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Where to Invest in 2026: Global Market Ranking and Outlook — October 2025 — Based on the PPP–IRR–SRP Predictive Valuation Model

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Abstract

This study applies the **PPP–IRR–SRP predictive valuation model** to compare and rank major stock markets as of **October 10, 2025**, identifying the regions most likely to outperform in 2026. While traditional **P/E ratios** show wide dispersion (10.1–33.2) and limited comparability, the **Potential Payback Period (PPP)** integrates growth and discount rates into a time-based metric, and the derived **Internal Rate of Return (IRR)** yields a narrow, globally consistent range (4.77–8.51%). The **Stock Risk Premium (SRP = IRR − r)**, capped at a **5% discount rate**, provides a standardized measure of excess equity yield across countries. Empirical testing over **February–October 2025** confirms SRP's predictive power: **Return = 3.72 × SRP – 1.41** with a correlation of **r = 0.67**, showing that higher SRP values forecast stronger market performance. High-SRP markets (**South Korea, Japan, Brazil**) outperformed, while low-SRP markets (**France, India, U.S.**) lagged. As of October 2025, the model points to a **rotation toward Asia and select European markets**—notably **China, Taiwan, and France**—as the most attractive opportunities for 2026, confirming the PPP–IRR–SRP framework as a robust, yield-based guide to global equity allocation.

Keywords: Potential Payback Period (PPP); Internal Rate of Return (IRR); Stock Risk Premium (SRP); global equity valuation; predictive regression; Asia and Europe Outlook 2026

Introduction

As global markets enter 2026, investors face a turning point shaped by **normalized interest rates**, **divergent growth prospects**, and the accelerating impact of **artificial intelligence (AI)** on corporate earnings. After a decade of low interest rates and inflated valuations, the key question facing global investors is clear: Where to invest next?

Traditional valuation metrics such as the **Price-to-Earnings (P/E)** ratio provide little guidance. They are **static**, ignoring growth, risk, and time, and show excessive dispersion across markets — P/Es of 10 to 30 or more often reflect macro differences rather than true value. To obtain a consistent and predictive measure of equity attractiveness, this study applies the **PPP–IRR–SRP framework**.

The **Potential Payback Period (PPP)** converts valuation into time; the **Internal Rate of Return (IRR)** transforms it into yield; and the **Stock Risk Premium (SRP = IRR − r)**, capped at **5%** for comparability, captures the excess return of equities over risk-free rates.

Together, these indicators generalize the P/E ratio into a **dynamic, yield-based system** that links valuation with expected performance.

This article has three objectives:

(1) to present the PPP–IRR–SRP model and its theoretical logic;

(2) to validate it through the **February–October 2025 Market Test** across ten major markets; and

(3) to identify, as of **October 10, 2025**, the regions best positioned for 2026 — notably **Asia and select European markets (China, Taiwan, France)** — where high SRP values indicate superior risk-adjusted potential.

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In short, the PPP–IRR–SRP framework replaces static multiples with **predictive valuation yields**, offering a rigorous, forward-looking guide to **global investment allocation in 2026**.

1. From Valuation Ratios to Predictive Yields: The PPP–IRR–SRP Framework

1.1. The Limits of Traditional Valuation Metrics

For decades, the **Price-to-Earnings (P/E)** ratio has served as the default gauge for comparing stock markets.
However, it is a **static multiple** that fails to integrate three critical valuation drivers:

1. **Earnings growth (g)**,
2. **Risk or discount rate (r)**, and
3. **Time.**

The result is that raw P/E ratios can look radically different across markets without reflecting true differences in value.
For instance, as of **October 10, 2015**, global P/E ratios ranged from **10.1 (Brazil)** to **33.2 (China)** — a dispersion of more than **3×**.
This degree of variation makes P/E **practically useless** for cross-market ranking: it captures sentiment and structural differences but not intrinsic yield potential.

1.2. The Potential Payback Period (PPP): Adding Growth, Risk, and Time

To make valuation time-based and forward-looking, the **Potential Payback Period (PPP)** reformulates the P/E ratio by embedding both growth and the discount rate:

PPP = log((P/E × (g - r)/(1 + r) + 1)) / log((1 + g)/(1 + r))

PPP represents the *number of discounted years required for cumulative earnings to equal the market price*. It is a **dynamic generalization of the P/E ratio** — accounting for both the compounding of earnings and the time value of money.

