

KOSPI & the Korean Equity Market (KRX:KOSPI)

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Table of Contents

KOSPI & the Korean Equity Market (KRX:KOSPI)

Market Overview

Retail Investor Leverage

Investment Thesis

Opportunities

Recommendation

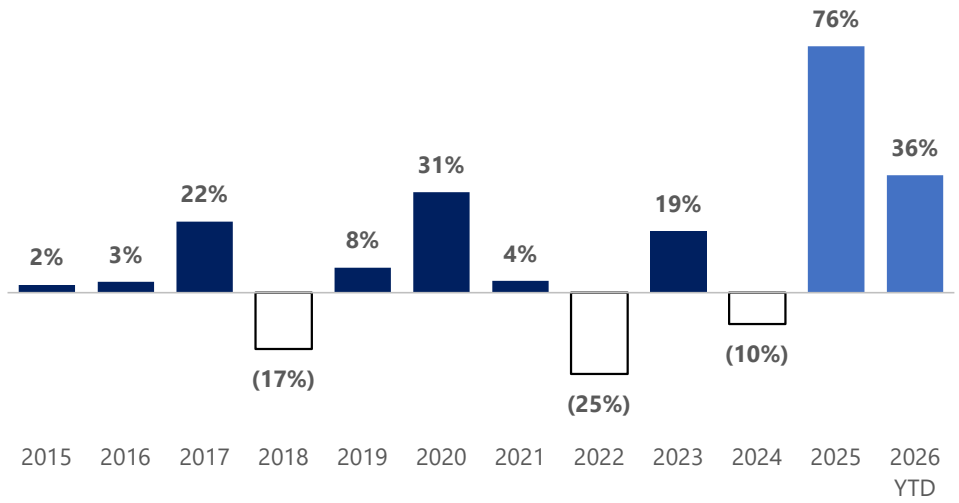
Market Overview

Korea Composite Stock Price Index (KRX:KOSPI)

Index Description

- The KOSPI is a free-float-agnostic, market-cap-weighted index of every common stock on the Korea Exchange (KRX) main board (~950 names); base of 100 on Jan 4, 1980
- The KOSPI 200 is the tradable sub-index behind futures, options and ETFs, covering ~89% of KOSPI market cap
- Growth and small-cap names list separately on the KOSDAQ (closed at 724 on Oct 30)
- Ownership is dominated by chaebol groups (Samsung, SK, Hyundai, LG, Hanwha), historically the root of the "Korea discount"
- 2025 was the KOSPI's best year since 1999 (+75.6%), and 2026 has been its most volatile since the GFC

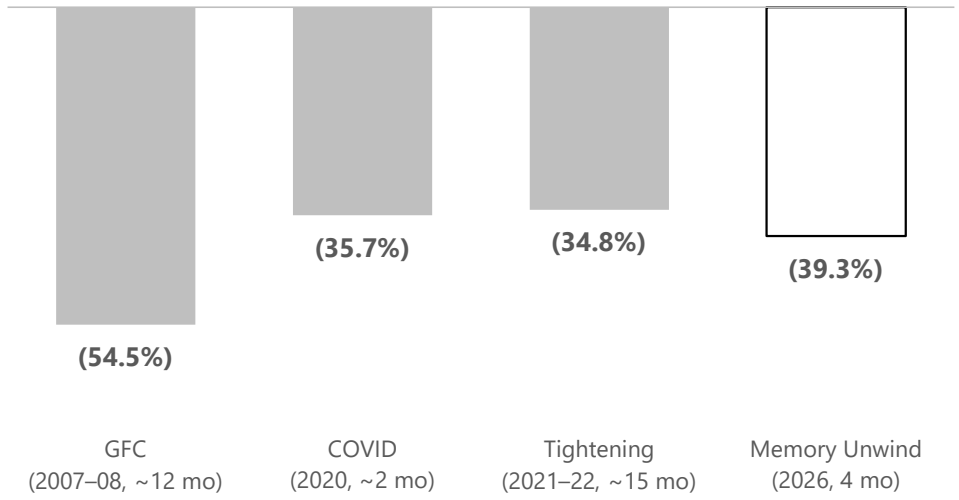
Calendar-Year Returns (2015 – 2026 YTD)



Key Statistics

Metric	Value
Index Level (Oct 30, 2026)	5,730.74
2026 YTD / 2025 Return	+36.0% / +75.6%
All-Time High Close (Jun 22, 2026)	9,114.55
Drawdown from Peak Close	(37.1%)
October 2026 Month-to-Date	(16.2%)
12M Forward P/E	~4.0x
Samsung + SK hynix Weight	~50%
Retail Margin Loans (Oct 23)	₩30.2T

Peak-to-Trough Drawdowns (Closing Basis)

