EQUITIES

Re-Rating Korea: A Structural Case

INSIGHTS

Korean equities have rallied strongly since 2025, driven by AI and advanced technology demand that has lifted earnings expectations, particularly for semiconductor leaders. Beyond tech, improving governance, shareholder-friendly reforms and broader opportunities support the investment case.

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Technology Leadership in an AI-Driven World

A MARKET AT THE CORE OF GLOBAL INNOVATION

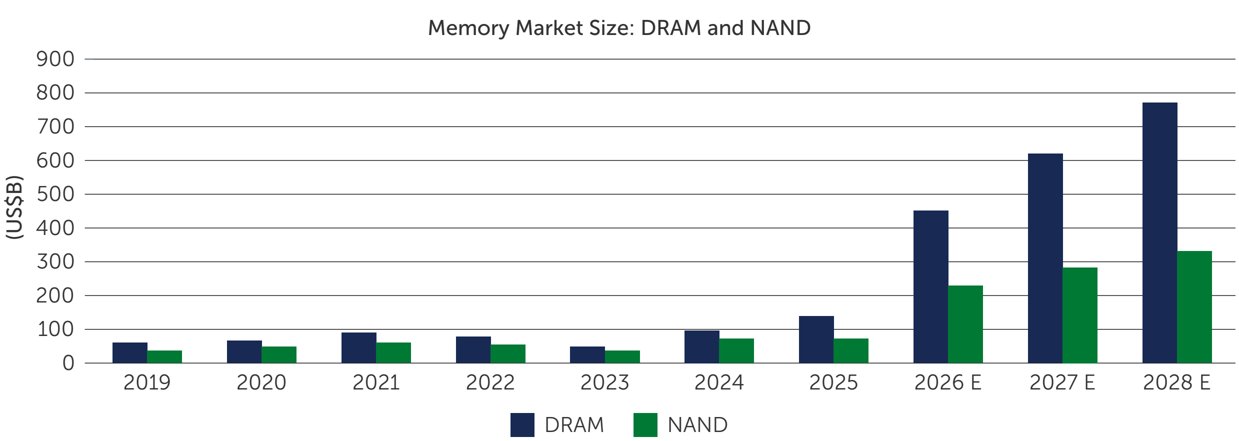
Korea occupies a strategic position in the global technology ecosystem, underpinned by its leadership in memory semiconductors. Samsung Electronics and SK Hynix remain dominant players, and as of last year the two companies together accounted for roughly 70% and 50% of global DRAM (Dynamic Random Access Memory) and NAND (NAND Flash Memory) revenue, respectively.[1] These technologies are fundamental to AI-driven computing, with DRAM enabling high-speed processing and NAND supporting large-scale data storage.

As cloud infrastructure, hyperscaler investment and data-intensive AI workloads continue to scale, demand for memory is becoming increasingly structural rather than cyclical. In the emerging era of agentic AI, the importance of memory is growing, as it enables systems to retain context, leverage prior interactions and support more coherent multi-step reasoning and decision-making. This is particularly evident in high-bandwidth memory, where rising memory intensity per server is driving demand for more advanced solutions. As a result, memory is becoming less tied to traditional end markets such as PCs and smartphones and more central to the long-term buildout of AI infrastructure. This shift is improving earnings visibility and reinforcing Korea's role in the AI value chain.

At the same time, the commercial profile of the memory market is evolving. Tighter supply conditions, longer-term customer agreements and increased AI-related content are contributing to a more durable demand backdrop and improved pricing visibility for leading suppliers.

Momentum is also extending beyond memory into adjacent segments, including semiconductor equipment, materials, display technologies and battery-related industries, where Korea plays an important role across the value chain. As a result, Korea's technology leadership is no longer confined to a narrow group of companies but is developing into a broader structural growth theme supported by sustained AI-driven investment and ongoing technological upgrading.

Figure 1: Accelerating AI Adoption Boosts Memory Demand



Sources: WSTS; J.P. Morgan estimates. As of March 22, 2026. E = Estimates.

1. Source: Company data; BofA Global Research. As of April 10, 2026.

BARINGS

From Governance Discount to Re-Rating Opportunity

THE SIGNIFICANCE OF "VALUE-UP"

A persistent feature of the Korean equity market has been its valuation discount relative to global peers. This **"Korea Discount"** reflected a weaker corporate governance backdrop, where conservative capital allocation, complex ownership structures and limited shareholder engagement contributed to structurally weaker returns on equity (ROE) for investors despite strong industrial competitiveness.

