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Investor Presentation | Asia Pacific

Narrowing the K-shaped Recovery Gap

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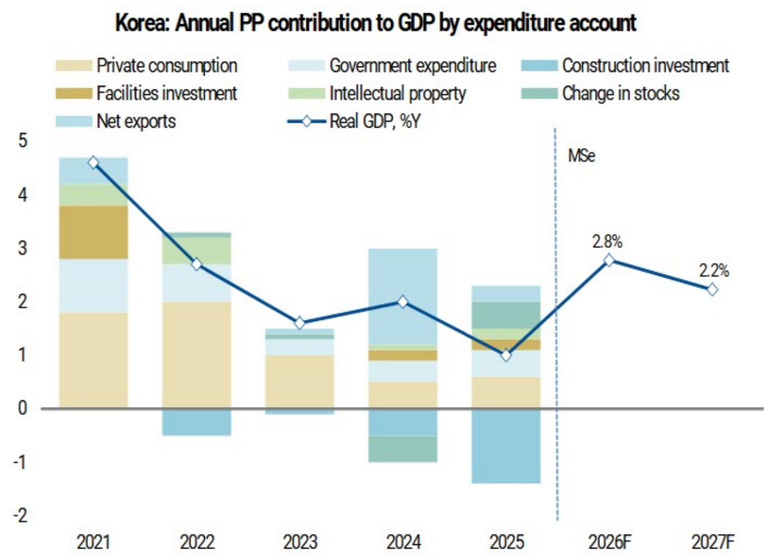
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Korea: Macro Overview

From K-shaped Recovery to a Broad-based Rebound

We see the Korean economy recovering on a broader-based rebound. Unprecedented resilience in tech exports coupled with a faster-than-expected consumption recovery look set to close the negative output gap two quarters earlier than our previous forecast. We see above-potential growth for the next two years and total four hikes by the BoK over one year from July 2026.

We expect a broad-based rebound in GDP growth to 2.8%Y in 2026 vs. 1.1% in 2025



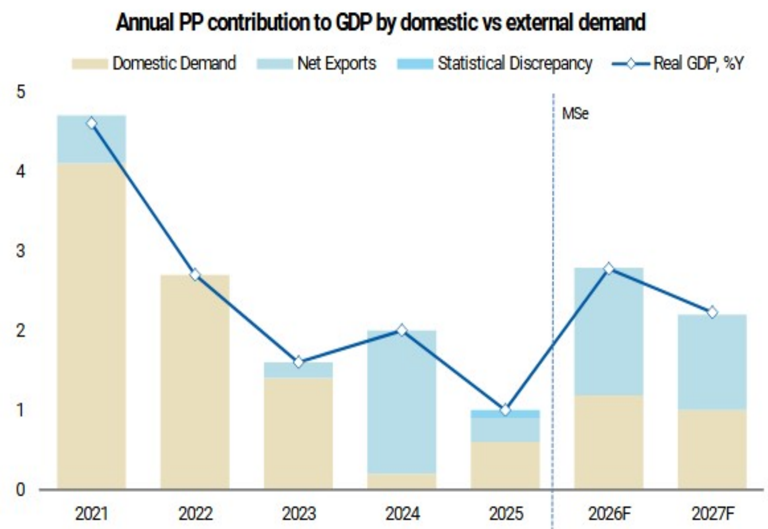
Source: BoK, Morgan Stanley Research forecasts

Key takeaways

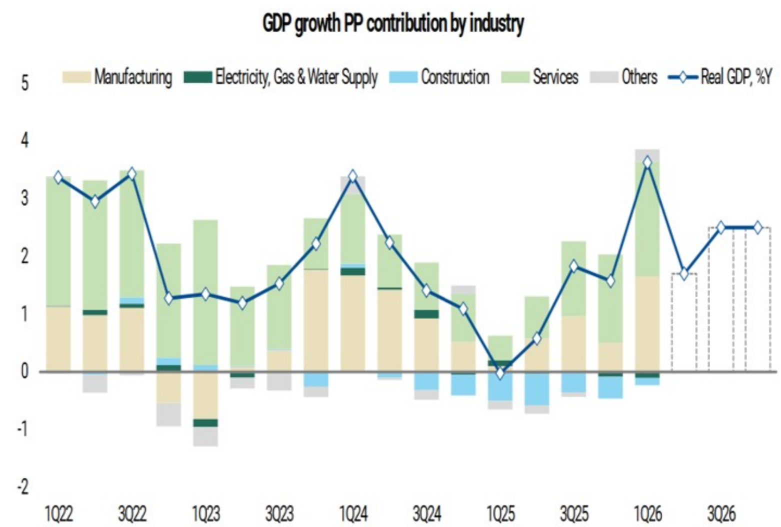
- Korea set to move from K-shaped recovery to a broad-based rebound: Growth likely to jump 2.8% in 2026 vs 1.1% in 2025 before stabilizing to 2.2% in 2027.
- CPI inflation faces upward pressure to 2.5%Y, not only from elevated oil prices but from a faster-than-expected consumption recovery among households.
- With ample tax income amid strong corporate earnings, income and securities transaction taxes, the government could hand down an extra budget in 2H26.
- With an above-potential growth outlook through 2027, we see the BoK entering tightening territory above the neutral range; terminal rate at 3.50% by 1H27e.
- The risk balance is tilted to the upside with the fiscal windfall expected from the tech exporter outperformance.

Growth to See Above-Potential Level Rebound to 2.8%Y in 2026

Growth contribution from domestic and external demand to show a balanced dynamic



Unfavorable base to kick-in from 2Q26 before a rebound in 2H26

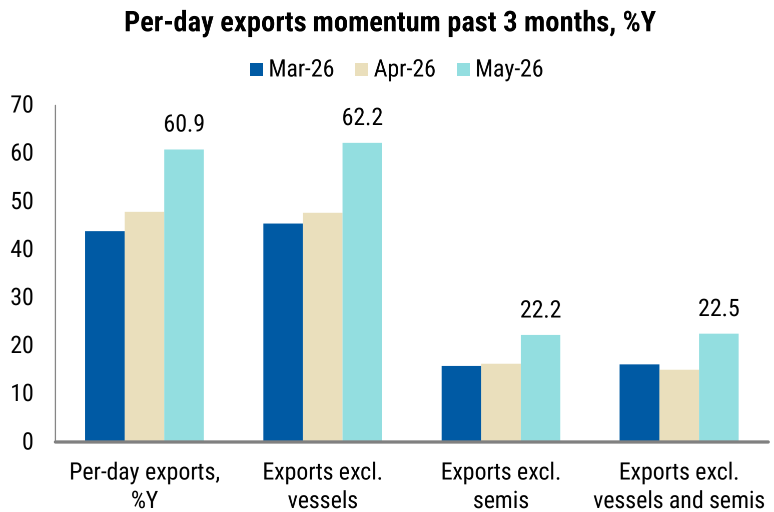


Source: BoK, Morgan Stanley Research forecasts

Exports: A New Cycle High

Korea's May trade recorded highest monthly export value, despite rising energy imports

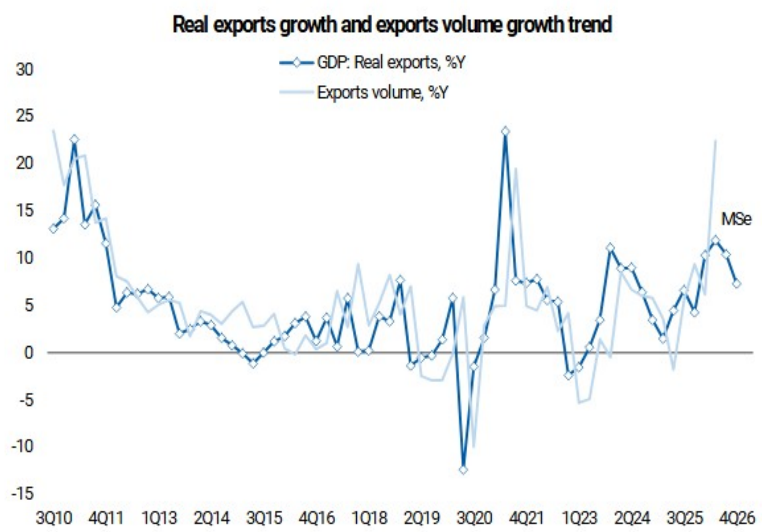
Both tech and non-tech momentum accelerating



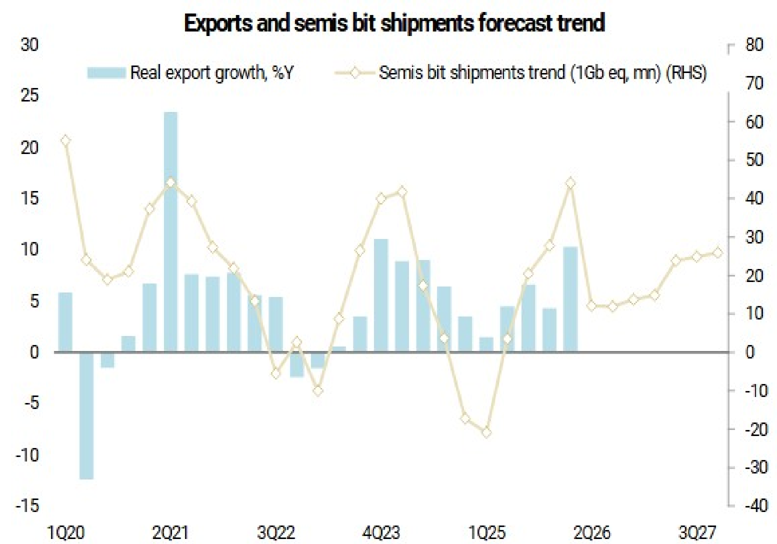
Source: KITA, Morgan Stanley Research

Rising Global Demand for HBM and Generic DRAM

Exports to rise significantly on AI-driven demand



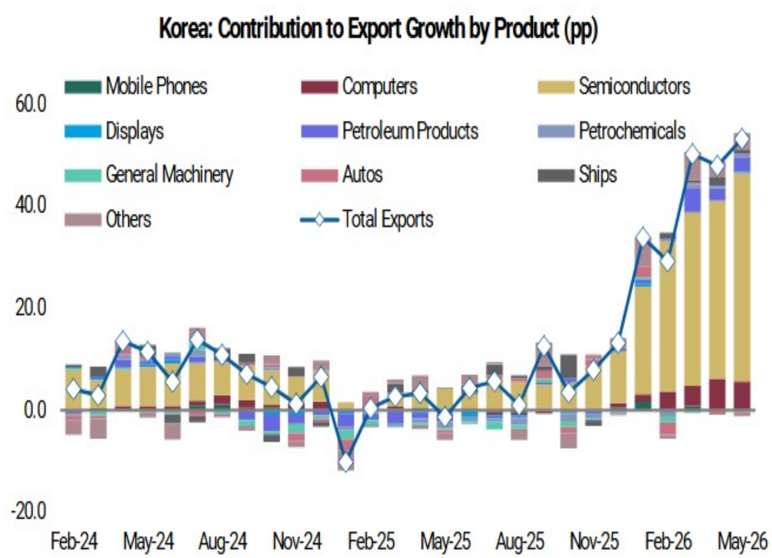
Bit shipments expected to maintain two-digit growth



