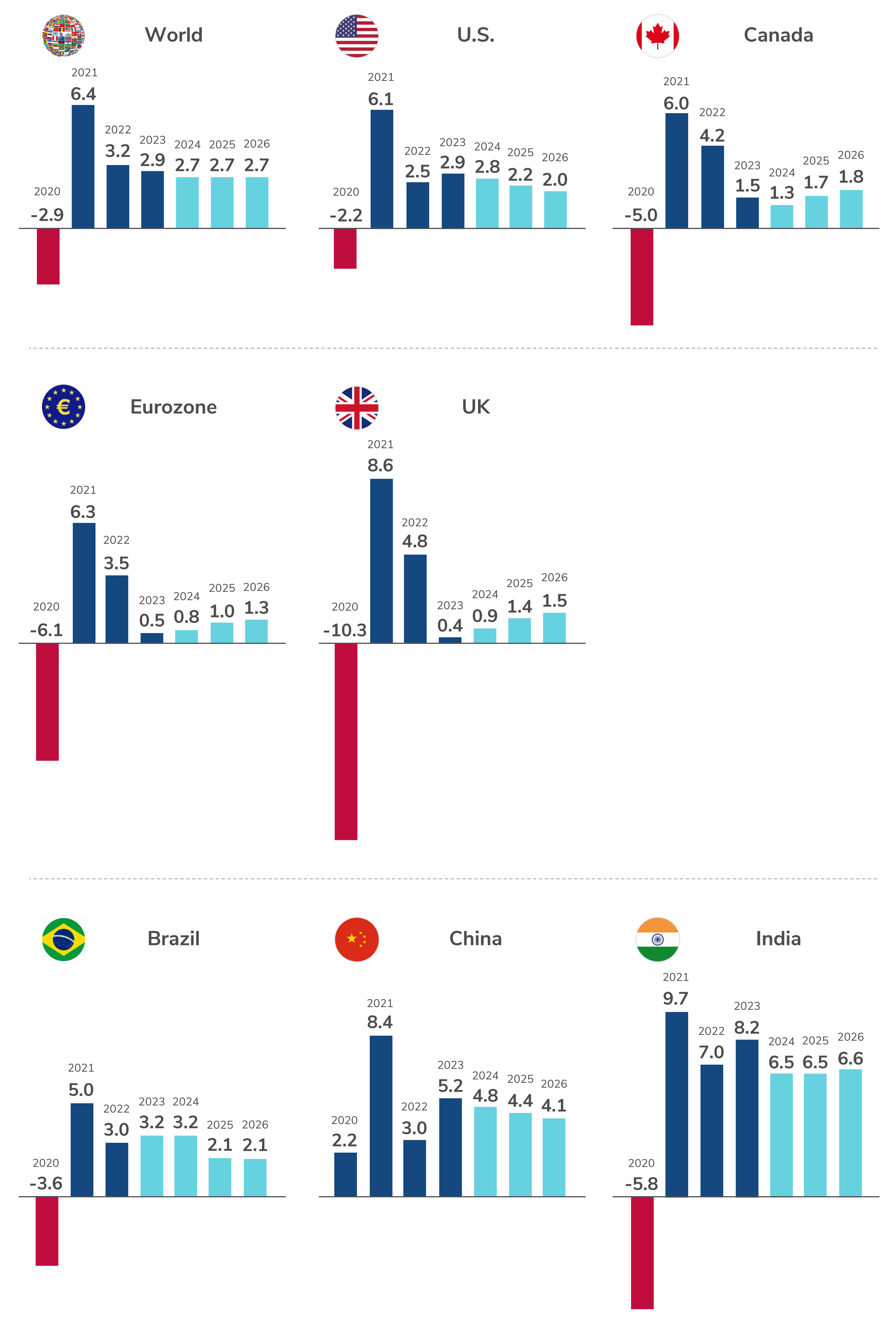
		U.S.	Eurozone
2020	March	4.4%	7.2%
	June	11.0%	8.1%
	September	7.8%	8.6%
	December	6.7%	8.2%
2021	March	6.1%	8.2%
	June	5.9%	7.9%
	September	4.7%	7.4%
	December	3.9%	7.0%
2022	March	3.6%	6.8%
	June	3.6%	6.7%
	September	3.5%	6.7%
	December	3.5%	6.7%
2023	March	3.5%	6.6%
	June	3.6%	6.5%
	September	3.8%	6.6%
	December	3.7%	6.5%
2024	March	3.8%	6.5%
	June	4.1%	6.5%
	September	4.1%	6.3%
	Latest Available*	4.1%	6.3%

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

* Data through December 2024 for the U.S. and November 2024 for the Eurozone.

Real GDP Growth (%) Estimates (Median)

Data as of January 22, 2025



Sources: OECD, International Monetary Fund, World Bank, Blue Chip Economic Indicators, Consensus Economics, 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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