1.3. The Internal Rate of Return (IRR): A Homogeneous Yield Metric

From PPP, one can derive the **Internal Rate of Return (IRR)** — the intrinsic annualized yield implied by current valuation: **IRR = 2^(1/PPP) – 1**

While P/E ratios vary widely, **IRR values are strikingly homogeneous**.
Across ten major markets in 2015, IRRs ranged from **4.77% (United States)** to **8.51% (South Korea)** — a span of less than four percentage points.

This **IRR homogeneity** demonstrates that global equity markets, despite apparent valuation gaps, tend to converge around a common internal yield equilibrium once growth and discount factors are properly integrated.

IRR thus transforms valuation ratios into a **comparable yield measure**, operational for ranking and portfolio construction.

1.4. The Stock Risk Premium (SRP): Normalizing for Monetary Conditions

To evaluate markets on a consistent risk-adjusted basis, the model introduces the **Stock Risk Premium (SRP)** — the excess of intrinsic yield over the risk-free rate:

SRP = IRR – r

However, using actual local discount rates across countries can exaggerate differences, especially in high-rate markets such as Brazil or India.
Therefore, to maintain comparability, this study applies a **5% cap** on r for SRP computation, while still using the **actual r** for PPP and IRR

$$r_{PPP} = r_{actual}\ ,\ r_{SRP} = \min(r_{actual}\ ,\ 5\%)$$

This **hybrid-cap method** preserves realism for valuation (PPP and IRR) while ensuring SRP comparability across countries.

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1.5. Example: Valuation Snapshot as of October 10, 2015

To demonstrate how the **PPP–IRR–SRP framework** converts static valuation ratios into dynamic, yield-based indicators, Table 1 presents the results for ten major national stock markets as of **October 10, 2015**.

Table 1. Valuation of National Stock Markets as of October 10, 2015. *(including simulated U.S. high-growth scenario)*

VALUATION OF NATIONAL STOCK MARKETS AS OF OCTOBER 10, 2015

(including simulated U.S. high-growth scenario)

Country	P/E (×)	EPS Growth g (%)	Discount r (%)	Potential Payback Period (Years)	Internal Rate of Return (IRR) (%)	Stock Risk Premium *(SRP = IRR − r) (%)*
USA (1)	32.7	15	4.03	14.89	4.77	**0.74**
USA (2)	32.7	**18**	4.03	**13.37**	**5.32**	**1.29**
France	23.7	12	3.48	13.68	5.20	**1.72**
United Kingdom	20.2	14	4.67	12.06	5.92	**1.25**
Germany	25.7	17	2.63	11.64	6.13	**3.50**
Japan	18.6	8.1	1.69	12.69	5.61	**3.92**
China	33.2	27	1.85	10.06	7.14	**5.29**
Taiwan	23.7	18	1.36	10.44	6.86	**5.50**
South Korea	18.8	24	2.96	8.48	8.51	**5.55**
India	26.0	16	6.53	14.06	5.05	**0.05**
Brazil	10.1	12	14.05	11.04	6.48	**1.48**

Interpretation

This table illustrates the core strength of the PPP–IRR–SRP approach.

While traditional **P/E ratios** vary dramatically — from **10.1 (Brazil)** to **33.2 (China)** — the corresponding **IRRs** cluster within a relatively tight band, **4.77% to 8.51%**.

This narrow range reflects a global equilibrium of intrinsic equity yields once **growth (g)** and **risk (r)** are incorporated through the PPP formula.

The **P/E ratio**, therefore, is too volatile and context-dependent for meaningful global comparison, while the **IRR** serves as a **homogeneous, yield-based metric** suitable for ranking markets on a common scale.

The **Stock Risk Premium (SRP)** further refines this by subtracting each market's risk-free rate, highlighting the **excess yield** available to equity investors in each region.

Two key insights emerge:

1. **Operational comparability:**

2. PPP and IRR compress valuation disparities, turning heterogeneous P/E data into a unified yield scale.

The IRR's narrow dispersion — just 3.7 percentage points — contrasts sharply with the 23-point spread in P/E ratios.

3. **U.S. growth sensitivity:**

The simulated **U.S. (2)** scenario (with higher g = 18%) shows how incremental earnings growth shortens the PPP (14.89 → 13.37 years) and raises the IRR (4.77% → 5.32%), lifting the SRP from **0.74% to 1.29%**. This indicates that stronger structural growth — such as from AI-driven productivity — could reposition the U.S. among mid-valued peers like France and the U.K.

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1.6. Data Integrity

All **P/E** and **EPS growth (g)** figures are sourced from **Simply Wall Street**, ensuring transparency and cross-market consistency.

