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ASIA PORTFOLIO STRATEGY

Domestic Retail Supports the North Asia Equity Rally

Alvin So, CFA
+852-2978-1585 | alvin.so@gs.com
Goldman Sachs (Asia) L.L.C.

Timothy Moe, CFA
+65-6889-1199 | timothy.moe@gs.com
Goldman Sachs (Singapore) Pte

John Kwon
+65-6654-6337 |
jongmin.kwon@gs.com
Goldman Sachs (Singapore) Pte

Sunil Koul
+44(20)7051-4931 | sunil.koul@gs.com
Goldman Sachs International

Kinger Lau, CFA
+852-2978-1224 | kinger.lau@gs.com
Goldman Sachs (Asia) L.L.C.

Bruce Kirk, CFA
+81(3)4587-9950 | bruce.kirk@gs.com
Goldman Sachs Japan Co., Ltd.

Mark Hung
+852-3465-4266 | mark.hung@gs.com
Goldman Sachs (Asia) L.L.C.

North Asia Leadership: North Asia's outperformance YTD, led by Korea (MSCI +97%) and Taiwan (+47%), has been increasingly underpinned by strong domestic retail participation, with local investors absorbing sustained foreign selling. Japan is the key exception, with significant foreign inflows (+US$66bn) driving the market. We retain a preference for North Asia, staying Overweight Korea, Japan and China (favoring A vs. H), and remain constructive on Taiwan (MW).

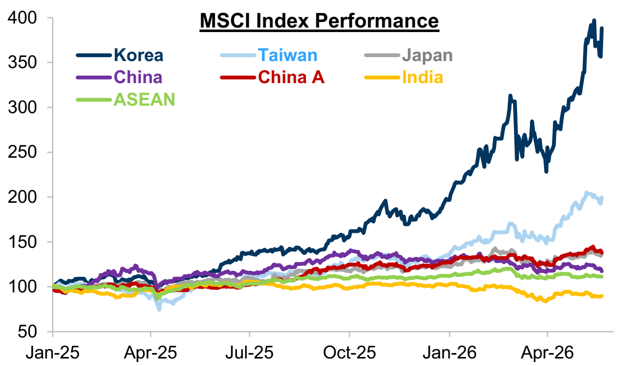
Foreign Selling Largely Mechanical, Concentrated in Mega Caps: Foreign investors have been strong net sellers in Korea (-US$62bn) and Taiwan (-US$9bn) YTD, but outflows have been concentrated in benchmark mega caps (e.g. TSMC in Taiwan, and Samsung Electronics and SK Hynix in Korea) consistent with portfolio weight adjustments rather than broad-based de-risking. GS Prime data show hedge funds have increased net exposure to Taiwan and Korea, reinforcing the view that long-only rebalancing has driven the bulk of outflows. In India (-US$23bn) and ASEAN (-US$2bn), foreign outflows have coincided with weaker equity performance.

Domestic Bid Across Multiple Channels: Domestic retail has absorbed foreign supply across cash equities, ETFs and derivatives. In Korea, retail net buying has totaled +US$35bn since late-Feb, with domestic ETF flows also inflecting positively since mid-2025 (+US$35bn). In Taiwan, the larger contribution has come via ETFs (+US$14bn YTD, part of +US$100bn since 2022) and ~US$8bn in index and single stock futures open interest, alongside +US$2bn in cash equities. Participation has also broadened: new account openings have risen sharply and small-cap turnover velocity has accelerated across Korea, Taiwan and China.

Leverage Elevated, Not Stretched: Margin balances have reached record highs alongside the rally but remain moderate relative to free-float market cap. Structural regulatory and margin limits across the region, including Korea's broker-level lending caps and China's 100% minimum margin requirement, are likely to constrain further leverage expansion. Leveraged ETF AUM has increased significantly, reaching ~US$30bn in Korea (~1.0% of free float) and ~US$7bn in Taiwan (~0.2%), which may amplify intraday volatility through daily rebalancing flows.

