

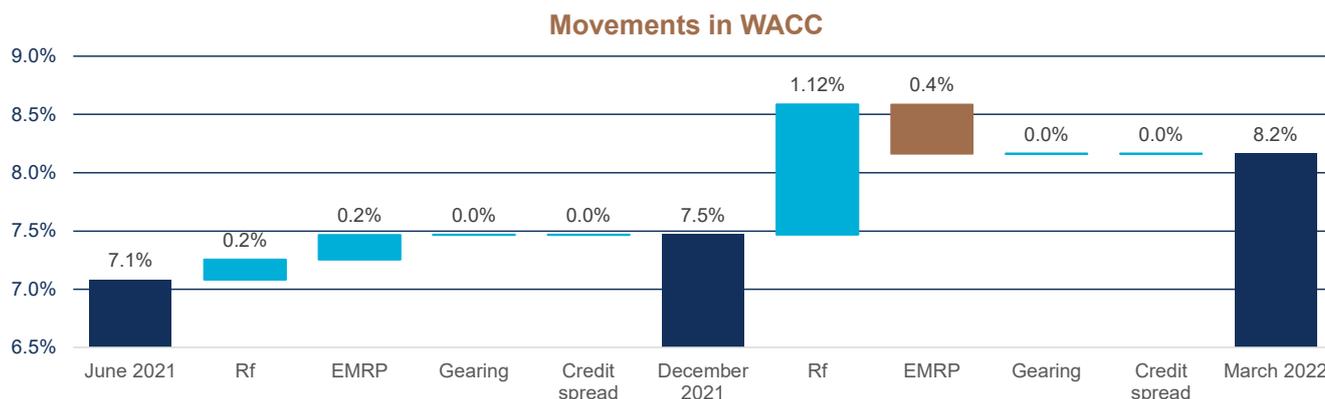
## RISING MARKET DISCOUNT RATES

Markets have been volatile over the last three months, with the anticipated COVID-19 recovery being hindered by the conflict arising in Ukraine and coinciding with a rapid rise in government bond yields around the world. With market conditions continuing to evolve rapidly in response to these events, we have provided an update on our assessment of discount rates as at 31 March 2022.

Philip Lowe, Governor of the RBA recently commented, “Inflation has increased sharply in many parts of the world. Ongoing supply-side problems, Russia’s invasion of Ukraine and strong demand as economies recover from the pandemic are all contributing to the upward pressure on prices. In response, bond yields have risen and expectations of future policy interest rates have increased. The Australian economy remains resilient and spending is picking up following the Omicron setback.”

After a period of volatility, the ASX200 ended the month of March 2022 higher than it was as at 31 December 2021. This increase was driven by higher earnings expectations, partially offset by increased discount rates. The increase in discount rates was driven by a substantial rise (over 110 bps) in the 10-year Commonwealth government bond yield. The relatively smaller increase in implied discount rates indicates a reduction in the equity market risk premium for Australia, despite the introduction of uncertainty from the Russia-Ukraine conflict and ongoing disruptions to the global supply chain.

The impact of these changes on overall market discount rates is presented below.



Source: Leadenhall

Whilst recent market optimism has reduced the implied market risk premium, overall market discount rates remain substantially higher compared to December 2021, largely due to rising bond yields.

Companies should consider the impact the sharp rise in discount rates will have on their valuations, whether on their investment decisions or for impairment testing. For further information on selecting an appropriate discount rate for your company please feel free to call us.

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