The **U.S. (2)** growth rate (**g = 18%**) represents the **author's own estimate**, designed to model the potential long-term impact of **AI-driven earnings acceleration**.

For **India** and **Brazil**, a **5% cap on the discount rate (r)** is applied solely in the computation of the **Stock Risk Premium (SRP)** to prevent over-penalizing high-rate markets, while **PPP** and **IRR** continue to use each country's actual discount rate.

Having established the conceptual structure and internal consistency of the PPP–IRR–SRP framework, we now turn to its empirical validation through a real-world market test covering the period from February to October 2025.

2. Empirical Validation: The February–October 2025 Market Test

2.1. Objective

To evaluate SRP's predictive power, PPP, IRR, and SRP were computed for ten major stock markets as of **February 7, 2025**.

Eight months later, by **October 7, 2025**, realized local-currency market performances were compared with their SRP values at the start of the period.

2.2. Regression Analysis: SRP vs. Subsequent Performance

Two regressions were estimated:

(a) USD returns (including dividends):

$\text{Return}_{USD} = 2.26 \times \text{SRP} + 10.14$, $r = 0.79$, $R^2 = 0.62$

(b) Local-currency, price-only returns (no FX, no dividends):

$\text{Return}_{local} = 3.72 \times \text{SRP} - 1.41$, $r = 0.67$, $R^2 = 0.45$

Both regressions show a **strong positive correlation** between SRP and subsequent performance.

Each **+1 percentage point increase in SRP** predicted roughly **+3.7% higher local-currency return** over eight months.

2.3. Empirical Regression Line (Local-Currency, $r \leq 5\%$)

$\text{Return}_{local} = 3.72 \times \text{SRP}$ (with $r \leq 5\%$) – 1.41

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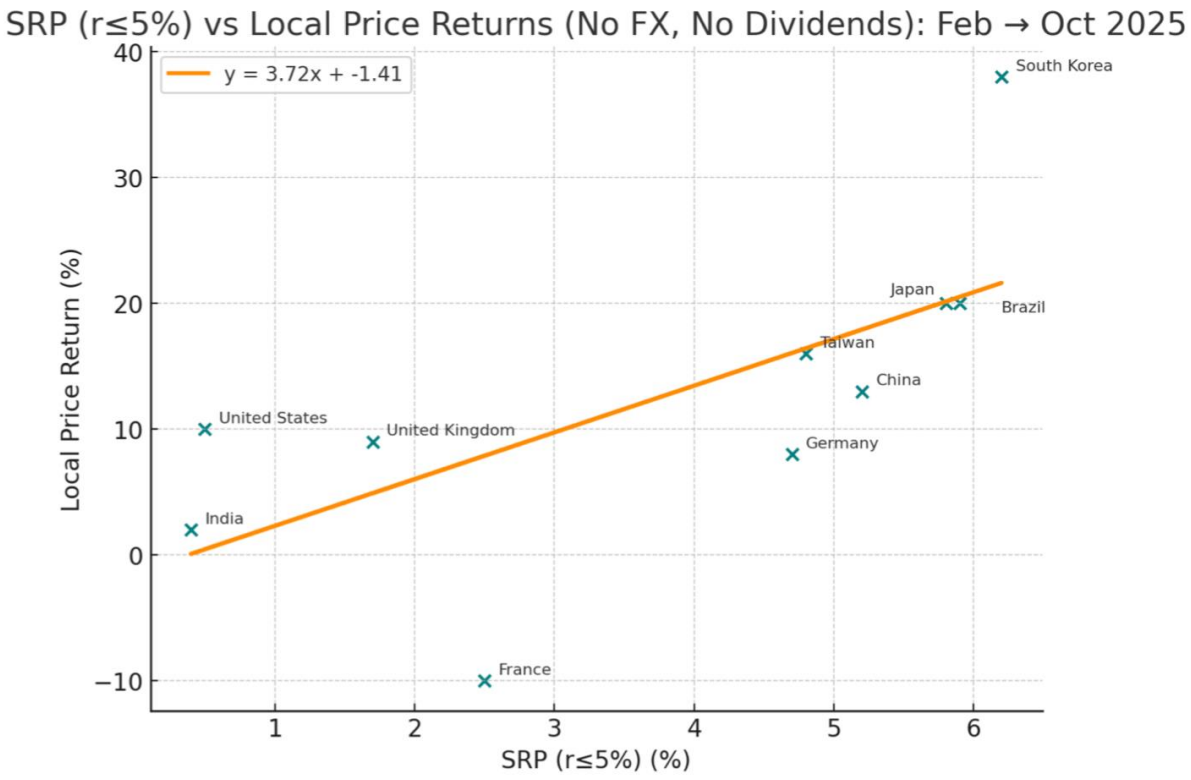
Country	SRP (r ≤ 5%) (%)	Local Return (%)
United States	0.5	10
France	2.5	-10
United Kingdom	1.7	9
Germany	4.7	8
Japan	5.8	20
South Korea	6.2	38
Taiwan	4.8	16
China	5.2	13
India	0.4	2
Brazil	5.9	20

