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The Term Structure of Equity Returns and Duration Premium

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The paper explores the term structure of equity returns and term premium, highlighting the time-varying nature of this relationship and its implications for market dynamics. The study finds evidence of a persistent term premium in the market, even within Japan's unique economic environment, characterized by extreme interest rate scenarios. The findings contribute significantly to the understanding of equity term structure, particularly in markets under unusual economic conditions. This research investigates the time-varying nature of equity term structure and attempts to relate it to major economic events. Findings suggest that the equity term structure is countercyclical, and the term premium tends to be high when the economy is weak. This paper also examines risk factors including size, value, and illiquidity, seeking explanations for the persistent term premia. The illiquidity factor is found to explain more of the term premia compared to size and value. Our findings challenge the conventional view that the value factor serves as a proxy for equity duration.

Keywords: Portfolio, Asset pricing, Equities, Risk premium, Implied equity duration, Risk JEL classification: G12, G14, E43