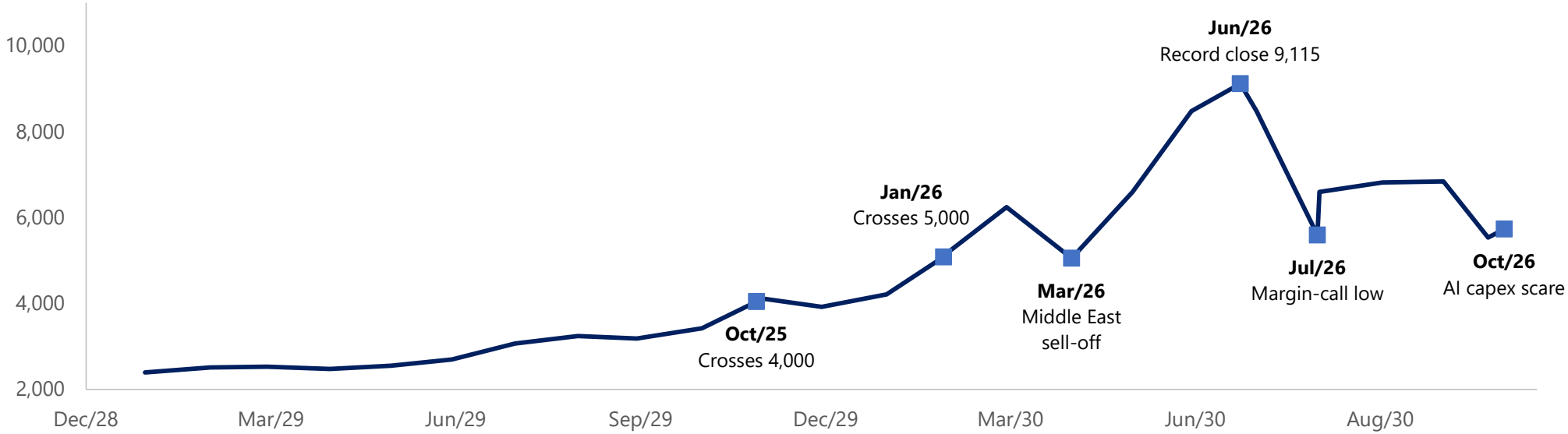


Source(s): Korea Exchange, Seoul Economic Daily, Korea Times, Goldman Sachs, KOFIA

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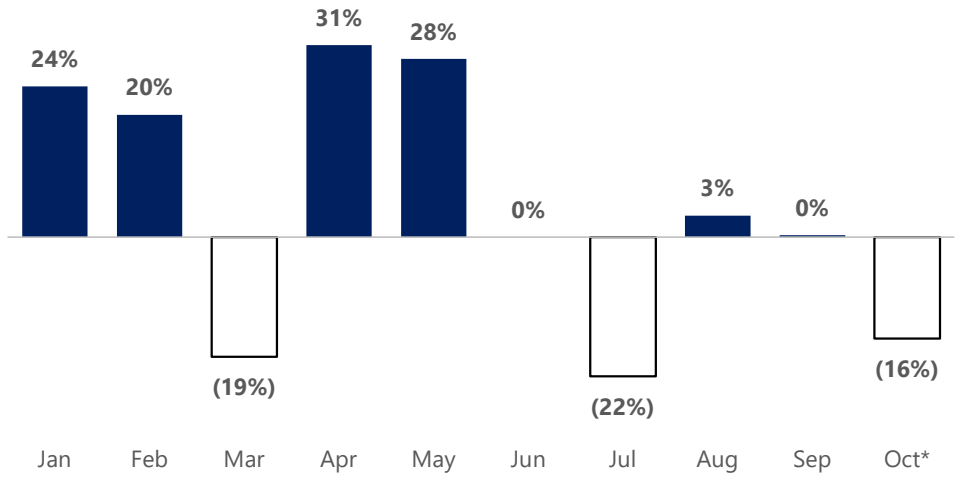
KOSPI Level: Dec 2024 – Oct 2026 (Month-End Closes and Key Turning Points)



From Value-Up to Melt-Up to Margin Calls

- **2025:** Value-Up reforms and the AI memory upcycle re-rated Korea; the KOSPI crossed 4,000 on Oct 27, 2025
- **H1 2026:** Exploding memory earnings carried the index to a 9,114.55 record close on Jun 22, +116% YTD
- **July:** An SK hynix capacity comment, a BoK hike and forced selling of levered retail positions drove a 22% monthly drop, the 3rd-worst on record
- **Aug–Sep:** Range-bound near 6,800 as foreigners net sold ₩19.1T in September
- **October:** AI capex fears hit chips; a 7.6% drop on Oct 15 tripped a market-wide circuit breaker

Monthly Returns in 2026

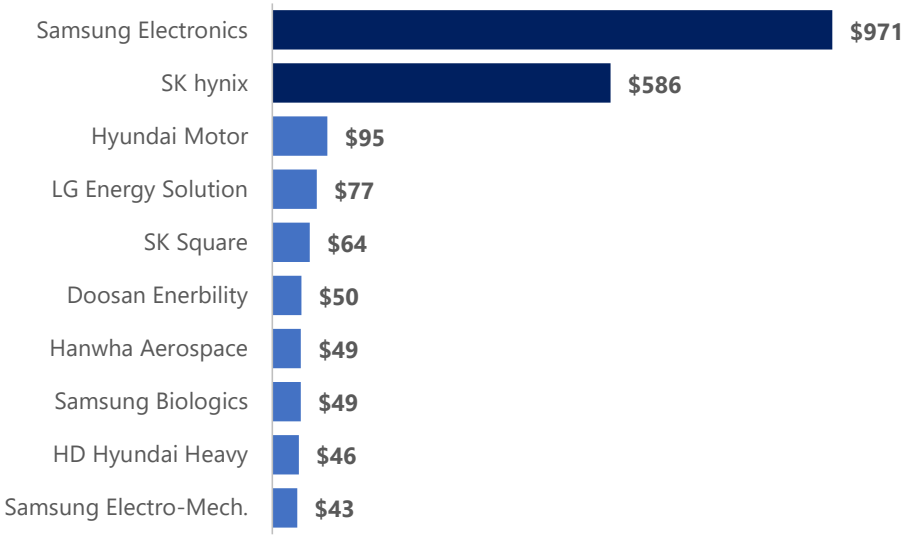


Source(s): Korea Exchange, Seoul Economic Daily, Asia Business Daily, Money Today, Fortune, Korea Herald