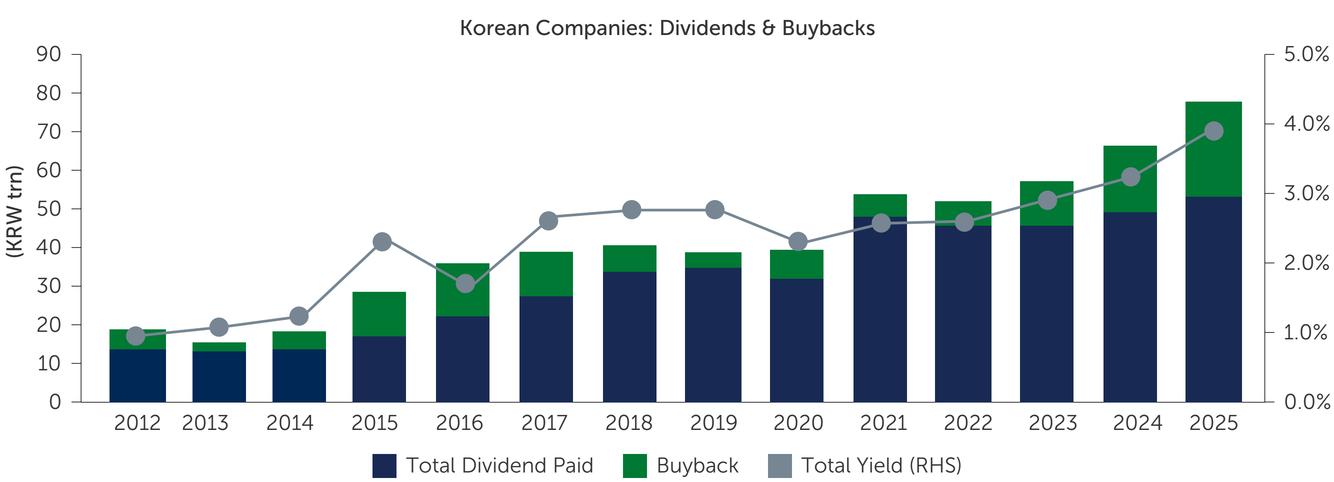
In response, the Korea government decided to instigate a proven approach seen in Japan, where enhancements to Stewardship and Corporate Governance Codes, along with tighter listing standards, have driven meaningful change. These reforms in Japan took shape in two major waves during the 2010s and 2020s. An initial foundational framework was established in 2014 under former Prime Minister Shinzo Abe, followed by a more value-driven phase starting in 2023 that promoted capital efficiency and enhance shareholder value.

Korea's Value-Up initiative, launched in 2024 and accelerated through 2025, represents a meaningful step toward addressing these similar market inefficiencies. Alongside revisions to the Commercial Act—aimed at strengthening board accountability and fiduciary oversight—companies have been asked to set multi-year targets, disclose metrics such as return on equity (ROE) and dividend yield and provide annual progress updates. This increased transparency should help narrow the valuation discount as capital allocation and shareholder return policies become clearer, benefiting minority shareholders.

Recent measures further support this direction. Tax incentives are encouraging higher dividends, while legal changes provide stronger support for shareholder-friendly actions such as treasury share cancellations. Although still early, signs of progress are emerging, with more companies raising dividend payouts, buybacks and improving capital allocation practices, particularly in the financial and industrial sectors.

In a market long defined by discount, even incremental improvements in capital discipline can support meaningful valuation upside. As investors increasingly reward stronger shareholder alignment, the basis for a broader re-rating should strengthen over time.

Figure 2: Rising Trend of Total Shareholder Return Yield For Korean Companies Supported by Increasing Dividends and Buybacks



Sources: FactSet; Goldman Sachs Global Investment Research, May 31, 2026. Based on KOSPI companies.

"In a market long defined by discount, even incremental improvements in capital discipline can support meaningful valuation upside."