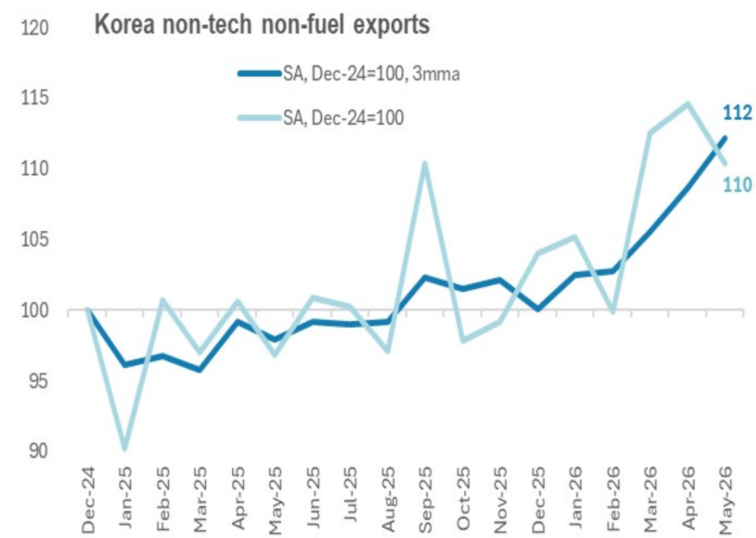
Source: BoK, Morgan Stanley Research forecasts

Semis Now 40% of Total Exports; Non-Tech Recovery Since End-2025

Tech-related goods continue to remain the key contributors to Korea's exports



Persistent energy market volatility drives crude petroleum and coal import growth

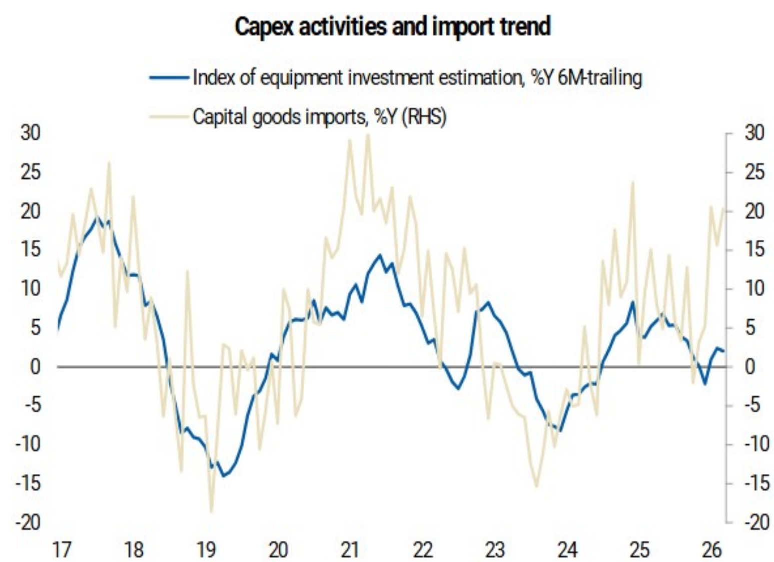


Source: KITA, Morgan Stanley Research

Tech Supercycle Benefitting Capex Activities

Unprecedented tech super-cycle benefits exports

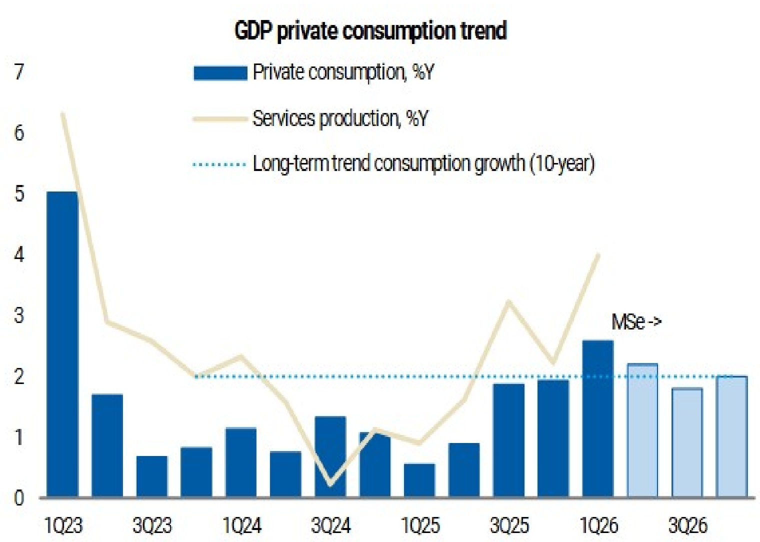
Capex and capital goods imports ramped up



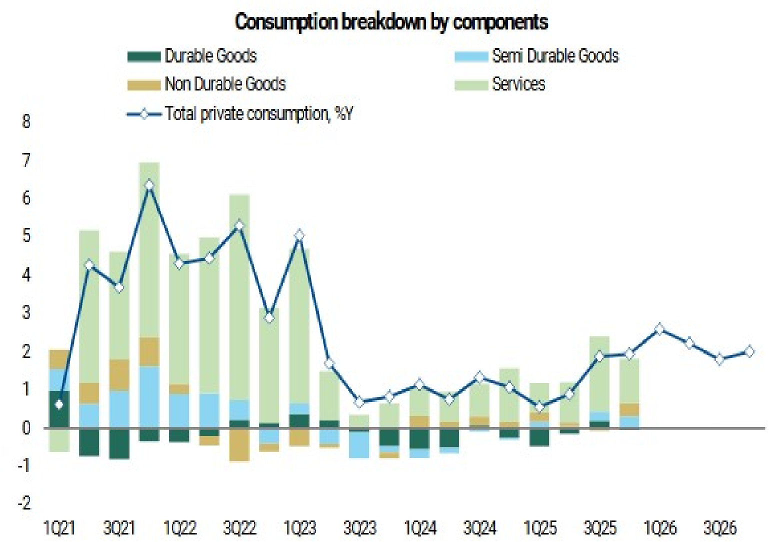
Source: BoK, Morgan Stanley Research

Consumption: Faster-Than-Expected Recovery

We see a more stable consumption path on fiscal support, wealth effect, and wage growth



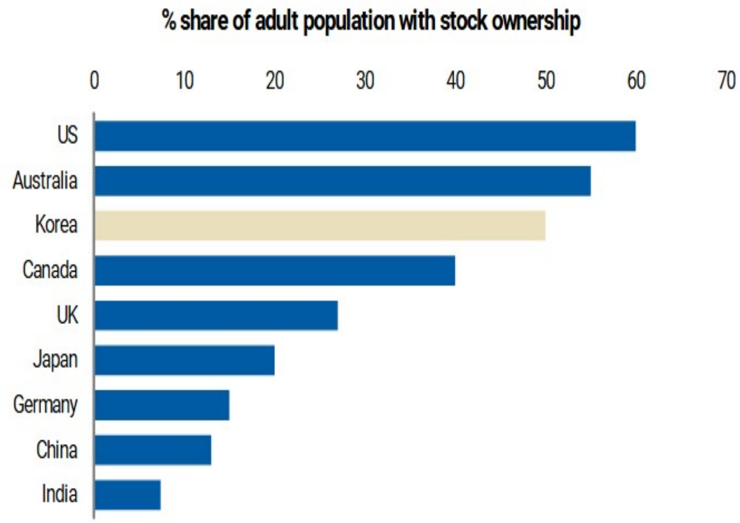
Both goods and services consumption to sustain



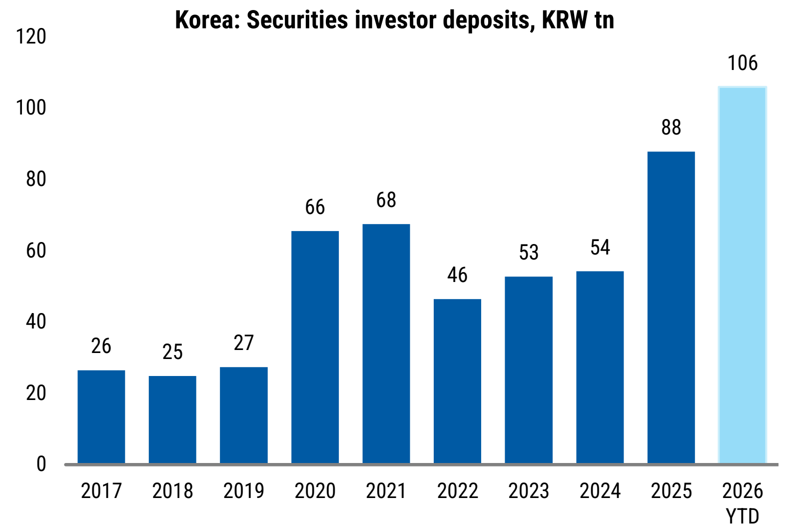
Source: BoK, Morgan Stanley Research forecasts

Structural Factors Become Favorable for Wealth Effect From Equities

Retail investor stock ownership in Korea remains relatively high, nearly 50% of the adult population



Liquidity in Korea's equity market remains ample, with a recent jump over the past two years

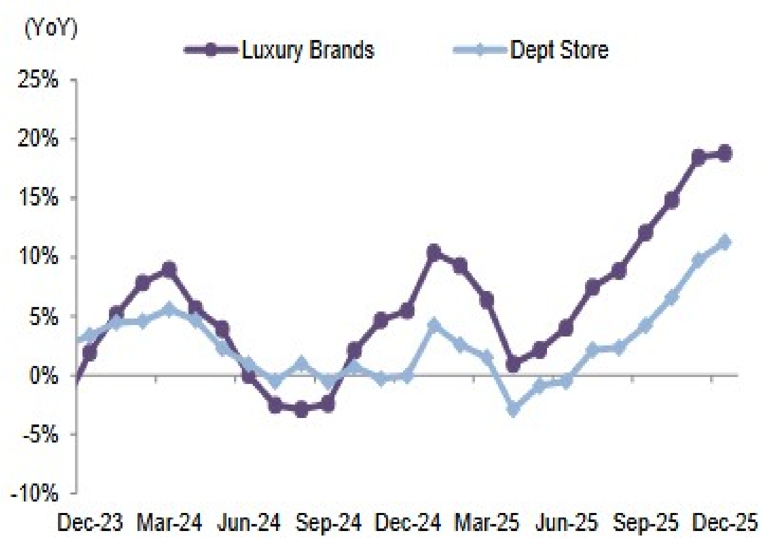


Source: CEIC, Korea Exchange, Morgan Stanley Research

Supporting Strong Luxury Sales Growth

Wealth effect benefiting high-end consumption, especially luxury category sales

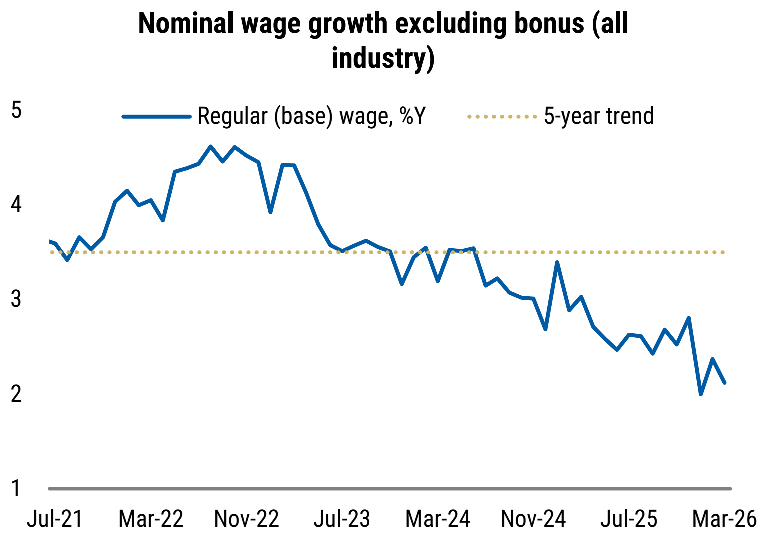
Luxury sales growth at department stores