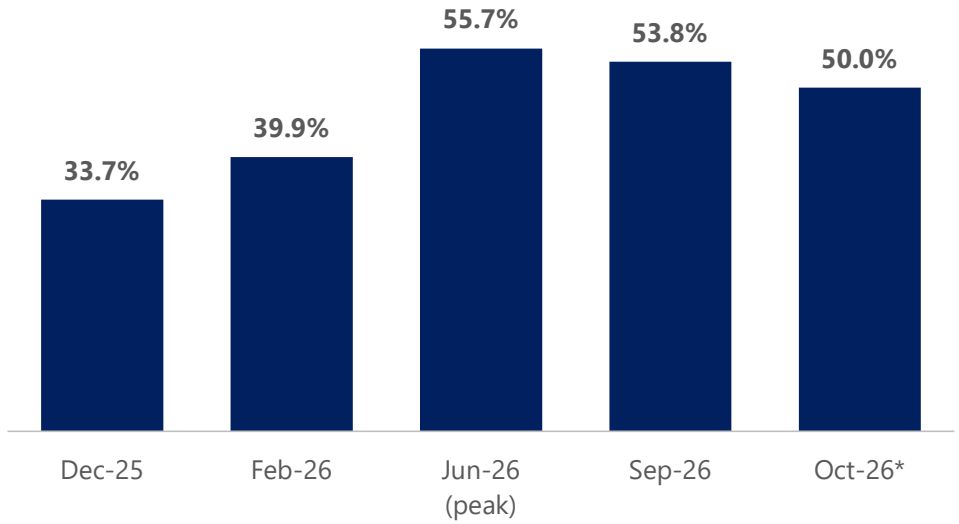
Market Overview

Constituents and Index Concentration

Largest Companies (US$B, Apr 22, 2026)



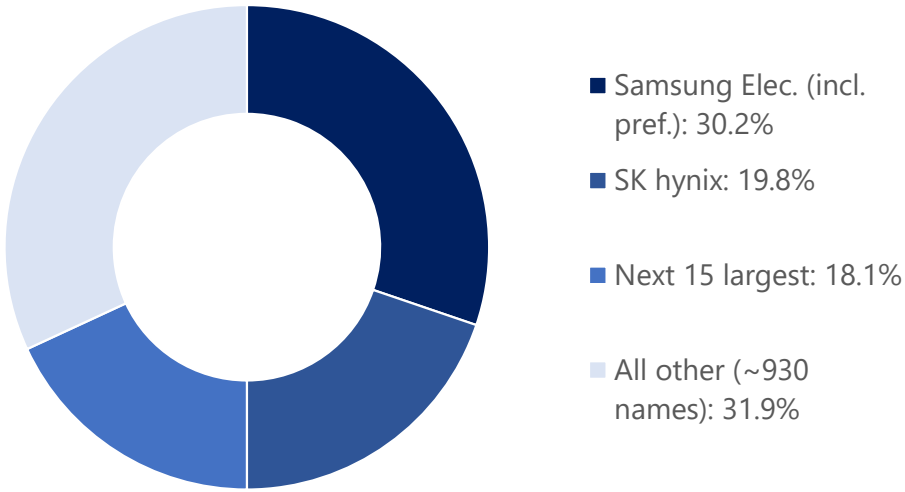
Samsung + SK hynix Share of KOSPI



An Index That Is Really a Memory Trade

- Two companies are now ~50% of KOSPI market cap, up from roughly a third at end-2025; the KOSPI 200 top ten were already 53% in Sep-25
- SK hynix rose 275% in 2025 and briefly passed ₩2,000T in market value on Jun 19, 2026
- Index moves are increasingly a read-through on DRAM/HBM pricing and US AI capex rather than the Korean economy
- Non-chip large caps (autos, batteries, defense, shipbuilders) are ~18% of the index and fell harder than chips in October

Market Cap Breakdown (Oct 19–23)

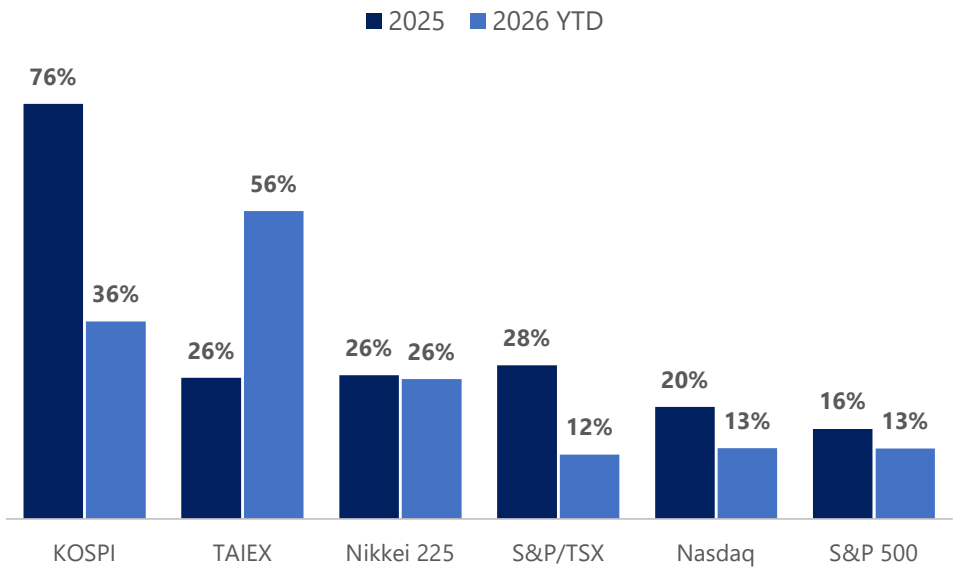


Source(s): Capital.com, Seoul Economic Daily, Korea JoongAng Daily, KRX, S&P Dow Jones Indices, Korea Herald

