Flash Note
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S&P risk premium (a historic perspective)

Some colleagues wrote to me today worried because the S&P risk premium is historically low, suggesting that the S&P index should fall for this risk premium to normalize at historical (higher) values.
Just let me tell you that this hypothesis is not true. The S&P risk premium is not low (see the chart below, pane 2)

Explanatory note:
Risk premium = Equity implicit yield – Risk free asset yield
Equity implicit yield = Inverse of trailing PE multiple (last 12 months)
Risk Free rate = Long term government bond yield (10 years)

Just hope it helps

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