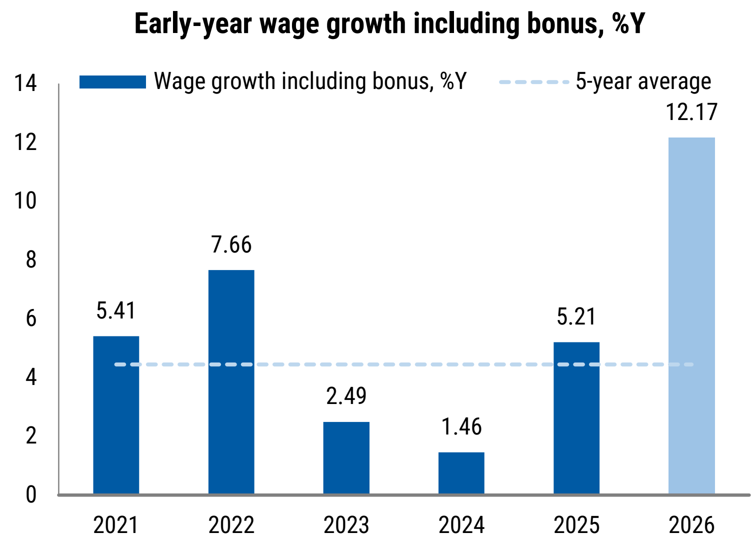
Source: Company Data, Morgan Stanley Research estimates

Uneven Wealth Gains across Income Groups

Overall wage growth below the long-term trend...



...But early year bonus has nearly tripled this year



Source: MoEL, Morgan Stanley Research

Uneven Wealth Gains across Income Groups

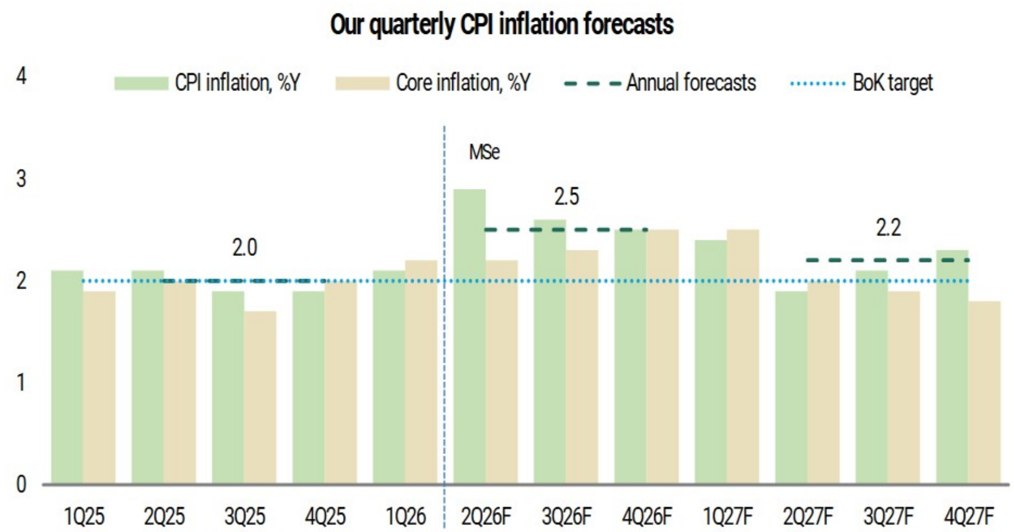
Labor income as a share of total household income has fallen in the past two years vs. return on assets

Korea nominal wage growth - total growth including bonus	2023	2024	2025	1Q26
Total wage including bonus, %Y	2.59	3.07	3.11	**11.14**
Mining and quarrying	0.56	5.91	0.10	5.49
Manufacturing	3.60	3.25	3.30	**12.41**
Electricity, gas, steam and water supply	6.47	6.40	2.57	(1.89)
Sewerage, waste management, materials recovery and remediation activities	3.07	3.37	2.54	2.18
Construction	4.00	3.01	2.70	**21.80**
Wholesale and retail trade	3.98	2.99	2.57	**11.65**
Transportation	4.04	3.51	3.57	**6.31**
Accommodation and food service activities	4.70	1.81	3.51	31.14
Information and communications	2.66	4.35	3.10	1.04
Financial and insurance activities	0.67	2.08	6.16	**8.82**
Real estate activities and renting and leasing	1.06	1.59	1.64	0.95
Professional, scientific and technical activities	1.79	3.55	2.89	**9.32**
Business facilities management and business support services	3.99	3.79	2.13	**8.32**
Education	2.04	2.94	2.35	**5.56**
Human health and social work activities	0.30	2.83	4.15	**7.56**
Arts, sports and recreation related services	(0.58)	1.87	1.92	**13.71**
Membership organizations, repair and other personal services	6.24	4.07	2.42	**7.47**

Source: BoK, Morgan Stanley Research

CPI Inflation: From Supply-side to Services Build-up

We see an inflation trajectory above 2% through 2027; peaking in 2Q26

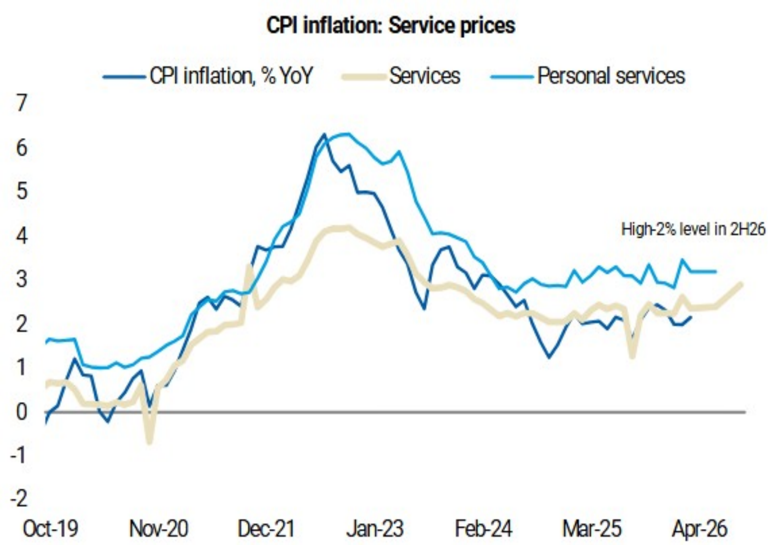


Source: BoK, Morgan Stanley Research forecasts

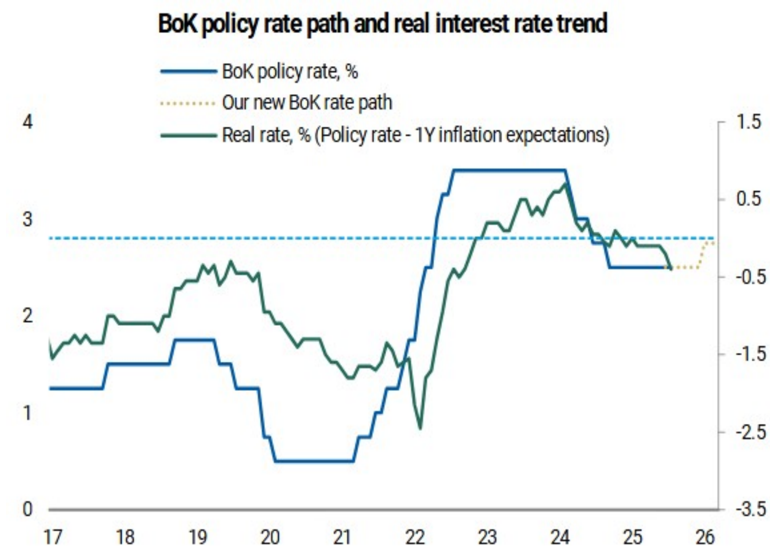
- We raise our CPI inflation forecast to 2.5% for this year with the peak at 2.9% in 2Q26.
- Reflecting the elevated energy prices and faster-than-expected domestic recovery story, we forecast CPI inflation at 2.5% and core inflation at 2.3% for 2026.
- While higher oil prices are yet to have been fully passed through to domestic services inflation in 1Q26 as the administered price smoothing and retail oil price caps are in place, we forecast CPI inflation to rise to 2.9%Y in 2Q26 before it stabilizes at 2.5% in 2H26.

CPI Inflation: From Supply-side to Services Build-up

Demand-driven services inflation looks set to climb to the 2% level by 2H26 vs. 2.4% pre-Iran conflict



Real rate extends further into negative territory as inflation expectations jump to 2.9% in April



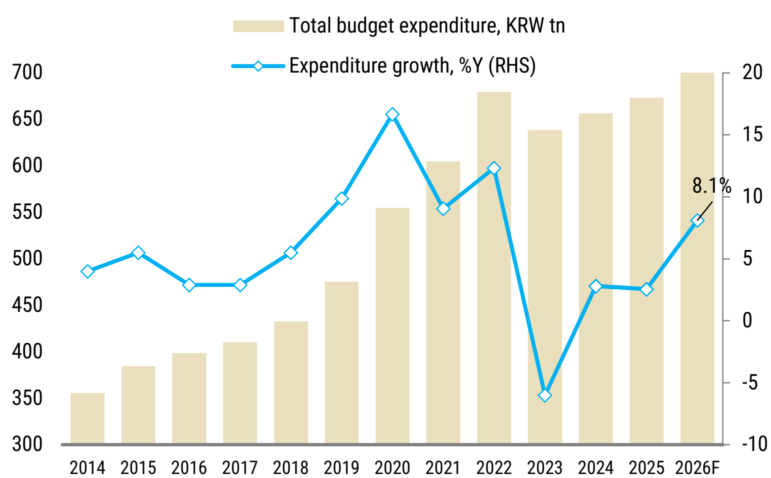
Source: BoK, Morgan Stanley Research forecasts

Fiscal Policy: Ample Revenue for Expansion

On the policy side, we see 2026 as the first full year of expansionary fiscal policy in four years. After the previous government's fiscal prudence agenda and the mid-year 2025 election, this will be the first year the government's expanded spending plan is fully in place, and the domestic economy should benefit as it recovers.