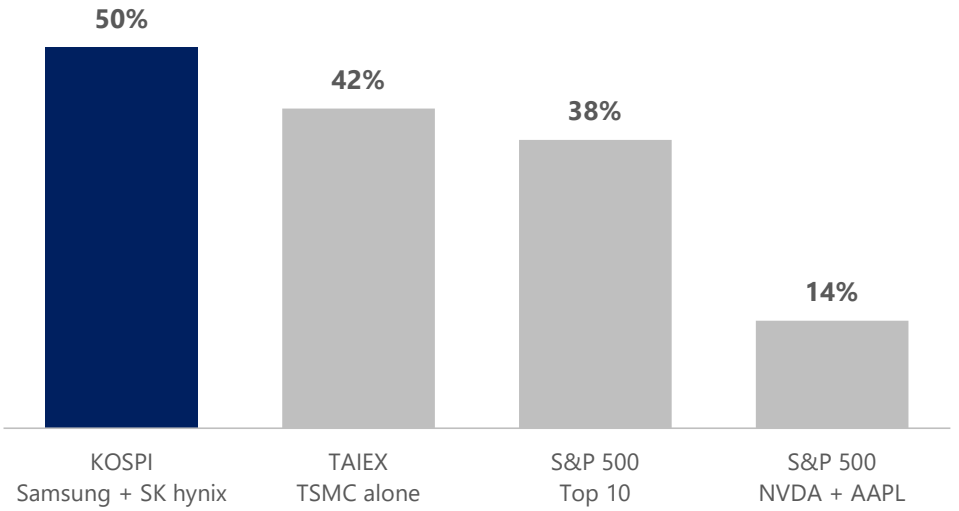
Market Overview

KOSPI vs. Major Global Indices

Price Returns: 2025 and 2026 YTD



Concentration: Largest Holdings as % of Index



What the Comparison Tells Us

- **Best of 2025, middle of 2026:** The KOSPI led every major market in 2025, but Taiwan's TSMC-led TAIEX (+56% YTD) has overtaken it in 2026
- **Same theme, different outcome:** Both markets are AI-hardware bets, but Taiwan avoided Korea's retail-leverage blow-up
- **Volatility is the outlier:** The KOSPI is 37% off its peak, while the Nikkei is ~13% below its June high and US indices are near records
- **Concentration exceeds even Taiwan:** Two KOSPI names outweigh TSMC's ~42% TAIEX weight; the S&P 500's two largest are ~14%
- **Valuation is the cheapest:** At ~4x forward earnings, the KOSPI is the cheapest of 18 major markets tracked since 2006
- **Currency adds to returns:** In USD terms the KOSPI returned +79.9% in 2025 and +42.7% YTD to Oct 23

Source(s): Korea Exchange, Taipei Times, Nippon.com, Trading Economics, ChartRow, Seoul Economic Daily, SimianX

Table of Contents

KOSPI & the Korean Equity Market (KRX:KOSPI)

Market Overview

Retail Investor Leverage

Investment Thesis

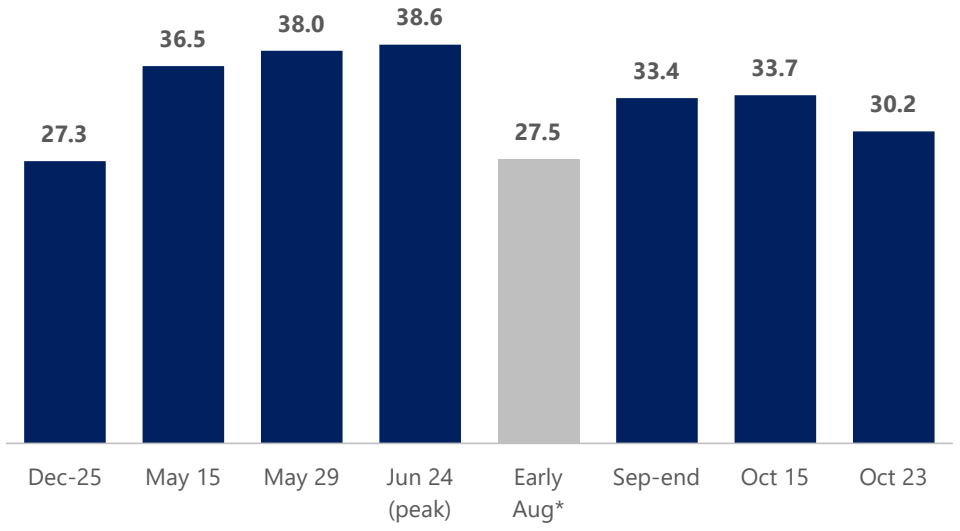
Opportunities

Recommendation

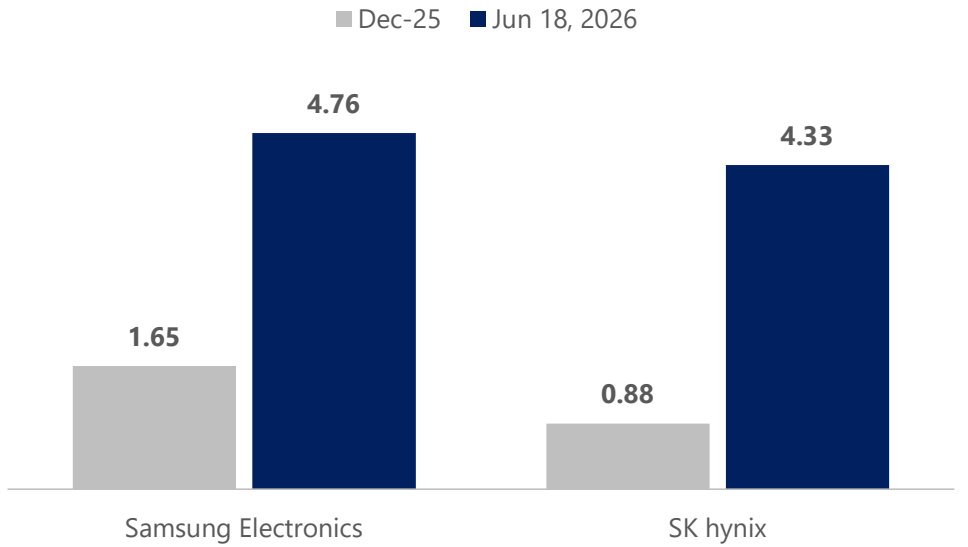
Retail Investor Leverage

How "Ants" Levered Up and Got Caught

Margin Loan Balance (₩T)



Margin Debt Piled into Two Stocks (₩T)



The July Margin-Call Cascade

- Margin loans hit a record ₩38.6T on Jun 24, up >40% YTD, at 7–9% interest rates; Samsung and SK hynix alone made up ₩9.1T
- As the KOSPI fell 27% from its peak by Jul 16, Goldman estimated 1.2M retail accounts received margin calls and ~320–360K were fully liquidated
- On Jul 31, retail investors net sold a record ₩8.25T while foreigners bought a record ₩7.22T
- Regulators responded: the BoK hiked to 2.75% (first hike in 3+ years) and the minimum deposit for new leveraged-ETF investors tripled to ₩30M