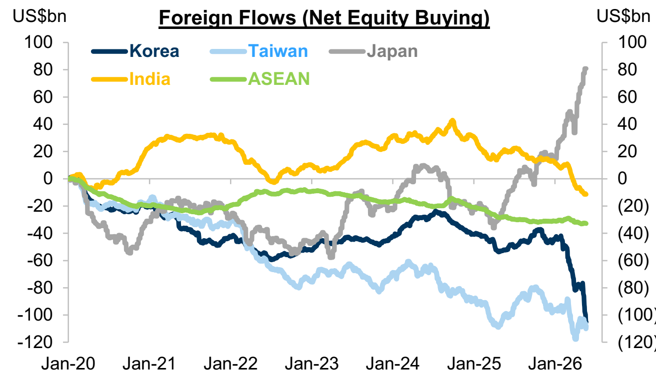
Retail Tailwinds Support Stock Selection: Our **Asia Retail Favorites basket** (GSSZRAV) has outperformed equal-weighted MXASJ YTD, though lagged the cap-weighted benchmark amid large-cap leadership. We screen for **Korea and Taiwan stocks** with positive retail flows, rising turnover and strong recent price momentum, which may continue to benefit if retail participation remains supportive.

Exhibit 1: North Asian markets have rallied strongly YTD, particularly Korea (+97%) and Taiwan (+47%), versus declines in India (-13%) and ASEAN (-1%)



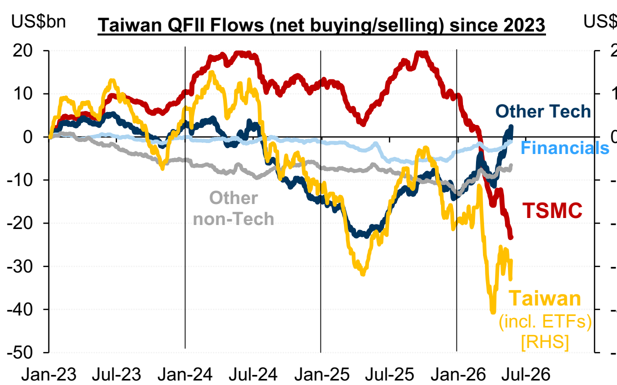
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 2: Despite the rally, Asian markets have seen foreign outflows YTD (Korea -US$62bn, Taiwan -US$9bn, India -US$23bn), with Japan the notable exception (+US$66bn)



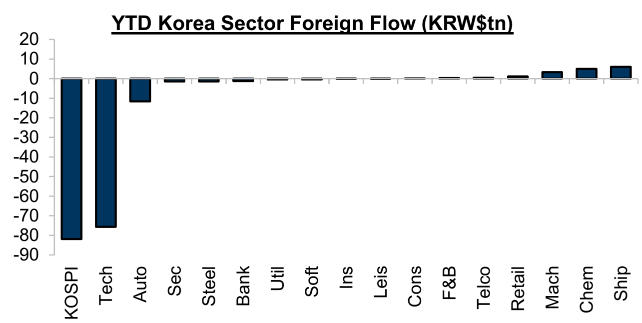
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 3: Foreign outflows in Taiwan have been heavily concentrated in TSMC, reflecting its outsized weight in EM benchmarks, while flows into other tech and non-tech names have been broadly positive



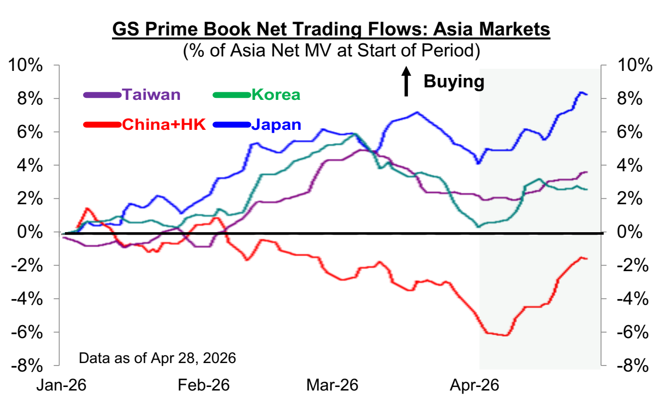
Source: TEJ, TWSE, Goldman Sachs Global Investment Research