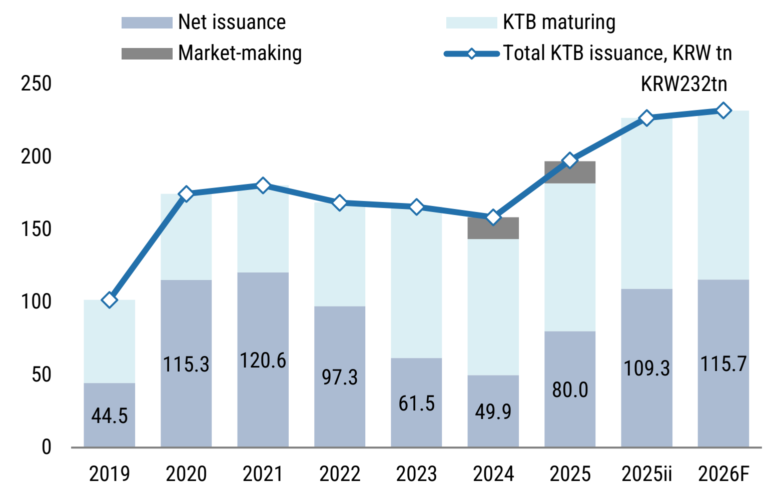
With weak growth backdrop, the government proposes record-high budget spending in 2026

Korea: Central government budget expenditure trend



KTB issuance to rise marginally from this year

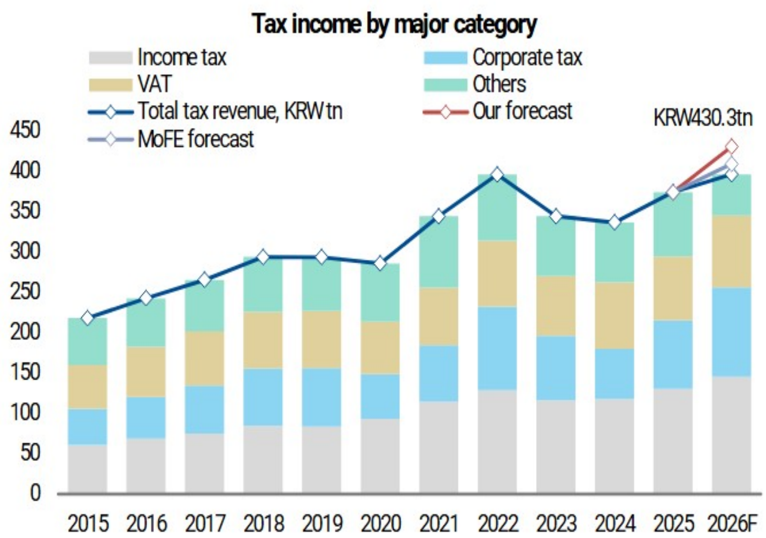
MoEF's KTB issuance trend and plan for 2026



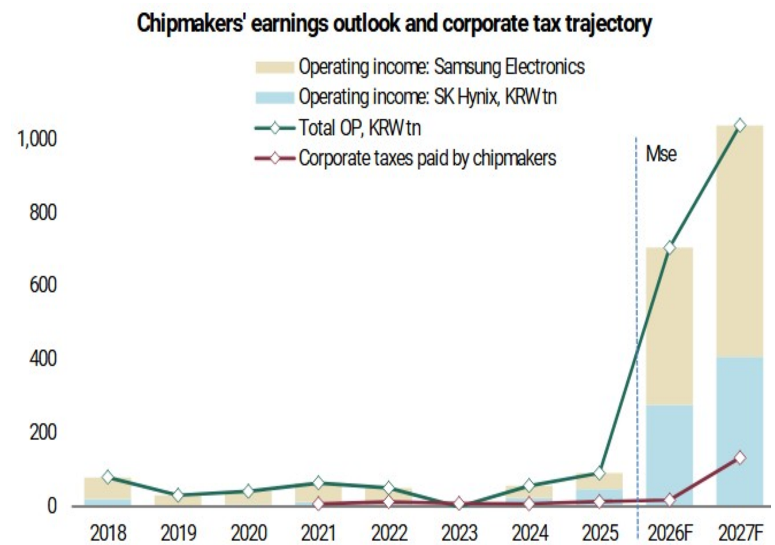
Source: MoEF, Morgan Stanley Research (F) forecasts

Ample Revenue for Expansion

We think tax income could rise 8% more than the government's forecast, mostly on corporate tax increase



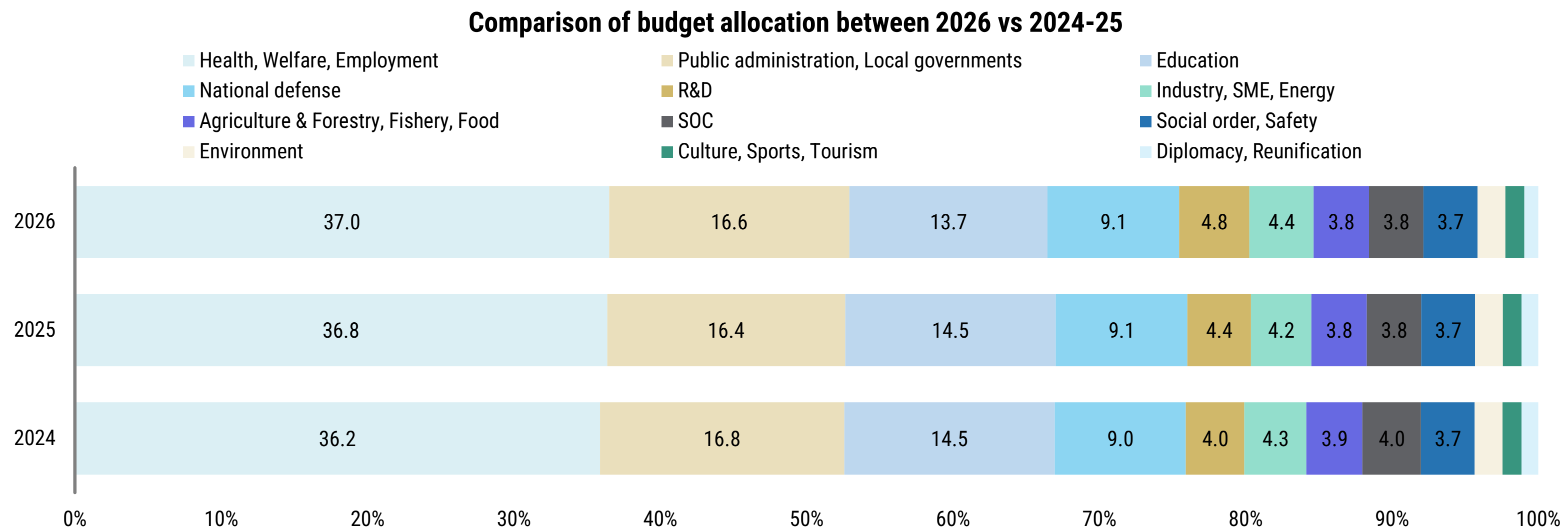
Our tech team expects earnings to rise 7.8x for the two Korean chipmakers this year



Source: MOFE, NABO, Morgan Stanley Research

2026 Expansionary Fiscal Policy

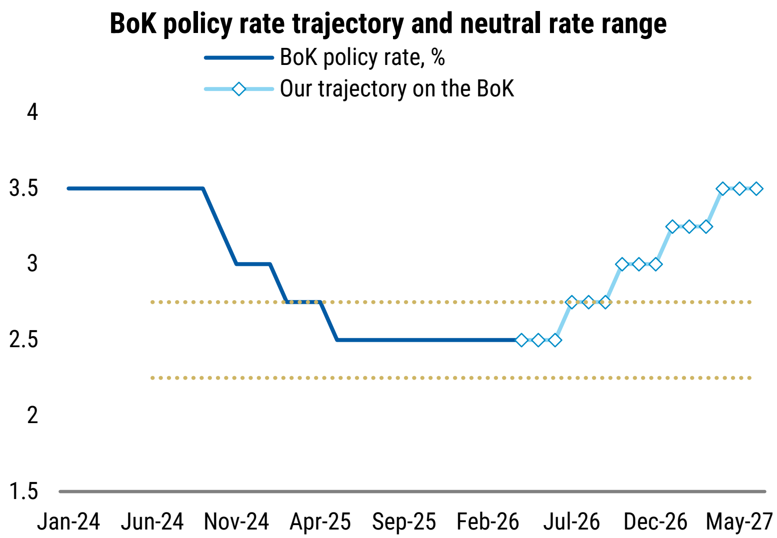
Budget allocation likely extended on household support and AI-related R&D spending



Source: MoEF, Morgan Stanley Research

Monetary Policy: All Signs Point to Hiking Path

We see four BoK hikes now, starting from 4Q26, to a terminal rate of 3.50% by mid-2027

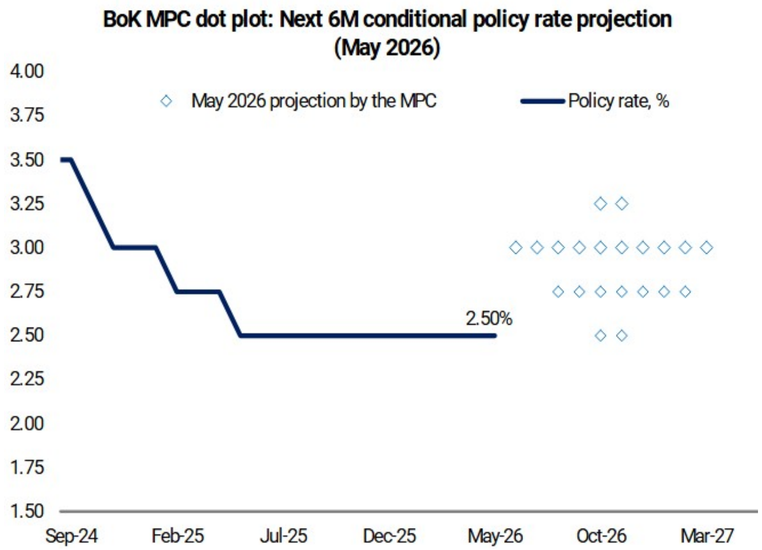


Source: BoK, Morgan Stanley Research

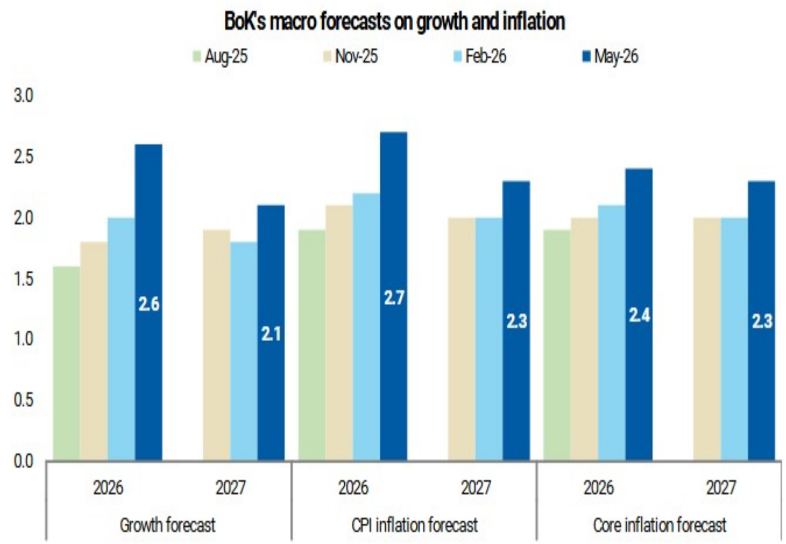
- On the monetary side, we expect four hikes in this cycle, taking the terminal rate to 3.5% by 2Q27.
- We expect the first hike in July, followed by October, January, and April 2027.
- The BoK's renewed confidence in fundamentals-driven growth and sustained inflation – rather than a transient rebound – leads us to shift our view from an incremental hiking cycle to an earlier and longer one.
- While we do not rule out back-to-back hikes this year, the BoK's core inflation forecast – remaining elevated at 2.4% and 2.3% through next year – supports a sustained move deeper into tightening territory rather than a rapidly front-loaded path.