Offshore Losses and Re-Leveraging

US$1.7B
Retail losses on Samsung / SK hynix single-stock leveraged products (May 27 – Aug 14)

(16.5%)
Fall in Korean retail US-stock holdings in Jun–Jul (-US$33.7B) vs. S&P 500 (1.9%)

+₩6T
Margin loans rebuilt from the early-August low to mid-October

81.3%
Household debt / GDP (Q2-26), a decade low; leverage moved from housing to stocks

Source(s): KOFIA, Korea Herald, Korea Times, Seoul Economic Daily, Goldman Sachs, Money Today, FSS, Korea JoongAng Daily, Bloomberg

Table of Contents

KOSPI & the Korean Equity Market (KRX:KOSPI)

Market Overview

Retail Investor Leverage

Investment Thesis

Opportunities

Recommendation

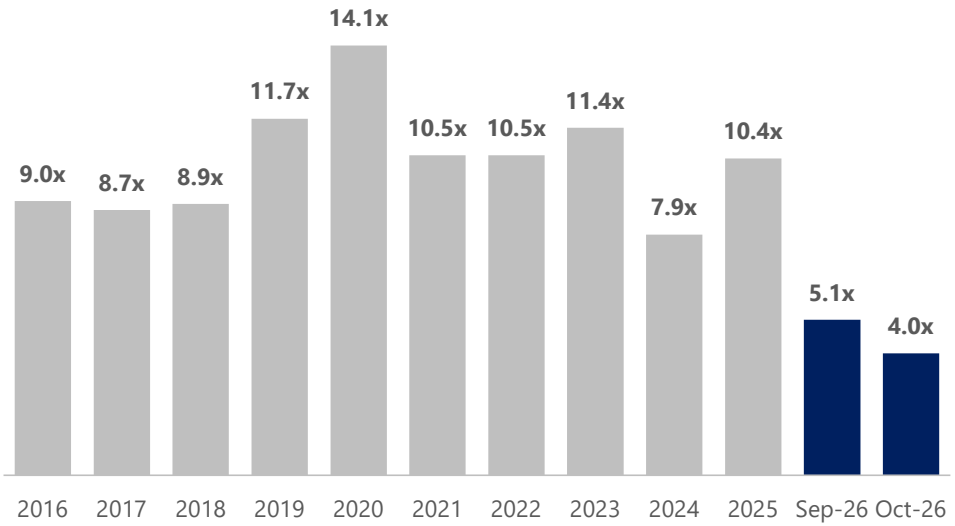
Investment Thesis I

The De-Rating Has Overshot the Fundamentals

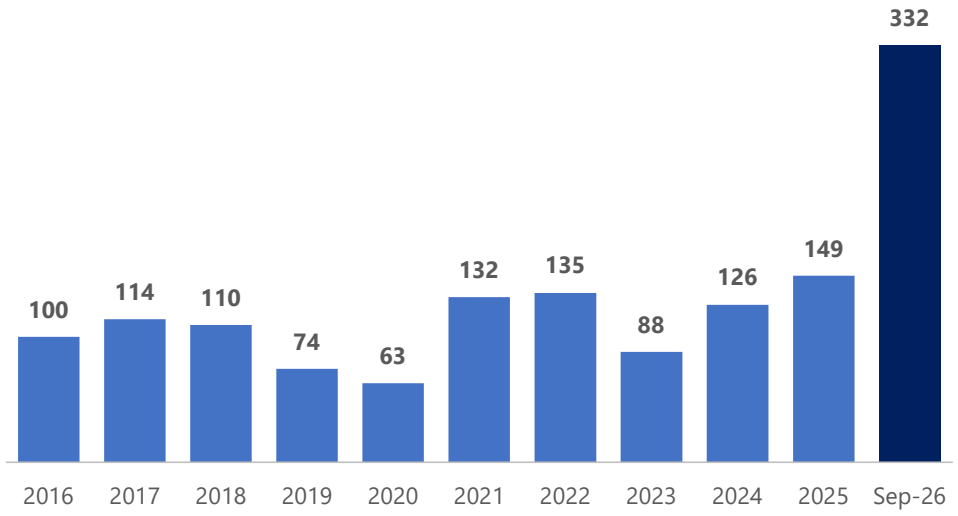
Earnings Are at Records, Multiples at Lows

- KOSPI trailing earnings more than doubled (+114% YoY to Sep-26), and the EPS index is 3.3x its 2016 level
- Q3-26 operating profit hit records: Samsung ₩107.4T (+783% YoY) and SK hynix ₩83.3T (80% margin)
- Yet the forward P/E has collapsed from 10.4x at end-2025 to ~4x, the lowest of 18 major markets since 2006 and ~3 SD below its mean
- Goldman estimates roughly half of the 40% sell-off was multiple de-rating from volatility, not weaker earnings
- If earnings simply hold, a return to the pre-rally ~10x multiple implies substantial upside; even 6.5x (Goldman base case) supports ~9,000

KOSPI 12-Month Forward P/E (x)



KOSPI EPS Index (2016 = 100)



What the Market Is Pricing In

Goldman Sachs View (Oct 26, 2026)	Figure
12-month KOSPI target (cut from 12,000)	9,000
Implied upside from ~5,550	>60%
Base-case forward P/E / P/B	6.5x / 1.5x
2027 chip earnings decline implied by current P/B	~65%
Non-memory sectors: forward P/E / P/B / ROE	7.6x / 1.1x / 14.2%

Our read: the market is pricing a memory bust that company guidance (sold-out output, LTAs through 2028) does not support

Source(s): Siblis Research, Goldman Sachs, Seoul Economic Daily, Korea Herald, SK hynix, Samsung Electronics

