

Dual Peer Effects Around the World: Cross-Stock Predictability in Global Equity Markets

Jan Stosik^a, Adam Zaremba^{a,b,c}

^a *Poznań University of Economics and Business, Poznań, Poland*

^b *MBS School of Business, Montpellier, France*

^c *Monash Business School, Monash University Melbourne, Australia*

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Abstract

Cross-stock predictability from peer networks is a global phenomenon, not a US artifact. Using a panel of 51 countries from 1990 to 2024, we construct a Peer Index (PI) that summarizes the strength of a firm's industry peers and the firm's position within its peer group, aggregating roughly 100 characteristics via ridge regression. PI strongly predicts international returns: the value-weighted long-short portfolio earns 1.16% per month with a six-factor alpha of 0.69%, and predictability persists after 2003. In Fama–MacBeth regressions, PI remains significant ($t = 7.61$). Peer information diffuses slowly into prices worldwide.

Keywords: cross-stock predictability; peer effects; international asset pricing; return predictability

JEL classification: G11, G12, G14, G15

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1. Motivation and contribution

Avramov, Ge, Li, and Linton (2026) introduce the Peer Index (PI), a signal that aggregates peer-group averages and within-peer deviations of firm characteristics and show that it strongly predicts US stock returns while subsuming industry momentum and lead-lag effects. Whether this dual peer effect reflects a general economic mechanism or a feature of the US market remains an open question. We provide the first out-of-sample international evidence, replicating and extending the PI framework to a global panel of 51 developed, emerging, and frontier markets.

2. Data and methodology

We use the Jensen-Kelly-Pedersen Global Factor dataset covering 1990-2024. Peer groups are defined at the country $\times$ two-digit SIC industry level. For each of 100 rank-normalized firm characteristics, we compute the leave-one-out peer-group average and the within-peer deviation and estimate a pooled ridge regression on an expanding window. The Peer Index is the one-step-ahead, out-of-sample predicted return. We evaluate PI using value-weighted Fama-MacBeth cross-sectional regressions and quintile portfolio sorts benchmarked against global six-factor models.

3. Preliminary results

PI robustly predicts the cross-section of international stock returns. In Fama-MacBeth regressions, the PI slope is 1.39 ($t = 7.61$) and remains strong after controlling for short-term reversal, momentum, and industry momentum (1.25, $t = 6.84$); once PI enters, momentum and industry momentum lose significance, mirroring the US evidence. A value-weighted top-minus-bottom quintile portfolio earns 1.16% per month ($t = 7.93$) with a six-factor alpha of 0.69% ($t = 5.43$); the equal-weighted spread reaches 2.19% per month. Predictability is not confined to the early sample: post-2003 value-weighted alphas remain at 0.71% per month ($t = 6.99$). The results indicate that the slow diffusion of peer information into prices extends well beyond the United States.

Table 1. Excess returns and alphas of PI-based long–short portfolios

	Excess return	Alpha
Panel A: Equal-weighted PI portfolios		
Top-minus-bottom	2.19*** (16.94)	1.91*** (17.28)
Top-minus-bottom (post-2003)	1.82*** (22.89)	1.70*** (26.50)
Panel B: Value-weighted PI portfolios		
Top-minus-bottom	1.16*** (7.93)	0.69*** (5.43)
Top-minus-bottom (post-2003)	0.88*** (7.61)	0.71*** (6.99)

*Note: Monthly excess returns and six-factor alphas (in %) of top-minus-bottom PI quintile portfolios; t-statistics in parentheses. Global sample of 51 countries, 1990–2024. ***, **, * denote significance at the 1%, 5%, and 10% levels.*

Table 2. Value-weighted Fama–MacBeth cross-sectional regressions

Model	PI	MOM1	MOM12	INDMOM
PI only	1.39*** (7.61)			
Controls only		−0.51*** (−3.31)	0.93*** (3.38)	0.38*** (2.84)
PI + controls	1.25*** (6.84)	−0.21 (−1.42)	0.40 (1.47)	−0.02 (−0.15)

Note: Average slopes ($\times 100$) from monthly value-weighted Fama–MacBeth regressions of one-month-ahead returns; t-statistics in parentheses. MOM1 and MOM12 denote short-term reversal and momentum; INDMOM is industry momentum (Moskowitz and Grinblatt, 1999).

References

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