Confident on Growth, Rushing to Hike on Inflation

A sharp turn to higher rate projection signals an immediate start to the hiking cycle and potentially a longer-lasting one



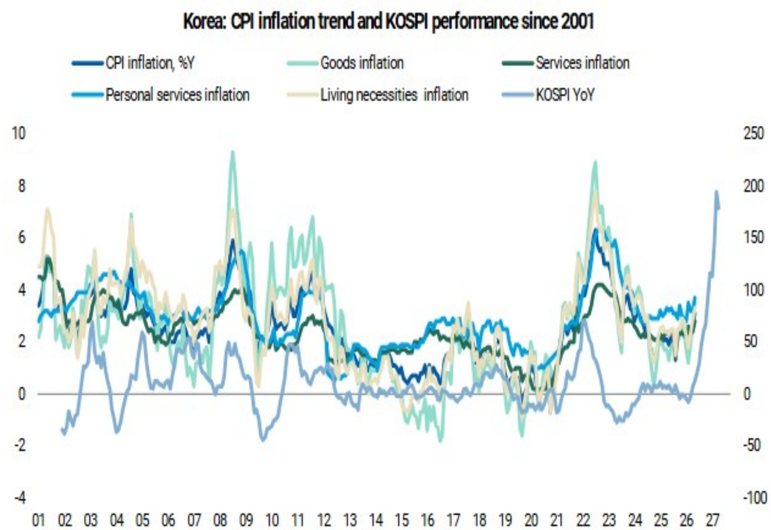
BoK's growth forecast is in line with our expectations at 2.6% for the next year while its inflation forecast looks stickier at 2.7% vs. our forecast of 2.5%; Its core inflation forecast at 2.3% next year is notable



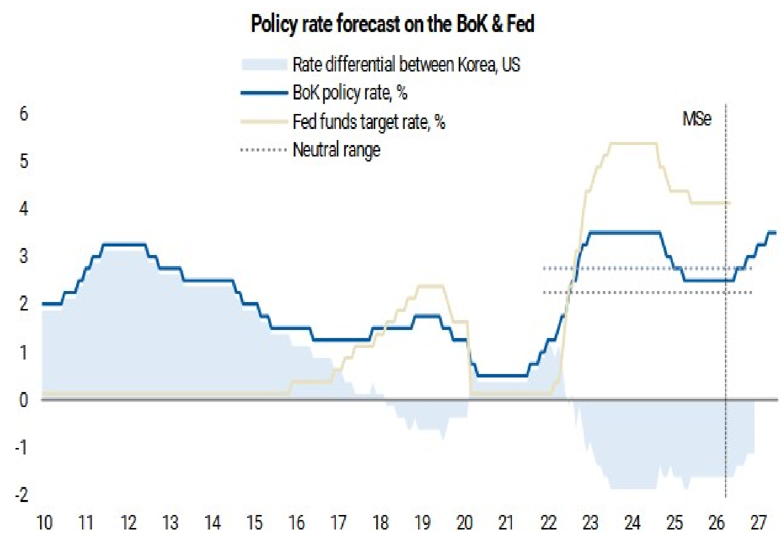
Source: Haver, Morgan Stanley Research

Wealth Effect: Implications for CPI Inflation and Monetary Policy

Amplified wealth effect likely implies inflationary pressure build-up; KOSPI move highly correlated with a statistical lead of 15-18 months



We expect a hiking cycle to start from July 2026 through mid-2027

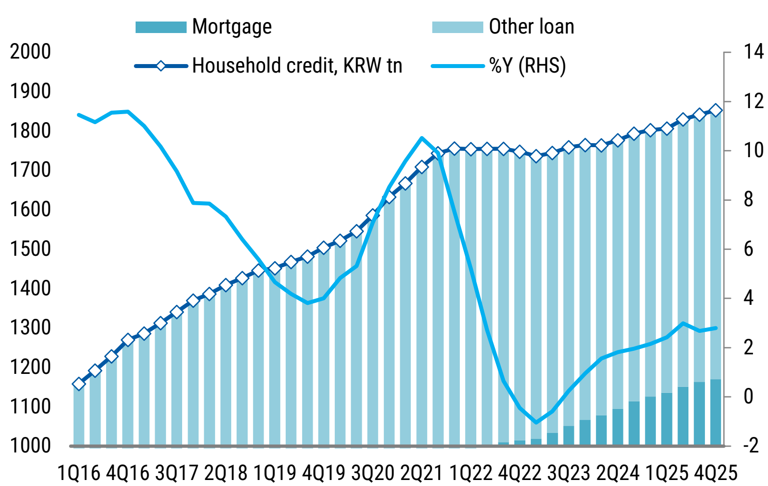


Source: BoK, Fed, Morgan Stanley Research forecasts

Household Debt Overall Slowing Down

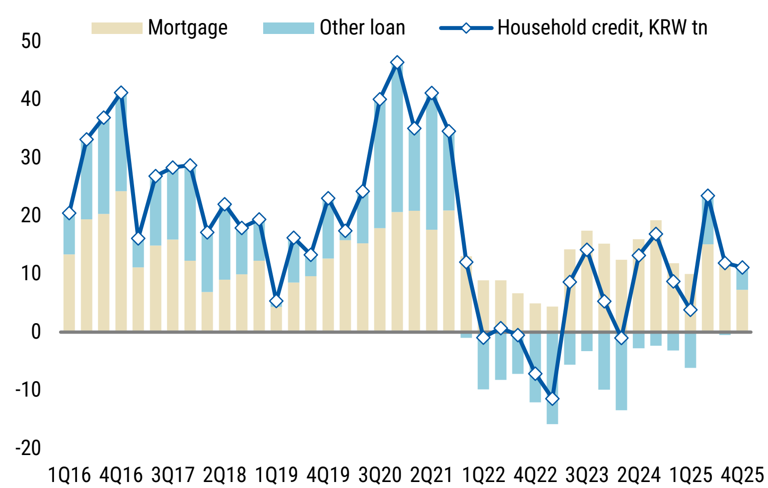
Korea's YoY Household debt growth has remained under 3% over the past 3 years

Korea: Household debt trend



Mortgage debt growth has been the main driver of marginal debt increase

Quarterly changes: mortgage vs other loans



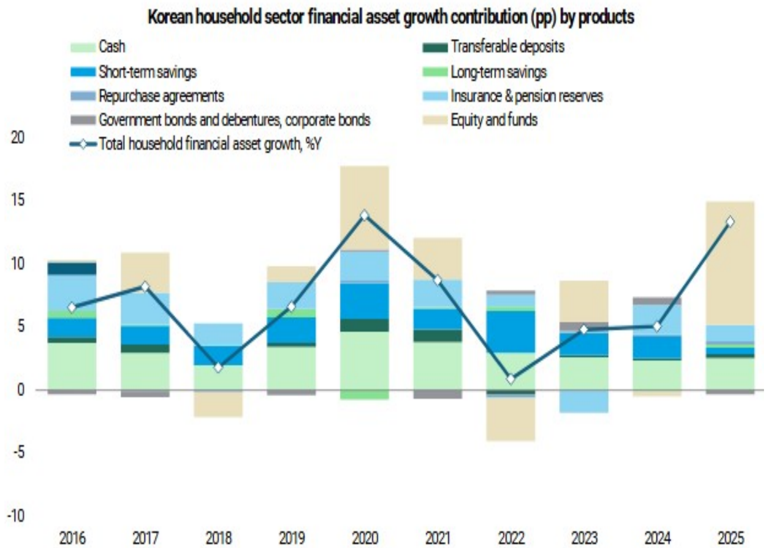
Source: BoK, Morgan Stanley Research

Korea Renaissance:
Is the Household Asset Move to Equities Sustainable? Possibly

Korean Households' Asset Reallocation Has Been an Ongoing Trend

Korean household balance sheets are undergoing a major shift. Equity holdings are surging, as a long-standing bias towards cash fades. With property accumulation facing policy headwinds and the stock market set for positive catalysts, we see retail investors' participation in equities continuing.

After accumulating wealth primarily through real estate, household equity holdings surged 48%Y in 2025, a striking inflection in appetite for risk assets



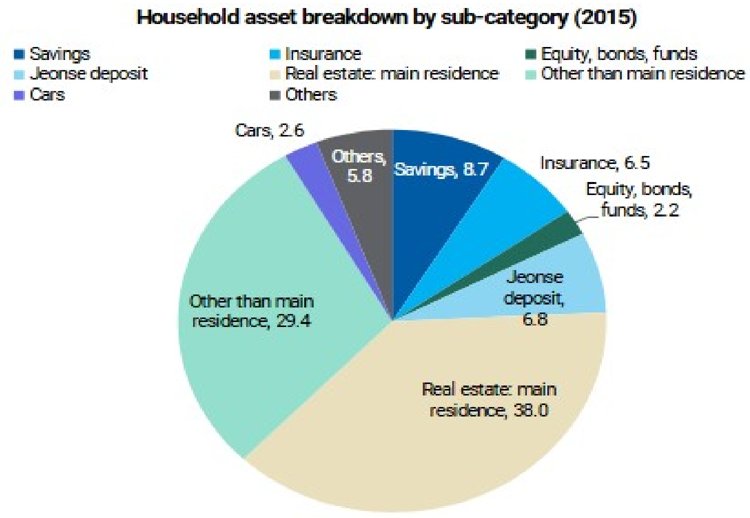
Source: BoK, FSC, MoDS, Morgan Stanley Research

Key takeaways

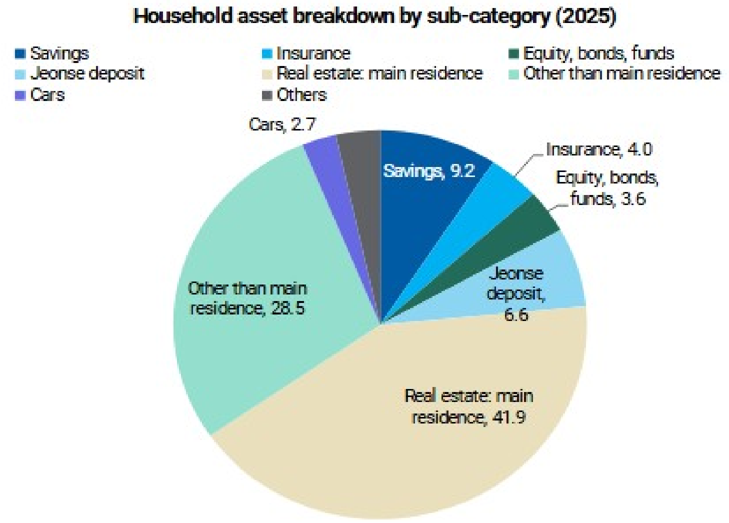
- Household asset composition in Korea is undergoing a meaningful structural shift into risk assets, with equity holdings extending their sharp rise since 2025.
- Housing unaffordability and tight credit policy contrasted by stock-market reform measures are behind the transition to an alternative wealth-building vehicle.
- Both positive and negative economic implications are at play: wealth effect to help consumption, while high exposure to volatility risks the reverse effect.
- The tendencies of Korean retail investors toward equity investing appear to be evolving in a positive way, but leverage needs to be managed.
- We expect retail investor engagement to be sustained, but investors' expanded scope could be a double-edged sword. We raise our KOSPI target to 9,000.