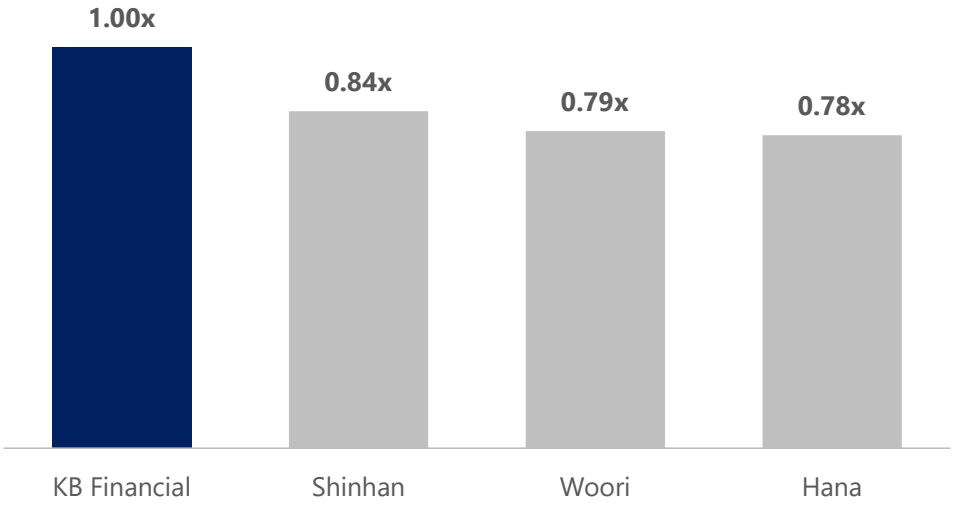
Investment Thesis II

Value-Up Is Now Law: Capital Return Is Structural, Not Cyclical

Governance Reform Timeline

Date	Reform	Why It Matters
Feb 2024	Corporate Value-Up Program	Voluntary P/B and ROE disclosure targets
Jul 2025	1st Commercial Act amendment	Directors owe a fiduciary duty to all shareholders
Aug 2025	2nd amendment	Mandatory cumulative voting; more separately elected audit members
Mar 6, 2026	3rd amendment in force	Treasury shares must be cancelled within 1 year
~Sep 2027	Legacy deadline	Existing treasury stock must be cancelled

Bank Holdcos Still Trade Near Book (P/B)



Why the "Korea Discount" Can Keep Closing

- Mandatory cancellation ends the use of treasury shares as a control tool and turns buybacks into permanent share-count reduction
- Fiduciary duty to all shareholders raises the bar for related-party deals and dilutive spin-offs at chaebol affiliates
- Non-memory Korea trades at 7.6x forward earnings and 1.1x book on a 14.2% ROE, >30% undervalued on Goldman's math
- Unlike the memory cycle, these reforms do not reverse when the market falls

Capital Return Is Scaling Up

~₩100T
SK hynix FY26 shareholder return target (≥₩30T dividends, ≥₩60T buybacks)

>13% CET1
KB Financial returns all capital above this level, with no cap on payouts

₩7.0T
Cancellations announced by 48 firms within 2 weeks of the law passing

≥50% of FCF
SK hynix's stated minimum payout policy going forward

Bank P/B ratios as of Feb 11, 2026 (KB is ~0.94x as of Oct 30, 2026)

Source(s): Kim & Chang (Chambers), Asia Business Daily, SmartToday, Goldman Sachs, SK hynix, KB Financial Group

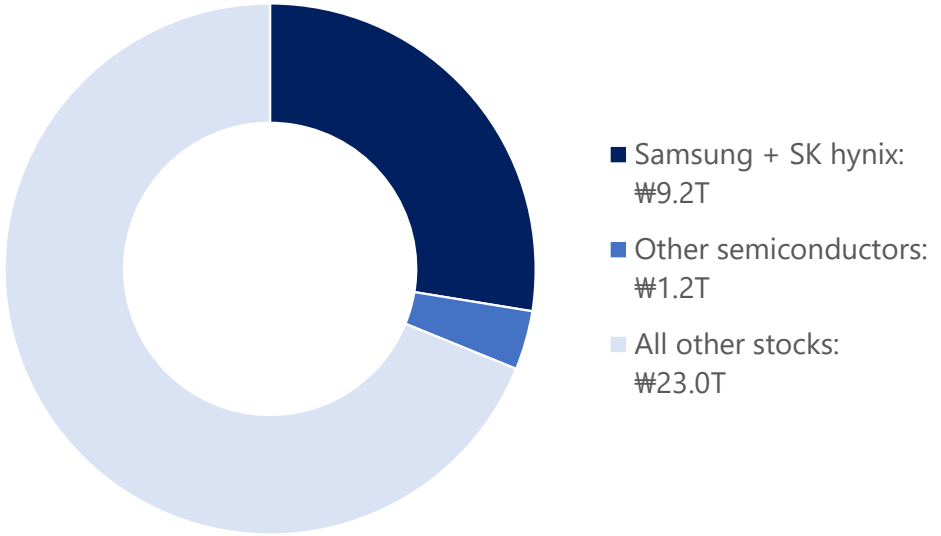
Investment Thesis III

Near-Term Headwinds: Leverage, Flows and Concentration Cap Index Upside

Why We Are Not Buying the Whole Index

- **Leverage is back:** margin loans rebuilt to ₩33.7T by mid-October, and forced liquidations hit ₩89.3B on Oct 15, the most since Jul 31
- **Foreigners are sellers:** net sales of ₩19.1T in September and ₩1.6T on Oct 30 alone, led by SK hynix
- **Rates are rising:** the BoK hiked in July, and the US 10-year touched 4.95% in October
- **Single-factor risk:** with chips ~50% of the index, one AI-capex headline (Alphabet -12.6% on Oct 29) moves the whole market

Margin Loans by Exposure (End-Sep 2026)



Signals We Are Watching Before Adding Index-Level Exposure

Signal	Where It Stands	What Would Change Our View
Retail margin loans	₩30.2T (Oct 23) vs. ₩27.4T at start of year	Sustained decline toward pre-rally levels without forced selling
Foreign flows	Net seller: ₩19.1T in September	Return to net buying on chips (as on Jul 31: +₩7.2T)
Memory pricing / AI capex	Hyperscaler capex doubts after Alphabet's Q3	Q4 contract prices hold; LTA extensions announced
Index concentration	~50% in Samsung + SK hynix	Leadership broadens to non-chip Value-Up names
Policy	BoK at 2.75% after July hike; FSS warning on new curbs	Pause in hikes; leverage rules stabilize