Beyond the Headlines: A Broader Opportunity Set

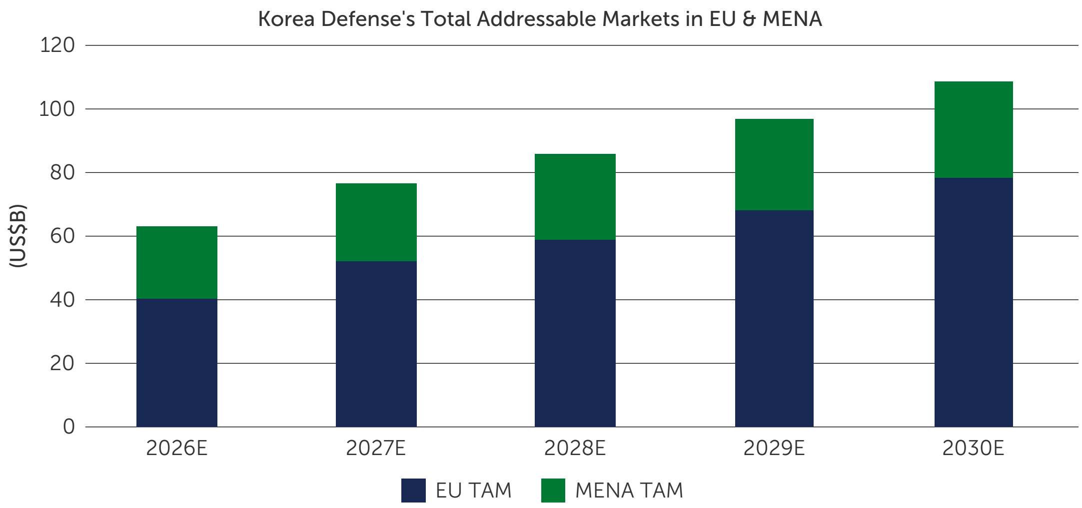
EXPANDING THEMES ACROSS INDUSTRIALS AND DOMESTIC SECTORS

Investor attention often centers on a small number of large-cap technology companies. While these names remain important anchors for the Korea market, that narrow focus can obscure the breadth beneath the surface.

Within Industrials, Korea is benefiting from shifts in global supply chains, as geopolitical considerations drive a greater emphasis on resilience, localization and strategic partnerships. In this context, Korea is emerging as a key manufacturing and export hub, particularly within U.S.-aligned supply chains.

This is translating into rising demand across sectors such as defense, shipbuilding, power infrastructure and energy storage, alongside continued growth in EV/Hybrid autos and robotics. These industries are increasingly tied to long-term themes, including the evolving global security landscape, U.S. re-industrialization, the energy transition, infrastructure modernization and strategic supply chain resilience, supporting more sustainable growth.

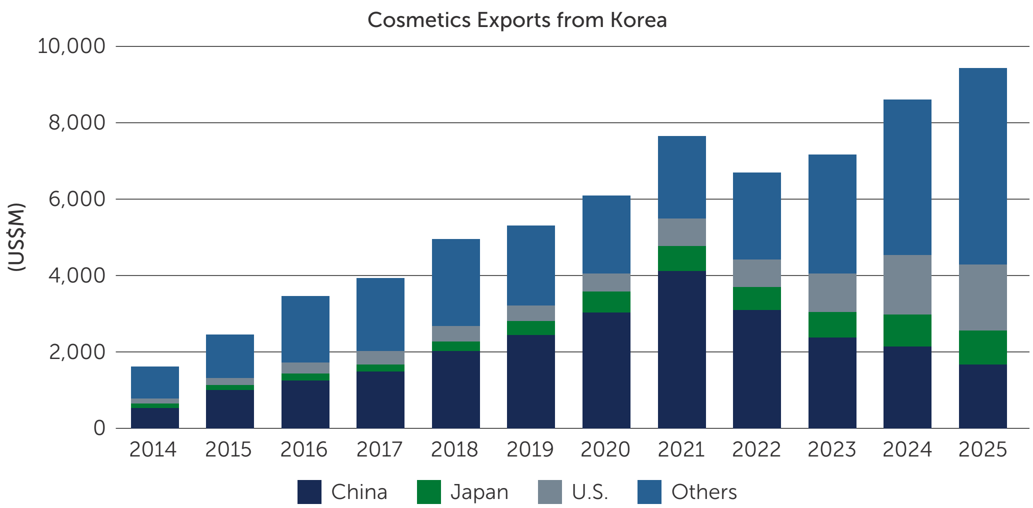
Figure 3: Korea's Defense Seeing Order Visibility in EU & MENA



Sources: Military Balance; International Monetary Fund; SIPRI; J.P. Morgan estimates. As of April 20, 2026.
TAM = Total Addressable Markets. E = Estimates.

