Figure 1.4. Equity Risk Premiums and Earnings Decompositions

The corporate earnings outlook deteriorated into 2016 ...

1. Decomposition of Equity Price Changes, since January 2, 2015 (Percent)

   - Risk-free rate
   - Earnings (current and projected)
   - Equity risk premium
   - Total return as of Feb. 15, 2016

   Sources: European Central Bank; Haver Analytics; Thomson Reuters I/B/E/S; and IMF staff estimates.

   Note: Based on the five-year-ahead market consensus earnings per share.

   ... amid a bigger increase in leverage.

2. Standard & Poor's 500 Nonfinancial Corporations: Earnings Growth (Percent, year over year)

   - All nonfinancials
   - Energy
   - Nonfinancials with >50 percent of sales outside United States

   Sources: Factset; and IMF staff estimates.

   As equities come under pressure, risk premiums are reverting toward their historical means.

3. Corporate Debt to EBITDA (Median; March 31, 2010 = 100)

   - S&P 500: Nonfinancials (>50% of sales outside United States)
   - S&P 500: Nonfinancials (<50% of sales outside United States)
   - STOXX: Nonfinancials (>50% of sales outside European Union)
   - STOXX: Nonfinancials (<50% of sales outside European Union)

   Sources: Factset; and IMF staff estimates.

   Note: EBITDA = earnings before interest, taxes, depreciation, and amortization; S&P = Standard & Poor’s.

4. Equity Risk Premiums—Historical Perspective (Percent)

   - Precrisis (Jan. 2001 to June 2007)
   - Crisis (July 2007 to Dec. 2010)
   - Postcrisis (Jan. 2011 to latest)
   - Latest

   Sources: European Central Bank; Haver Analytics; Thomson Reuters I/B/E/S; and IMF staff estimates.

   Note: Based on five-year-ahead market consensus earnings per share.