Source(s): KOFIA, Seoul Economic Daily, Korea JoongAng Daily, Korea Times, Bank of Korea, FSS

Table of Contents

KOSPI & the Korean Equity Market (KRX:KOSPI)

Market Overview

Retail Investor Leverage

Investment Thesis

Opportunities

Recommendation

Opportunity I: SK hynix (KRX:000660)

The Purest HBM Franchise at ~3x Annualized Operating Profit *(in trillions of KRW, except per share data)*

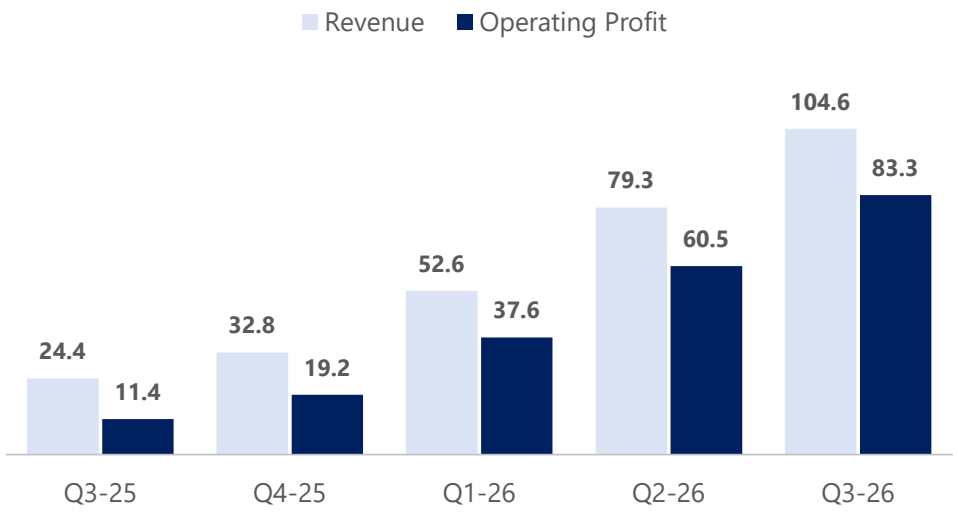
Business Overview

- World's leading HBM supplier and #2 DRAM maker; HBM4 shipments began in Q3 and should become the mainstream product in Q4
- Q3-26 revenue passed ₩100T for the first time (₩104.6T, +328% YoY) at an 80% operating margin
- Long-term agreements with 14 customers cover >50% of 2027–28 capacity; management sees demand above supply through 2030
- Net cash of ₩98.7T funds the Yongin fab ramp and the ₩100T FY26 return program

Key Statistics

Metric	Value
Share Price (Oct 30, 2026)	₩1,418,000
Record Close (Jun 19, 2026)	₩2,764,000
Decline from Record Close	(48.7%)
Market Cap (approx.)	~₩1,046T
Q3-26 Operating Profit (annualized)	₩83.3T (₩333T)
Market Cap / Annualized Q3 OP	~3.1x
Q3 Dividend per Share (incl. special)	₩20,000

Quarterly Revenue & Op. Profit (₩T)



Why Now, and What Could Go Wrong

- **Thesis:** Shares are down ~49% from the peak while Q3 operating profit beat by 7% and the shareholder-return target rose to ₩100T
- **Catalysts:** HBM4 mix shift in Q4, LTA extensions (5-year terms under discussion) and quarterly buybacks
- **Risks:** An AI-capex pause, a memory price peak (several brokers call the cycle "late"), Samsung HBM4 competition and ₩4T+ of retail margin debt in the stock

Source(s): SK hynix 3Q26 results, Korea Herald, Seoul Economic Daily, Trading Economics, Korea JoongAng Daily, BigGo Finance

Opportunity II: KB Financial Group (KRX:105560)

A Value-Up Compounder Below Book, with Little Memory Exposure

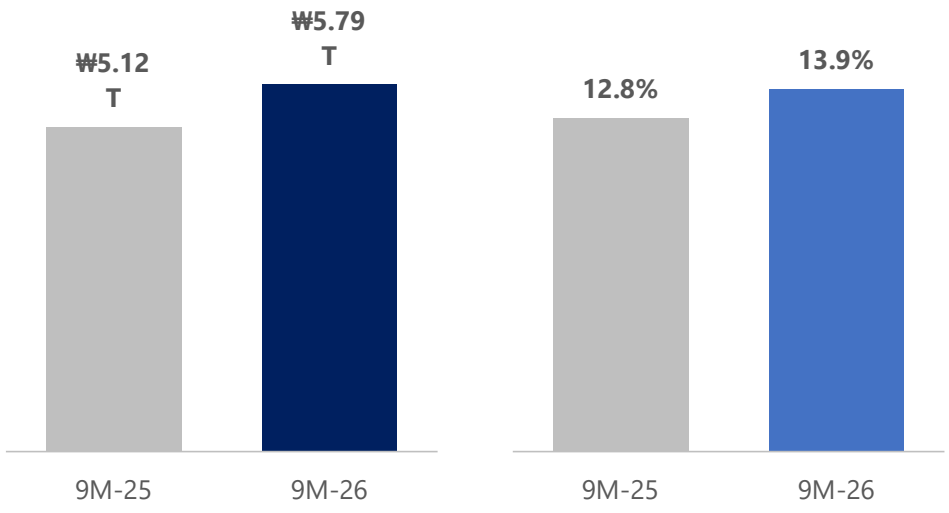
Business Overview

- Korea's largest financial holding company: Kookmin Bank plus securities, insurance and card units
- 9M-26 net profit of ₩5.79T (+13.1% YoY) and EPS growth of +18.1%, from its "all-weather" diversified model
- Industry-leading capital: CET1 of 13.80% and a BIS ratio of 16.02%
- First Korean financial holdco to reach 1.0x P/B and ₩60T market cap (Feb 2026); it has since pulled back with the market

