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Equity Risk Premium Through Time:

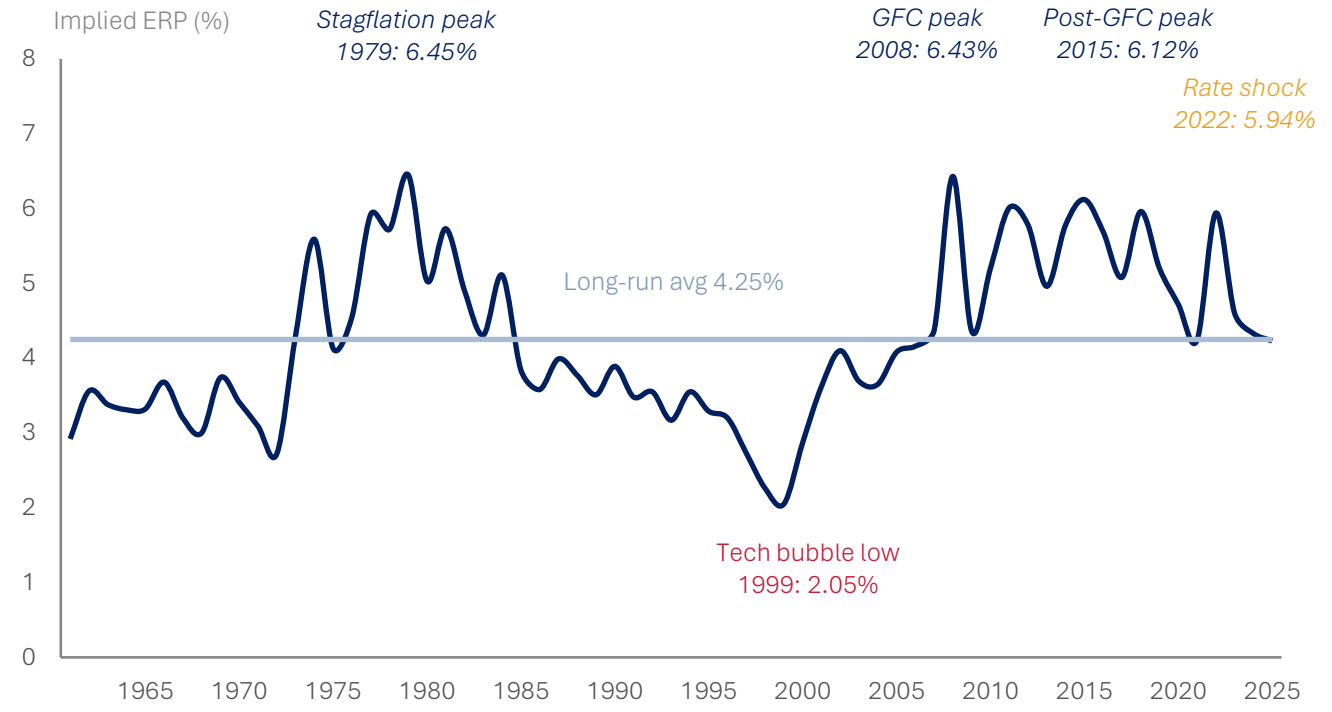
RIA Briefing

July 2026

EQUITY RISK PREMIUM THROUGH TIME

U.S. implied ERP (S&P 500, FCFE-based) | 1961 - 2026 | Source: Damodaran (NYU Stern)

The equity risk premium (ERP) is the excess return investors demand for holding equities over a risk-free asset. It is the market's real-time signal of fear, greed, and the opportunity cost of capital. When the ERP is low, investors are accepting thin compensation for equity risk - a valuation warning. When it is elevated, equities are cheap relative to bonds. Damodaran's implied ERP, backed out of S&P 500 prices and expected cash flows, is the most market-consistent, forward-looking measure available.



4.23%	4.25%	2.05%	6.45%
Current ERP Jan 2026 (Damodaran)	Long-run avg 1961-2025	Cycle low: 1999 Tech bubble peak	Cycle high: 1979 Stagflation era

WHAT THE ERP TELLS ADVISORS TODAY

At 4.23%, the ERP is essentially on its 65-year average. This signals neither extreme euphoria (1999: 2.05%) nor crisis-level fear (2008: 6.43%). For advisors, equities are fairly valued at current yields - not obviously rich or deeply discounted.

Bond competition is now real. From 2010 to 2018, the ERP averaged above 5% while bonds yielded near zero - equities faced no meaningful competition. Today, with a 4.2% risk-free rate, the implied equity return is ~8.4%. The margin over bonds is the thinnest in two decades.

The ERP is a compass, not a trigger. A below-average ERP does not signal immediate selling, but it should lower 10-year equity return assumptions. Advisors using historical equity returns as proxies for future performance may systematically overpromise at current valuations.

Real assets as ERP-agnostic return drivers. The post-GFC era of 5-6% ERPs was a structural tailwind for public equities. As ERPs compress toward historical norms, farmland, infrastructure, and PE - become more attractive on a relative basis.

Sources: Damodaran, A. (NYU Stern), Implied ERP (FCFE-based), annual, 1961-2026. Values 1961-2000 from Damodaran historical data table; 2001-2026 from Damodaran annual updates and blog posts. Long-run average 4.25% per Damodaran (Jan 2025).



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