Heavy Bias Toward Real Assets Coming from Lack of Retirement Safety Net

Real estate assets across main and other residences composed 67% of total household assets back in 2015



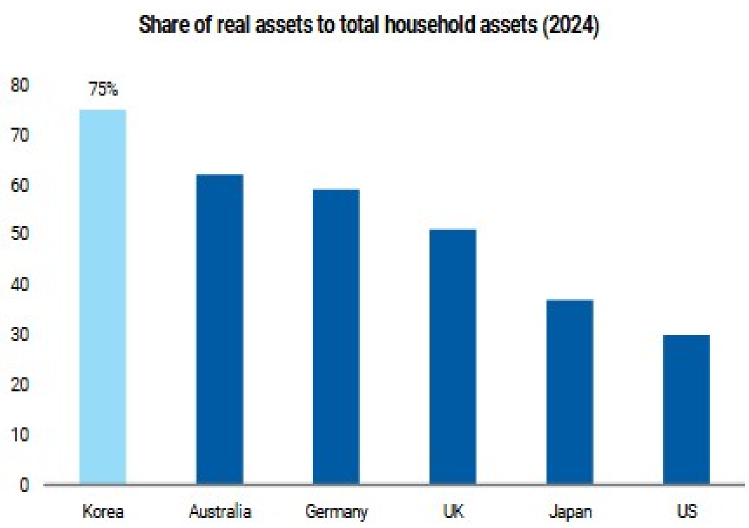
The share rose to 70% while the size of total assets nearly doubled in the past decade through 2025



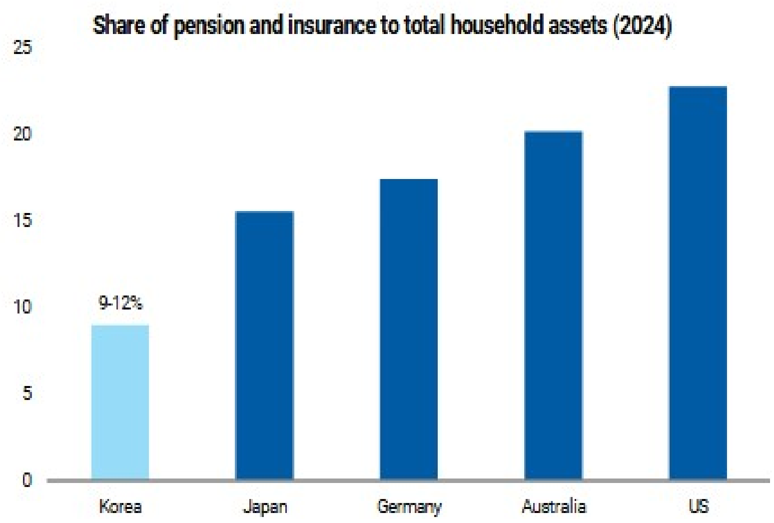
Source: BoK, CEIC, Morgan Stanley Research

Real Assets a de facto Retirement Savings Instrument

Korean households' real asset share exceeded trend compared to other economies



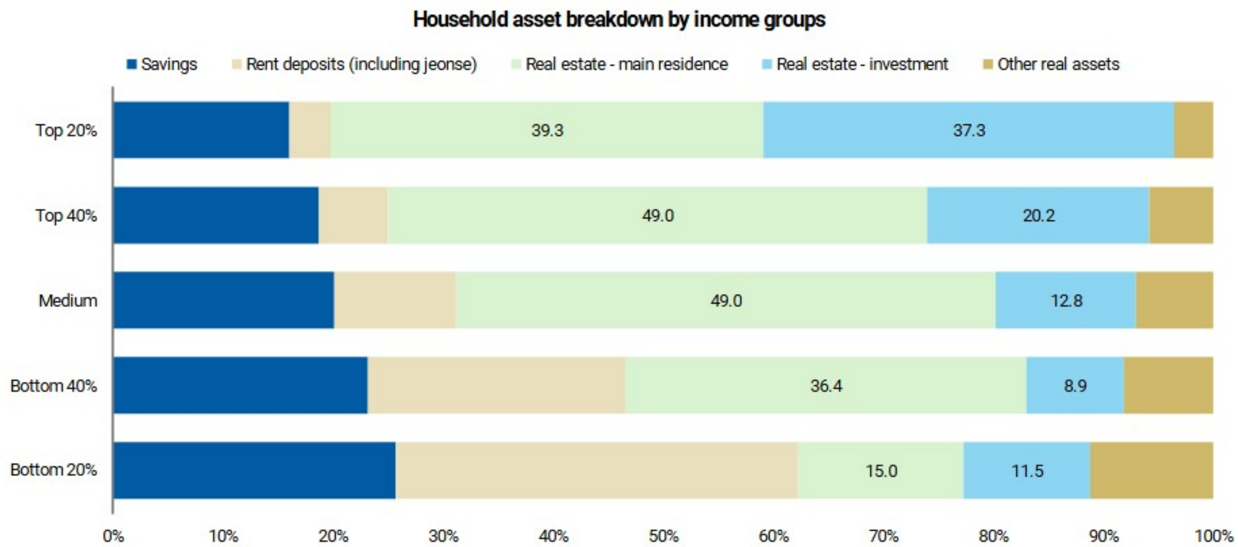
Real assets likely substituted for the low-funded pension and post-retirement income



Source: BoK, ESRI, Bundesbank, FRED, Morgan Stanley Research

Wealthier Households Shift Faster from Concentrated Holdings of Real Assets

Wealthier households showed a stronger preference to holding real estate: 77% vs. medium-income of 66.8% vs. 26.5% for bottom income households; Yet, this long-entrenched bias toward real assets among wealthier households has shown signs of rotation in recent years.

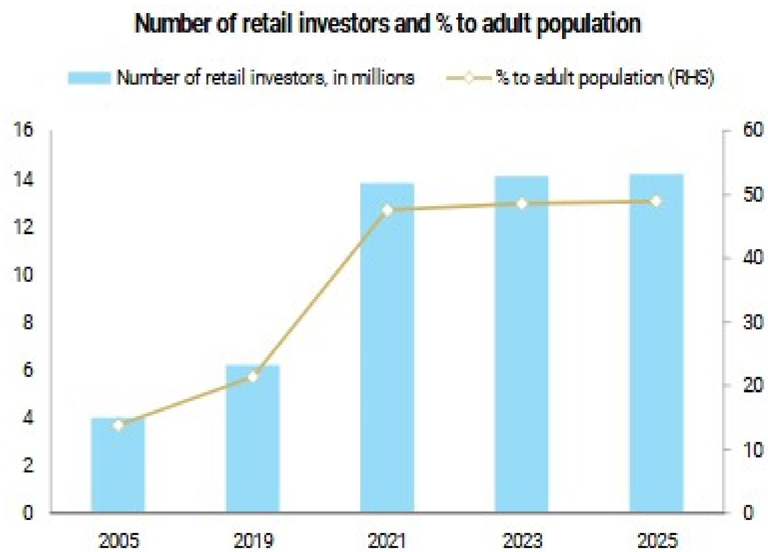


Source: Korea Statistics (2025 Household Financial Conditions Survey), Morgan Stanley Research

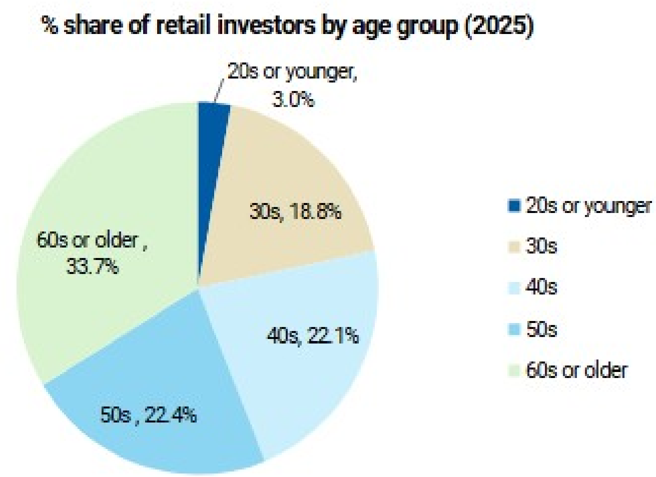
Economic Implications of Household Asset Shift

With the structural shift toward equity investments that we believe is underway, we see this transition carrying a wide range of positive and negative implications for the real economy. Transitions carry notable implications for consumption, financial stability, inflation as well as monetary policy, in our view, amid the broadening of the investor base and scale-up in total equity holdings newly featured in the past 4-5 years that did not exist to the same degree pre-2020.

The number of retail investors increased to 50% of total adult population vs. 21% in 2019



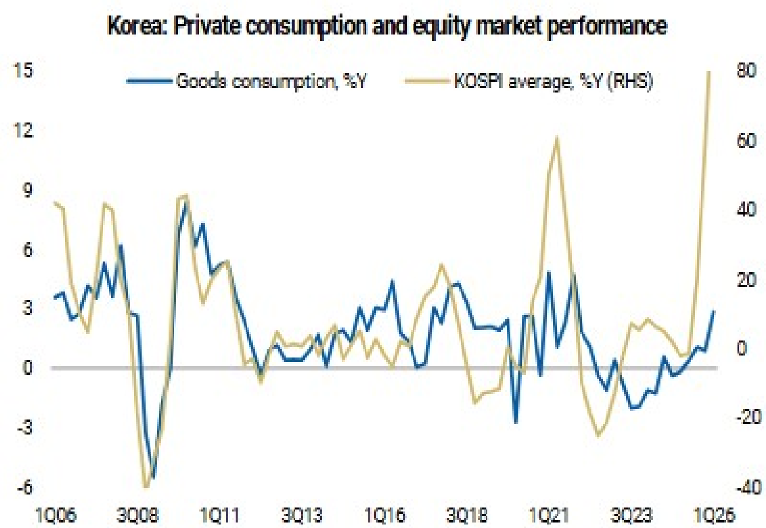
43% of retail investors are aged 40s or below, groups with a higher marginal propensity to consume



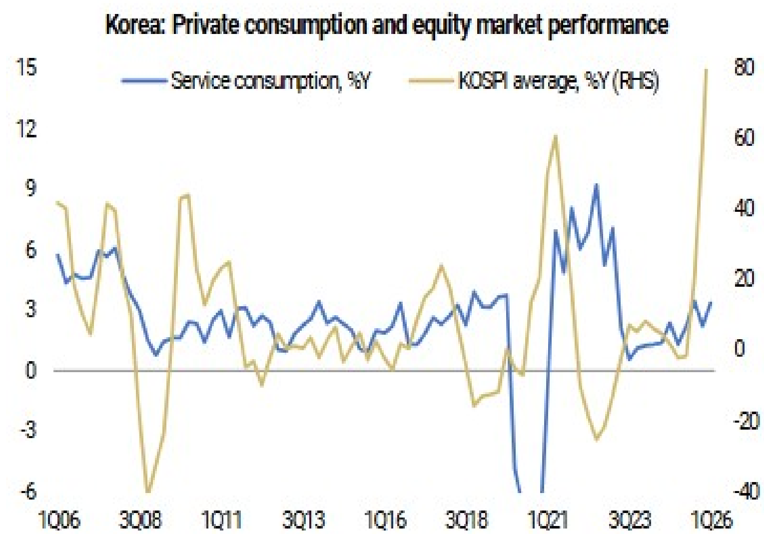
Source: Korea Statistics (2025 Household Financial Conditions Survey), Morgan Stanley Research

Positive Implications: (1) Amplified Positive Wealth Effect

Historically, a 1% gain in the KOSPI implied a boost to consumption growth of approximately 0.03-0.035%p