Key Statistics

Metric	Value
Share Price (Oct 30, 2026)	₩154,900
52-Week Range	₩113,800 – ₩194,500
Market Cap	₩54.9T
P/B / P/E (TTM)	0.94x / 9.3x
ROE (9M-26)	13.89%
Dividend Yield	~3.0%
Q3 DPS (YoY)	₩1,167 (+25.5%)

Net Profit and ROE: 9M-25 vs. 9M-26



Why Now, and What Could Go Wrong

- **Thesis:** A ~14% ROE bank at 0.94x book with an uncapped return policy (all capital above 13% CET1); about 20% below its 52-week high
- **Diversifier:** Low exposure to the memory trade, and BoK hikes support deposit margins
- **Risks:** NIM compression (1.92% vs. 1.99% a year ago), household-lending caps and credit costs if the margin-debt unwind spreads to consumers

Source(s): KB Financial Group Q3-26 results (Investing.com), StockHub, SmartToday

Opportunity III: Hanwha Aerospace (KRX:012450)

A Q3 Miss on Timing, Not Demand, After a 54% Drawdown

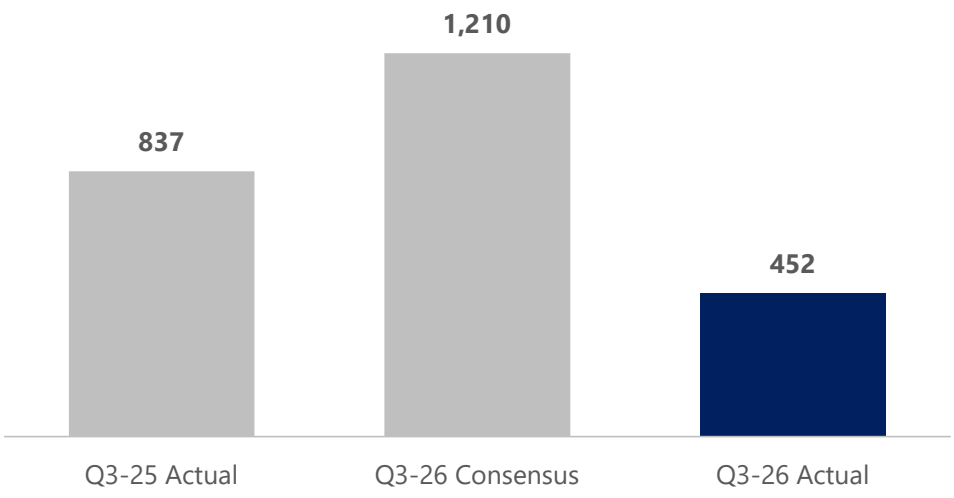
Business Overview

- Korea's largest defense prime: K9 self-propelled howitzers, Chunmoo rocket launchers, armored vehicles and aircraft engines
- Land-systems order backlog of ~₩35T at end-September, led by Poland's K9/Chunmoo program
- New 2026 wins: K9 to Spain (Aug), 18 Chunmoo launchers to Croatia (~€410M, Sep) and a US Army K9 prototype contract
- TTM revenue of ₩29.95T is up 55.6%, but Q3 operating profit fell 46% YoY to ₩452B, less than half of consensus

Key Statistics

Metric	Value
Share Price (Oct 29, 2026)	₩760,000
52-Week High	₩1,655,000
Decline from 52-Week High	(54.1%)
Market Cap (approx.)	~₩39T
P/E (TTM / Forward)	19.5x / 15.1x
Land-Systems Backlog (Sep-26)	~₩35T
Dividend per Share (FY25)	₩7,000

Q3 Operating Profit: The Miss (₩B)



Why Now, and What Could Go Wrong

- **Thesis:** The miss came from Polish K9 deliveries shifting into Q4, one-off costs and FX, not lost orders; management guides to a recovery "in earnest" from Q4
- **Catalysts:** Q4 K9/Chunmoo deliveries to Poland, Egypt and Australia, plus further European and US awards
- **Risks:** Execution (the Daejeon plant is not fully back until H1-27 after the June explosion), aerospace losses on GTF engine programs and export financing

Source(s): Korea JoongAng Daily, Seoul Economic Daily, StockAnalysis, FnGuide

Table of Contents

KOSPI & the Korean Equity Market (KRX:KOSPI)

Market Overview

Retail Investor Leverage

Investment Thesis

Opportunities

Recommendation

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Neutral on the Index, Constructive on Selective Names

Our View

- **Index: Neutral.** At ~4x forward earnings the KOSPI is statistically cheap, but ~50% concentration and rebuilding retail leverage mean the next move depends on memory sentiment, not valuation
- **Opportunity: Yes, but selectively.** We prefer owning the fundamentals directly over the levered index: HBM earnings power, Value-Up capital return and defense backlog
- **Sizing:** Scale in over time. Daily moves of 5–8% and circuit breakers are now routine, so entry timing matters

Catalysts to Watch

- Q4 memory contract pricing and any LTA extensions
- Margin-loan balances and forced-liquidation data (KOFIA, daily)
- Foreign net flows turning positive
- Treasury-share cancellations ahead of the ~Sep 2027 legacy deadline
- Hanwha Aerospace Q4 delivery recovery

Summary of Opportunities

	SK hynix	KB Financial	Hanwha Aero.
Ticker	000660	105560	012450
Theme	AI memory / HBM	Value-Up / financials	Defense exports
From Peak	(49%)	(20%)	(54%)
Valuation	~3x annualized Q3 OP	0.94x P/B	15x fwd P/E
Core Thesis	Market prices a bust the order book doesn't show	~14% ROE below book; uncapped returns	Miss was timing; ₩35T backlog intact
Key Risk	AI-capex pause; memory price peak	NIM compression; credit costs	Execution; plant recovery
Index Correlation	High	Low	Medium

Source(s): QEM analysis; company filings; Goldman Sachs; KOFIA