

**The Research Centre of the School of Economics and Business in cooperation with the Bank
of Slovenia**

cordially invites you to a research seminar
on **Thursday, 29 May 2025, at 13:00 CET in room D-122**
at the School of Economics and Business

Niklas Wagner (University of Passau, Germany)

will present the article:

Give me a break: What does the equity premium compensate for?

We provide evidence that the equity premium does not simply compensate investors for bearing market risk per se and contribute to an adequate modelling of the intertemporal risk-return relationship. Our model captures the relationship between conditional expected excess stock market returns, conditional market volatility, and conditional market illiquidity, while taking scheduled trading breaks into account. We distinguish between two distinct sources of market risk, namely continuous diffusive risk during trading hours and a discontinuous component representing random overnight price jumps. Utilizing high-frequency data, we estimate specific premia for trading and nontrading components in terms of conditional volatility as well as conditional illiquidity. Our findings reveal that the conditional equity premium primarily compensates for bearing risk and illiquidity during market closures. Conditional volatility and illiquidity during trading hours play only a minor role in explaining the equity premium and shaping the intertemporal risk-return relationship.

We look forward to welcoming you at the seminar.