Exhibit 4: In Korea, foreign outflows have similarly been concentrated in two mega-cap tech, while industrials have seen inflows, pointing to benchmark-driven rebalancing rather than broad-based de-risking



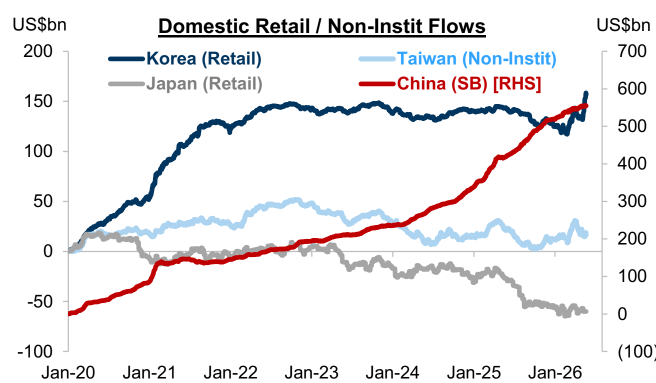
Source: Quantiwise, KRX, Goldman Sachs Global Investment Research

Exhibit 5: GS Prime Services data show hedge funds have increased net exposure notably in Japan, and moderately in Taiwan and Korea, suggesting recent foreign selling has been driven primarily by long-only investors



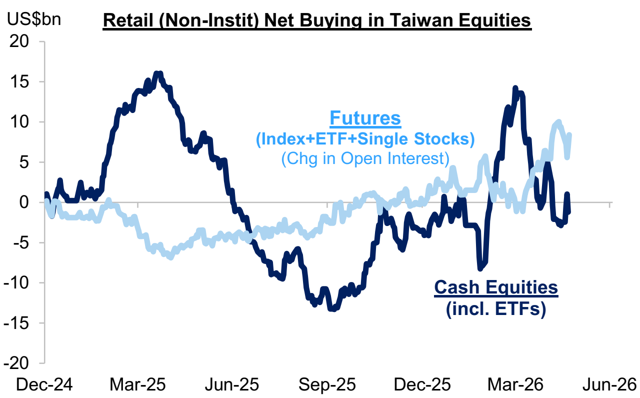
Source: Goldman Sachs FICC and Equities and Prime Services

Exhibit 6: Domestic retail investors have increasingly supported markets amid foreign outflows, with net buying in Korea (+US$35bn since late February) and Taiwan (+US$14bn since early October)



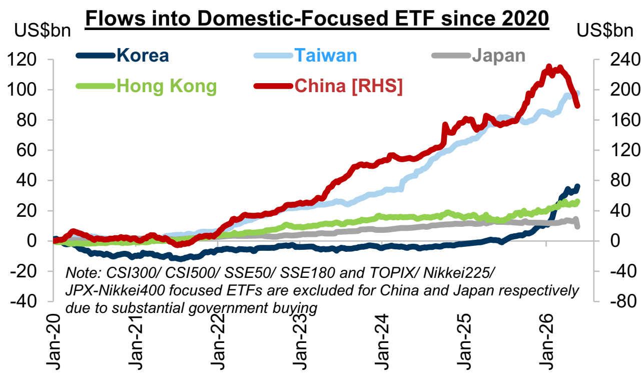
Source: Bloomberg, Wind, Goldman Sachs Global Investment Research

Exhibit 7: Taiwan retail investors have also increased long exposure via index futures, with net open interest rising ~US$9bn YTD, an additional channel of domestic participation not captured in cash equity flows