Beyond industrials, Korea also offers differentiated opportunities across consumer and health care sectors, supported by the global expansion of Korean popular culture (K-culture). Areas such as medical aesthetics, cosmetics, biopharmaceuticals and entertainment are benefiting from the internationalization of Korean brands and intellectual property, with companies generating an increasing share of revenues overseas.

Figure 4: K-Beauty Goes Global: Korea's Cultural Influence Supports Export Growth



Sources: TRASS; BofA Global Research. As of January 31, 2026.

Market Dynamics: A Gradual Shift in Participation

INCREASING FLOWS AND PARTICIPATION OF DOMESTIC INVESTORS

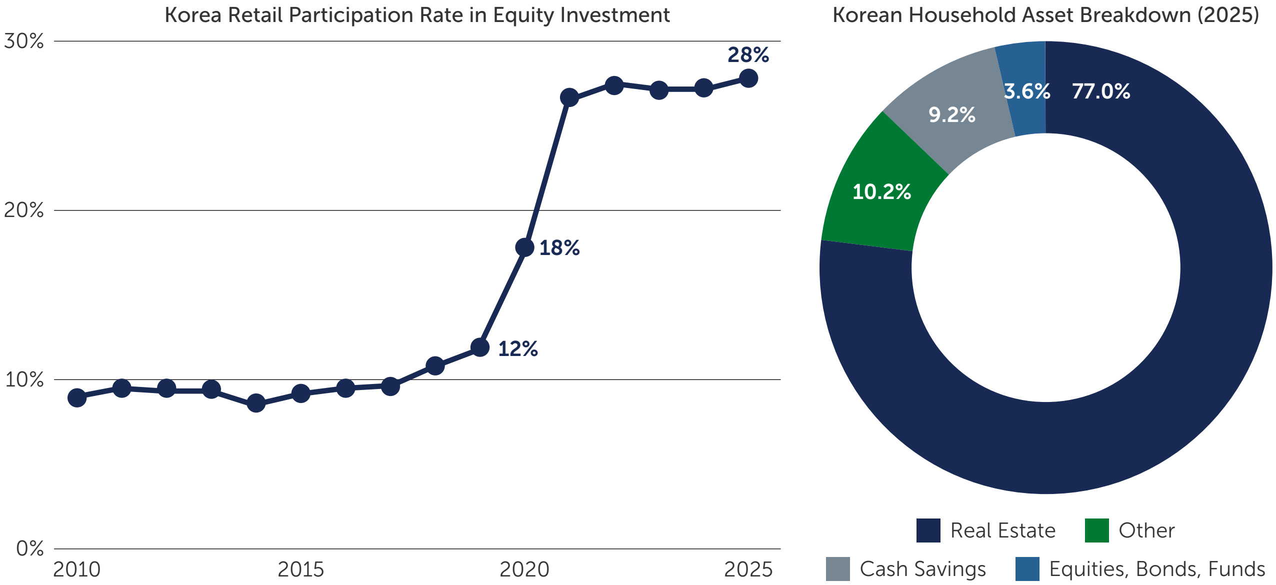
Another important dimension of Korea's market evolution is the changing composition of its investor base. Historically, the market has been heavily influenced by foreign flows, contributing to periods of volatility and valuation swings. In recent years, however, domestic retail participation has risen notably—particularly since COVID—with individual investors accounting for an increasing share of trading activity and playing a more influential role in market direction.

Policy efforts have increasingly focused on improving market structure and restoring confidence among domestic investors, which remain active globally. To better understand the scale, Korean investors made U.S.$73.6 B of net purchases into the U.S. equity market in 2025, representing more than 10% of all foreign equity investment in the U.S.[2] In response, the Korean government has instigated a range of initiatives, including tax incentives which provide benefit when repatriating overseas investments back into domestic equity markets, and increasing the range of investable products, particularly in ETFs to expand access and liquidity.

2. Source: U.S. Treasury Department. As of 2026.

Taken together, these measures aim to strengthen transparency, fairness and investor confidence, supporting a more stable and locally anchored investor base. Over time, alongside broader reforms, this could contribute to a gradual shift in household allocation from real estate to equities, reinforcing domestic ownership and supporting potentially more sustainable valuation levels.