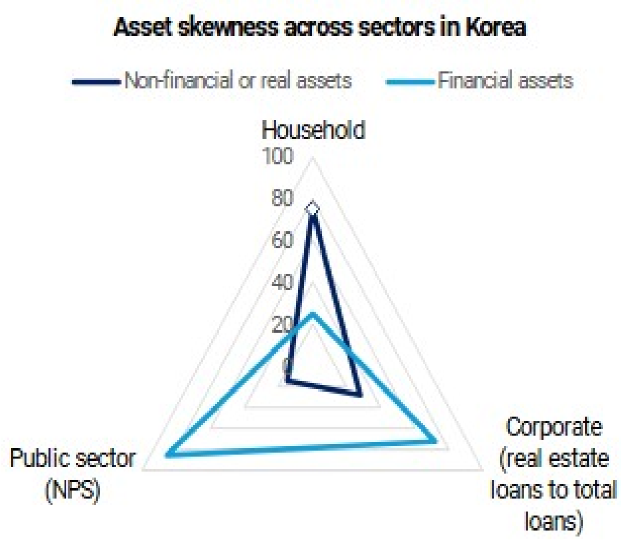
Along with goods consumption, services has shown a higher response to KOSPI performance in the recent quarters



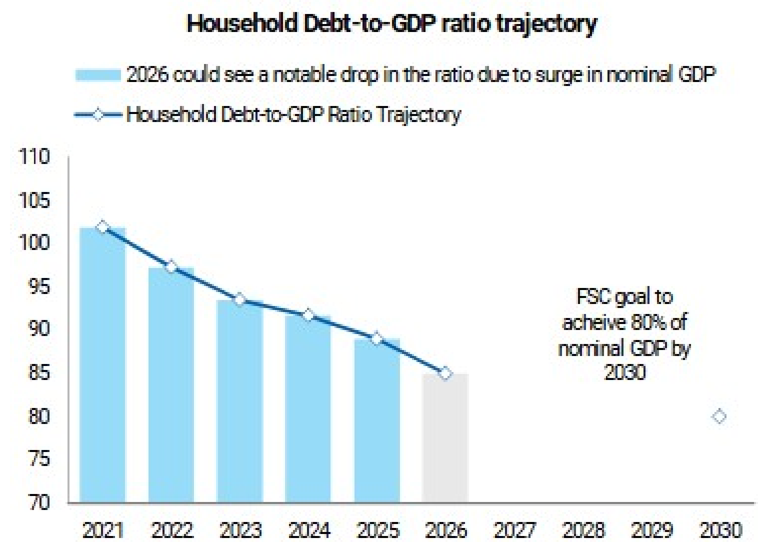
Source: Bloomberg, BoK, Morgan Stanley Research

(2) Reduced Systemic Leverage and Asset Skewness to Real Estate

Stronger growth and inflation forecasts for this year offset by weaker outlook next year



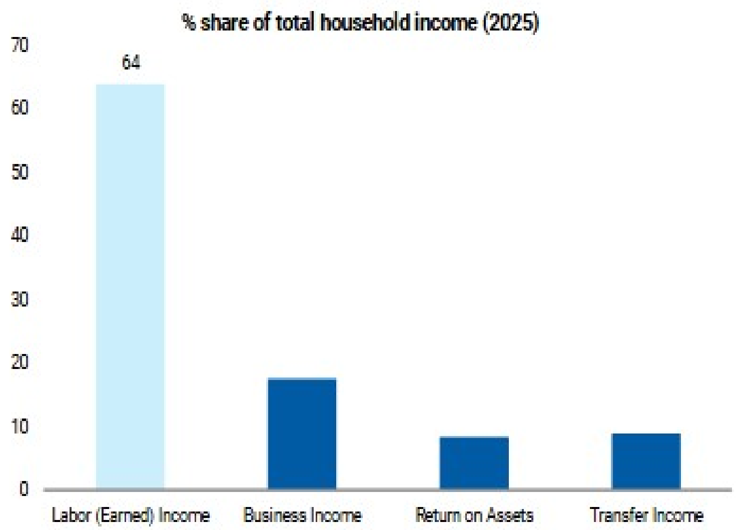
The outlook for both consumption and exports weakens in 2H26 vs. 1H26



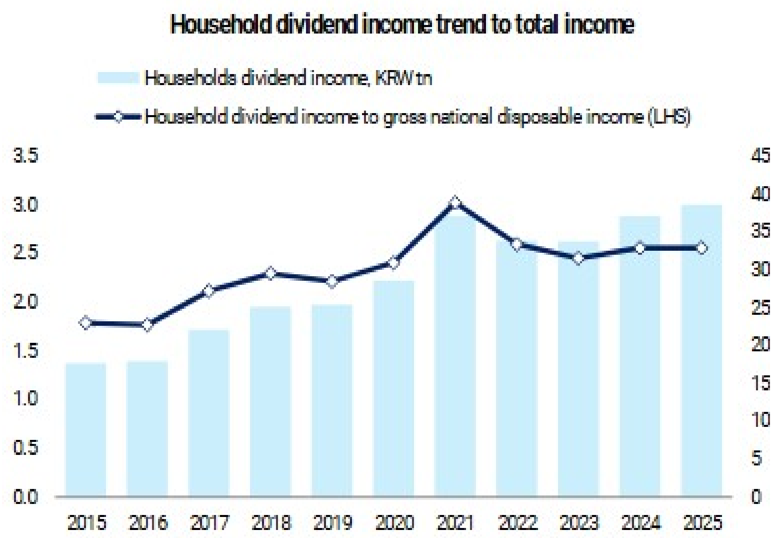
Source: Korea Statistics (2025 Household Financial Conditions Survey), Morgan Stanley Research

(3) Diversifying Household Income Channels Beyond Labor and Real Asset Returns

Income breakdown across labor, financial and real asset returns show a heavy dependency on labor income



Households' dividend income shows an up-trend, yet remains relatively low at 2.2% of total disposable income

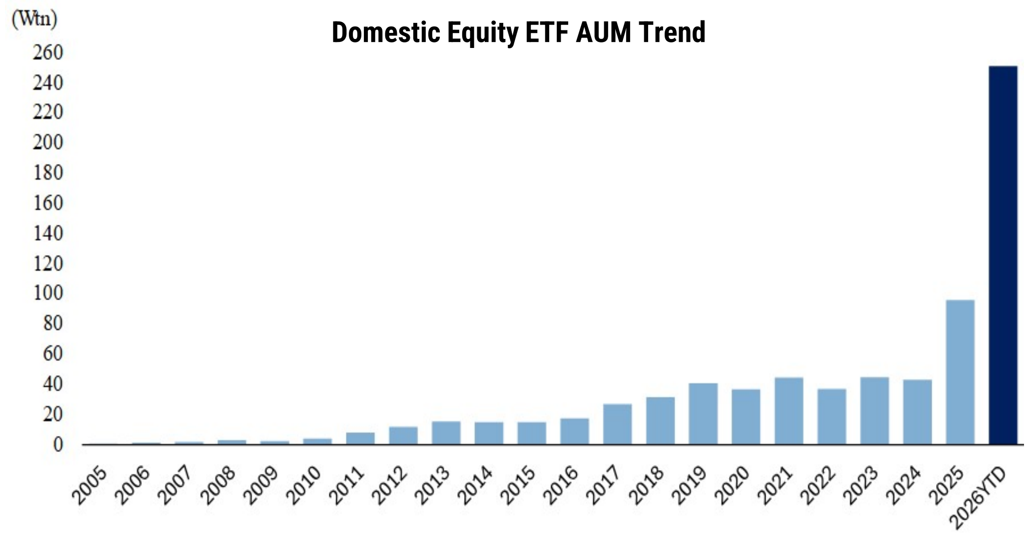


Source: BoK, Korea Statistics, Morgan Stanley Research

Negative Implications: (1) Heightened Exposure to Market Volatility

As Korean households already carry a large debt burden, a period of elevated equity market exposure could stretch liquidity, slow consumption, and increase debt-service stress. The scale of equity asset accumulation on Korean households' balance sheets reached a record high, 61% of nominal GDP, from the previous five-year trend of 45%. By 2027, we estimate that this is likely to grow to over 81% of nominal GDP. This would heighten households' sensitivity to equity market volatility.

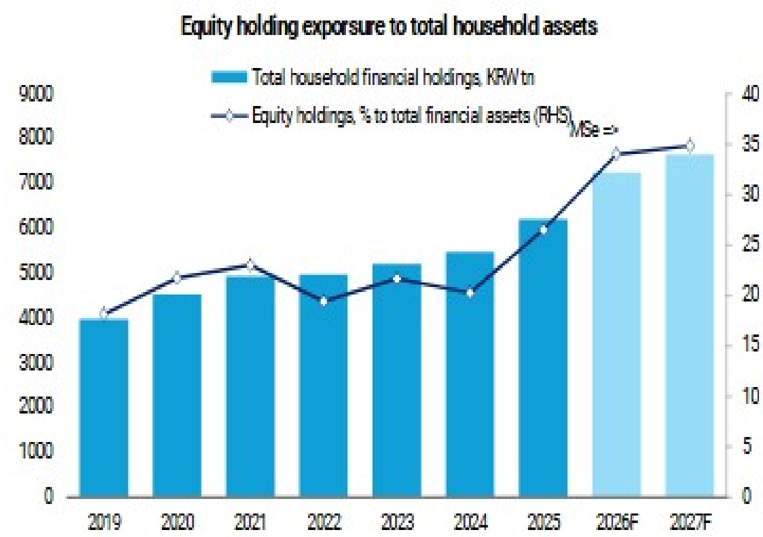
ETF flows have been one of the key drivers of the domestic equity market; ETFs can be a double-edged sword: on the way up, they are a catalyst, but they could have the same effect on the way down. We will have to monitor the flows closely



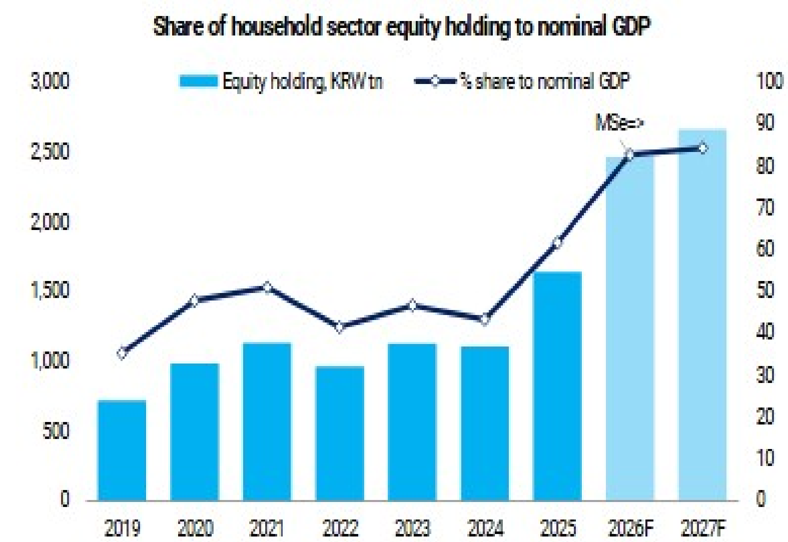
Source: WiseFN, Morgan Stanley Research, Data as of Jun 2, 2026

(2) Risks around Asymmetry in Reverse Wealth Effect

Share of equity assets held by households set to reach the highest level, at 35% of total financial assets