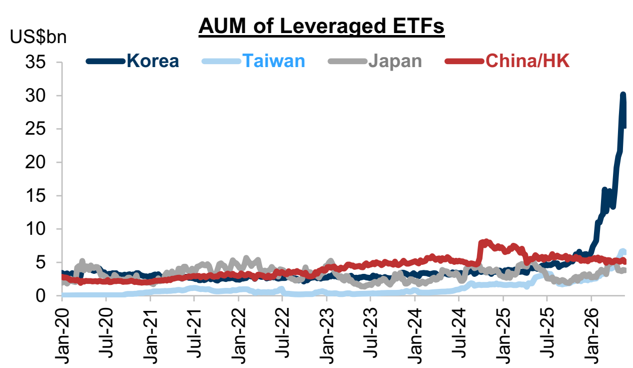
Source: TEJ, TWSE, TAIFEX, Goldman Sachs Global Investment Research

Exhibit 8: Beyond cash equities, Taiwan domestic ETFs have seen consistent inflows since 2022, Korea has seen a sharp pickup since mid-2025, while China has experienced outflows since early January



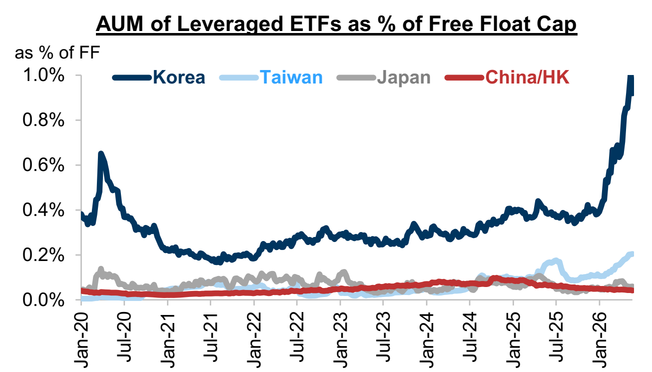
Source: EPFR, Goldman Sachs Global Investment Research

Exhibit 9: Leveraged ETF AUM in Korea has risen significantly to ~US$30bn at recent highs, while Taiwan has also seen growth, reaching ~US$7bn ...



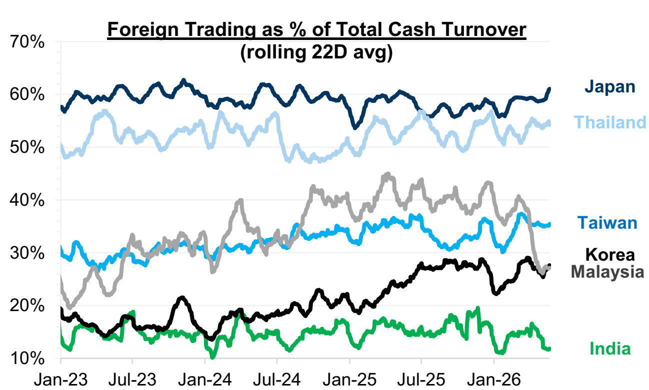
Source: EPFR, Goldman Sachs Global Investment Research

Exhibit 10: ... which represent ~1.0% of free-float market cap in Korea and ~0.2% in Taiwan; daily rebalancing flows may amplify intraday volatility, particularly in Korea



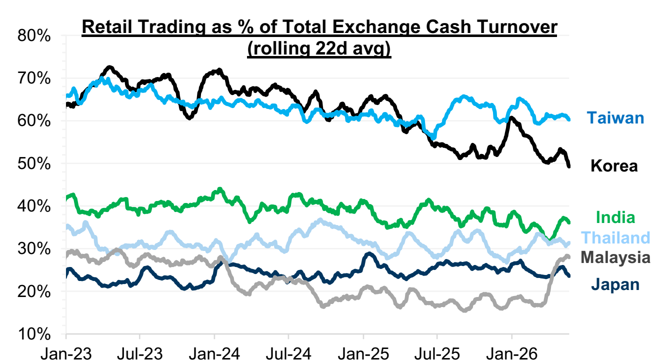
Source: EPFR, Goldman Sachs Global Investment Research