Figure 5: Rising Retail Participation in Korea's Equity Market



Sources: Korea Securities Depository; World Bank; Barings; UBS Global Research. As of May 31, 2026 (LHS). Retail participation rate is calculated as the number of individual shareholders of Korean listed companies as a percentage of Korea's total population. Sources: Bank of Korea; Morgan Stanley Research. As of June 2026 (RHS).

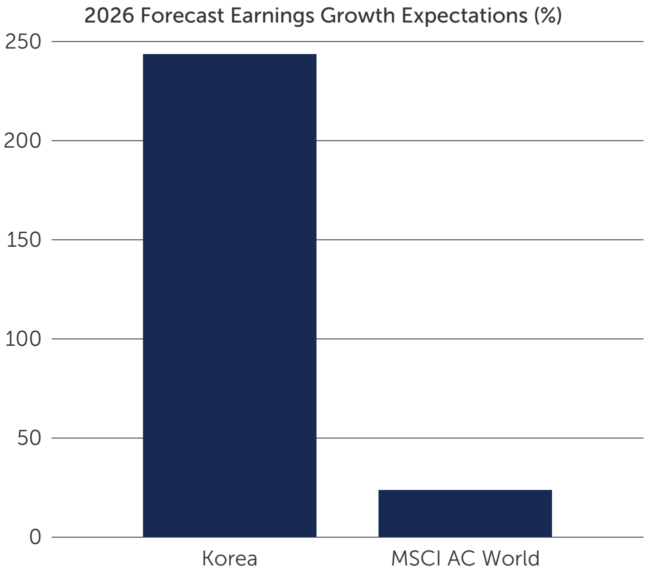
Valuations After a Stellar Run

EARNINGS UPGRADES SUPPORT FURTHER UPSIDE POTENTIAL

Whilst the Korean equity market has experienced a significant rally since 2025, valuations remain undemanding. This reflects not only the legacy "Korea Discount", but also the significant earnings expectations which underpin Korean companies. As we have progressed further into 2026, earnings expectations have continued to rise **(Figure 6)**, with Korea estimated to see a rise of ~240%, standing in stark contrast to broader global equities at 23%. In light of this significant rise in forward earnings expectations, Korea trades on a 12-month forward PE of 8.3x vs 18.2x for global equities, more than a 50% discount.[3] Looking ahead, as earnings visibility improves and governance reforms take hold, there may still be room for valuations to re-rate. Given the company specific nature of these improvements, this process is unlikely to be uniform, reinforcing the need for a selective and diversified approach to capturing opportunities within Korean equities.

3. Source: Forward Looking Estimates. Sources: Barings; Refinitiv; MSCI; IBES. As of May 31, 2026. Any prediction, projection or forecast is not necessarily indicative of the future. Korea is represented by MSCI Korea, Global Equities is represented by MSCI AC World Index.

Figure 6: Returns Have Been Underpinned By Rising Earnings Expectations



Forward Looking Estimates. Sources: Barings; Refinitiv; MSCI; IBES. As of May 31, 2026. Any prediction, projection or forecast is not necessarily indicative of the future. Korea is represented by MSCI Korea.

Figure 7: Korea Equities Currently Trade at Over a 50% Discount Relative to MSCI ACWI

Sources: MSCI; Refinitiv; Barings. As of May 31, 2026.

Key Risks

While Korean equities may benefit from structural trends in technology and governance reform, investors remain exposed to market, earnings and policy-related uncertainties. As the re-rating thesis is company-specific and uneven across sectors, a selective and diversified approach remains important.

Conclusion

Korean equities are entering a meaningful period of transition. A market once viewed primarily through a cyclical lens is increasingly being reshaped by technology leadership, policy reform and a broader set of growth opportunities.

Structural growth in areas such as AI and advanced technology manufacturing is contributing to a stronger earnings foundation, while initiatives aimed at improving corporate governance are introducing a potential re-rating dynamic. At the same time, the opportunity set is broadening across sectors and company sizes.

Rather than being driven by a narrow set of factors, Korea today presents a multi-dimensional investment case. For investors willing to look beyond the headline names, the depth and breadth of opportunities make Korean equities an increasingly relevant component of global portfolios.

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