
Cost of equity under the circumstances of uncertainty - an example of the US market

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Purpose: The aim of this paper is to answer the question: Can the classical methodology for estimating the cost of equity (capital asset pricing model, CAPM) be applied under the conditions of particular economic uncertainty, without having to revise the legitimacy of its assumptions? The context for the search of an answer to this question is an analysis of the conditions for the estimation of the cost of equity in the USA under conditions of particular uncertainty, as observed in the period 2008-2023.

Methodology/research approach: The research approach was associated with focusing analytical attention on identifying the characteristics of three periods of particular uncertainty (generated primarily by the recent crises: the 2008-2012 subprime, COVID-19 and the high level of inflation caused by Russia's aggression against Ukraine) and examining their impact on parameters important for determining the level of the cost of equity. An additional study of related time series was also conducted, with the Kroll Inc. database used as the primary data source.

Results: The cost of equity over approximately the last 15 years has become less and less dependent on government bond interest rates. When estimating the level of

the cost of equity, market participants start to use alternative methods that modify the classic CAPM model.

Research limitations/implications: Due to the availability of data, the analysis performed focused on the US market, which is a limitation in view of the need to draw conclusions for the European market as well.

Originality/value: The article critically analyses mainstream research on the valuation of the cost of equity under the circumstances of uncertainty.

Key words: cost of equity, CAPM, uncertainty, estimation methods