Exhibit 11: Foreign investors have become increasingly active in trading across North Asian markets, particularly in Korea



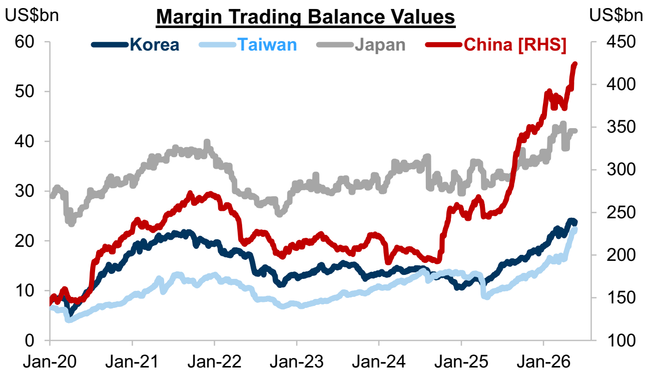
Source: Bloomberg, Local Stock Exchanges, Goldman Sachs Global Investment Research

Exhibit 12: Retail trading share has risen across Asian markets since mid-March, following market volatility linked to Middle East conflicts



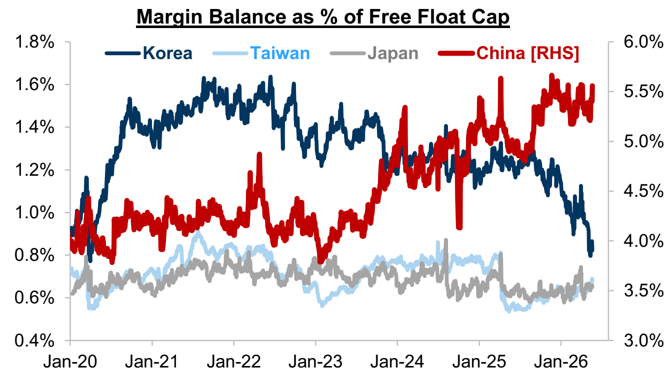
Source: Bloomberg, Local Stock Exchanges, Goldman Sachs Global Investment Research

Exhibit 13: Margin balances have reached record highs in absolute terms across North Asia amid strong equity market performance



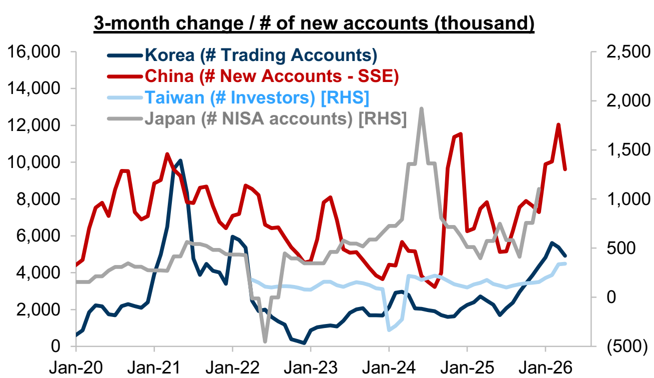
Source: TEJ, TWSE, JPX, Wind, Bloomberg, Korea Financial Investment Association, Goldman Sachs Global Investment Research

Exhibit 14: As a share of free-float market cap, margin balances are relatively modest, with structural regulatory and margin limits constraining further leverage expansion