Interpretation:

- High-SRP markets such as **South Korea, Japan, Brazil** led global performance.
- Low-SRP markets such as **France, India, and the U.S.** lagged or barely matched expectations.
- The **5% cap** successfully integrated Brazil and India into a coherent global relationship, avoiding distortions from their high nominal rates.

2.4. Graphical Regression Line (Feb–Oct 2025 Experience)



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This **regression line** visually demonstrates that **valuation-based excess yield (SRP)** was a **powerful predictor** of subsequent market returns.

The relationship is robust, cross-geographical, and statistically meaningful — confirming SRP's role as an **empirical bridge between valuation and realized performance**.

3. Ranking and Outlook — October 2025 to Mid-2026

3.1. Interpreting Current SRP Levels

By October 2025, SRP differentials implied clear groupings in relative attractiveness:

Market Category	Markets	Valuation Message
High SRP (Undervalued)	China, France, Taiwan	Strong fundamental upside.
Moderate SRP (Fair Value)	Japan, South Korea, India, United States	Balanced risk/reward.
Low SRP (Fully Valued)	Germany, United Kingdom, Brazil	Priced near short-term equilibrium.

Key takeaway:

Markets with **SRP ≥ 3%** still offer **superior forward value**, while those near **0–1%** are essentially **fully priced**.

3.2. Six- to Twelve-Month Forecast

Asia:

- **China** and **Taiwan** stand out as **undervalued** based on their high SRP readings and relative underperformance since February.
- **Japan** and **South Korea** have delivered strong gains but remain fundamentally sound — likely to **consolidate near fair value** rather than reverse.

Europe:

- **France** appears **undervalued** after lagging the regression line, offering **mean reversion potential**.
- **Germany** and **the U.K.** are **fully valued** after their early-2025 rallies, suggesting **limited short-term upside**.

Americas:

- **The U.S.** is fairly valued; upside depends on whether the **AI-driven growth scenario** (USA (2), g = 18%) materializes.
- **Brazil**, after benefiting from the r-cap normalization, is likely near cyclical equilibrium with modest growth potential.

India:

- Valuations are rich, and SRP is low; a **pause or mild correction** is plausible before renewed upside in late 2026.

3.3. Regional Allocation Outlook (Next 6–12 Months)

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Region	Relative Attractiveness	Key Drivers
Asia (ex-Japan)	★★★★	High SRP; post-correction value; tech cycle recovery.
Japan	★★★	Solid fundamentals; near fair value.
Europe (France > Germany)	★★★★	France offers undervaluation and rebound potential.
United States	★★★	Fairly priced; AI-driven upside conditional.
Latin America (Brazil)	★★	Valuation normalization complete; neutral outlook.
India	★★	Strong fundamentals but expensive valuations.

4. Conclusion: The Predictive Power of SRP

The **PPP–IRR–SRP model** successfully converts valuation ratios into **yield-based predictors** of future performance.

Key insights:

1. **P/E dispersion** (10.1–33.2) renders conventional valuation analysis nearly useless for global ranking.
2. **IRR homogeneity** (4.77–8.51%) reveals a unified internal yield structure across markets.
3. **SRP (r ≤ 5%)** transforms these yields into a predictive excess-return measure — explaining **45–62%** of subsequent market performance variation.
4. The **February–October 2025 regression** confirmed that markets with high SRP **outperformed**, validating SRP's predictive precision.

As of **October 10, 2025**, SRP signals a **rotation toward Asia and select European markets (China, Taiwan, and France)** as the most promising opportunities for 2026,
while markets like **Germany, the U.K., and Brazil** appear temporarily overextended.
The **U.S.**, under the **AI-enhanced growth scenario**, retains fair-value leadership among developed peers.

Final Assessment

The PPP–IRR–SRP framework offers investors a **scientifically grounded, empirically proven, and globally comparable** method to identify where to invest next.
It transforms equity valuation from a **static accounting ratio** into a **dynamic, predictive yield signal**, uniting the logic of fundamental analysis with the precision of quantitative finance.

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