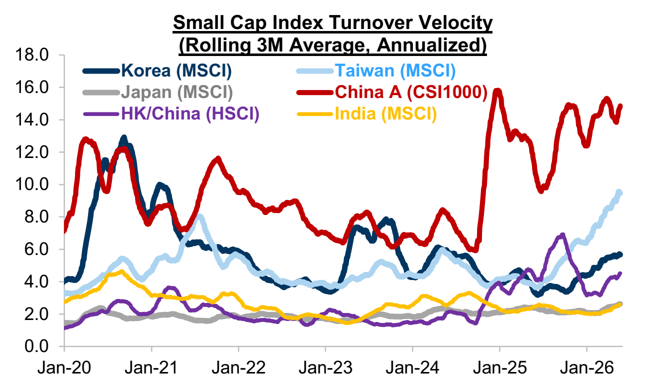
Source: TEJ, TWSE, JPX, Wind, Bloomberg, Korea Financial Investment Association, Goldman Sachs Global Investment Research

Exhibit 15: North Asian markets have seen a strong increase in new trading accounts over the past year, reflecting rising retail participation and sentiment



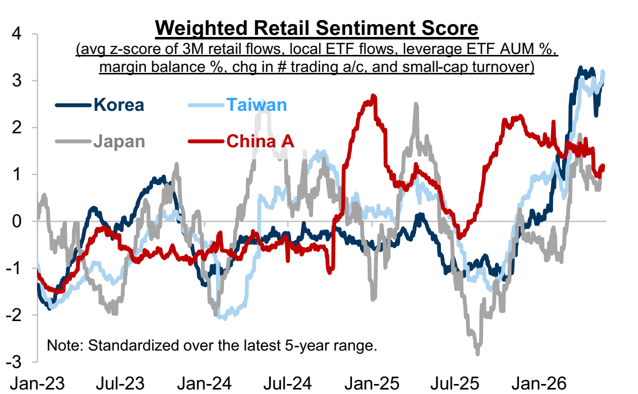
Source: TWSE. JSDA, Wind, Korea Financial Investment Association

Exhibit 16: Small-cap turnover velocity has increased significantly in China, Taiwan, and Korea, and more moderately in India and Japan over the past year



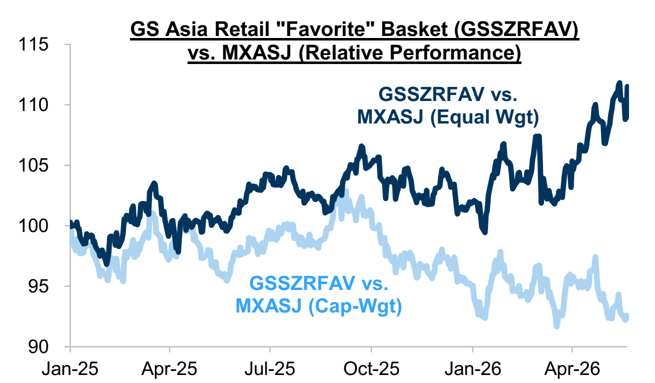
Source: Bloomberg, MSCI, Goldman Sachs Global Investment Research

Exhibit 17: Overall, retail sentiment remains supportive, with intensified retail activity across North Asia, particularly in Korea and Taiwan



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 18: Our Asia Retail "Favorites" basket has outperformed the equal-weighted MXASJ index YTD, but has moderately underperformed the cap-weighted benchmark due to strong large-cap outperformance



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 19: We screen Korea and Taiwan stocks (20 each) with positive retail flows, rising turnover, and strong recent price momentum, which may continue to benefit if retail sentiment remains supportive

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Contributing Authors: Alvin So, CFA Goldman Sachs (Asia) L.L.C., Timothy Moe, CFA Goldman Sachs (Singapore) Pte, John Kwon Goldman Sachs (Singapore) Pte, Sunil Koul Goldman Sachs International, Kinger Lau, CFA Goldman Sachs (Asia) L.L.C., Bruce Kirk, CFA Goldman Sachs Japan Co., Ltd., Mark Hung Goldman Sachs (Asia) L.L.C..

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