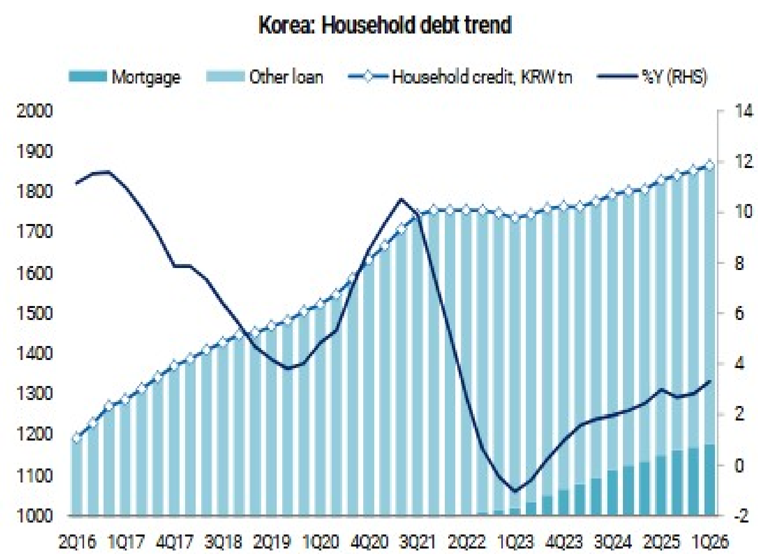
This likely extends the size to over 80% of nominal GDP by 2027 vs. 61% in 2025 and 43% in 2024



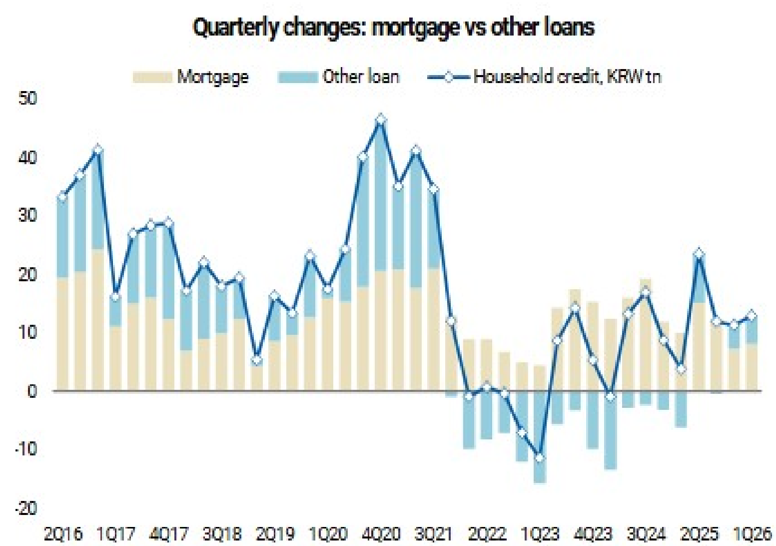
Source: BoK, Morgan Stanley Research forecasts

(3) Higher Sensitivity to Tighter Financial Conditions

Households' sensitivity to rising interest rates adds pressure to their already high leverage



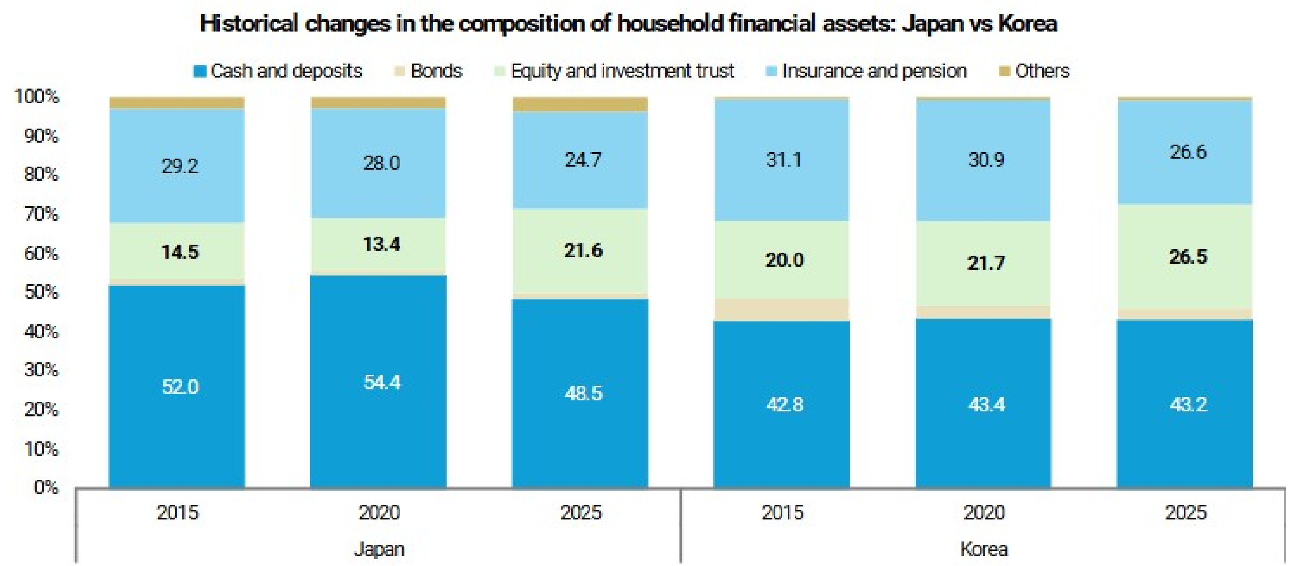
Amid persistent increase in mortgage loans, other loans turned around to an increase in the past 4 quarters



Source: BoK, Morgan Stanley Research

Japan's Reform as Reference: Quicker Move amid Active Risk-Seeking in Korea

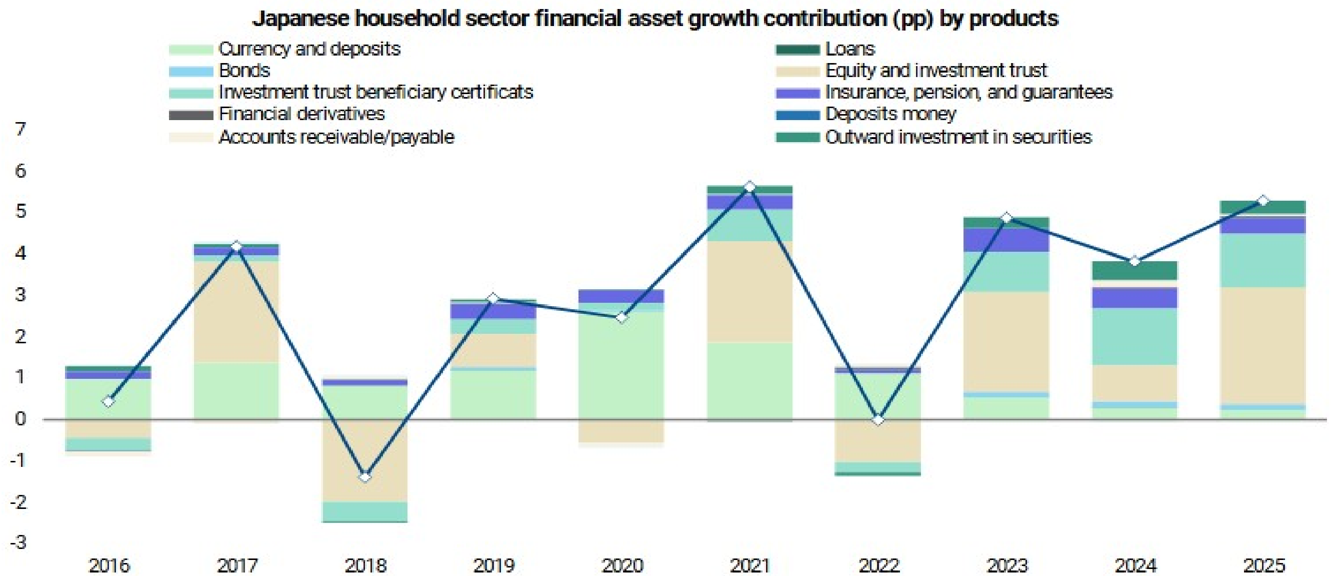
Japanese households have shown stronger appetite for lower-risk assets vs. Korea; bias to cash remains higher



Source: BoK, ESRI, Morgan Stanley Research

Successful Expansion of Retail Participation in NISA

Japan: Majority of contributions to an annual increase in financial assets came from equity and investment trust holdings in 2025, following new NISA reforms



Source: BoJ, Morgan Stanley Research

Stronger Appetite for Retail Equity Investment in Korea vs. Japan

Retail investor stock ownership: Despite an earlier start on market reforms with the new NISA in 2024, Japan's retail participation share has risen, but from a low base. Its individual investors accounted for 25% of trading value in 2025, the highest level in over a decade, but they made up only 17% of market ownership. Meanwhile in Korea, retail traders historically made up about 42-45% of total domestic exchange turnover, and the retail investor base has more than doubled in five years, to 14.2mn in 2024 from 6.9mn in 2019, or nearly half of the adult population (above age 15).

Intensity of retail participation: This growth has led retail transaction volumes to surge in Korea. In 2026, retail investors have been the largest net buyers in the Korean market, with approximately US$15bn in inflows. On the other hand, Japanese retail investors have been net sellers of domestic stocks in 2025-26, offloading JPY3.8tn, despite a significant rally in Japanese equities. We think this contrarian behavior is indicative of the conservative nature of the domestic market in Japan.

More resources in Korea? Korean investors have significant cash in brokerage accounts, reaching W132tn this year, a record high. We believe this could be invested in equities. Margin lending balances have also continued to trend higher, indicating rising risk appetite. As of June 2026, customer deposits were up 60%, to W132tn, and margin lending balances up 70%, to W37.7tn, compared to August 2025.

Source: Morgan Stanley Research

Asia’s Industrial Cycle is Inflecting

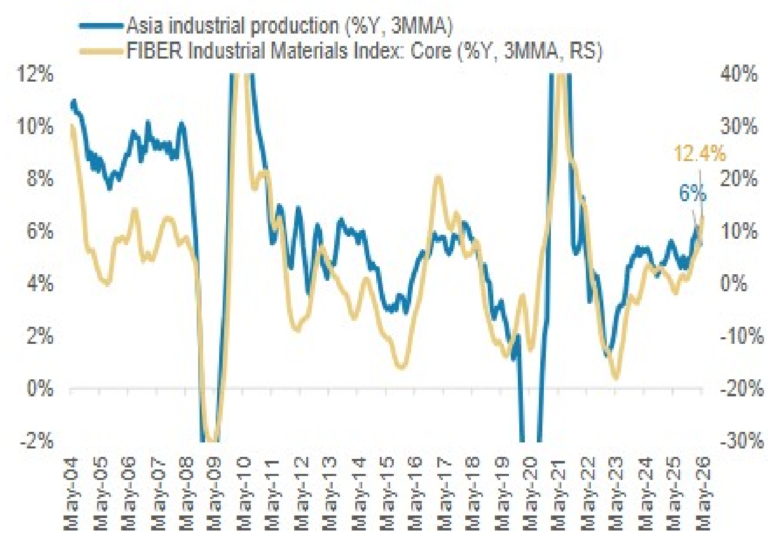
Asia's Industrial Cycle is Inflecting

A variety of indicators suggest that Asia's industrial growth is improving. An increase in energy transition-related, AI infrastructureb and defense spending should lift Asia's industrial production further this year. Moreover, lower energy prices could provide a boost to the ongoing industrial and capex super-cycle. Korea should benefit considering its high net oil imports.

Key takeaways

- Asia ex-China's industrial production growth has already reached a 42-month high, and we expect a further acceleration.
- AI infrastructure, energy transition-related, and defense spending will increase and support industrial production.
- Economies outside of Asia are also raising their spending, which could lift Asia's non-tech exports.
- With the progress on a US-Iran peace deal, dated Brent prices have declined below US$85/bbl from a peak of US$144/bbl and vs. $72/bbl on February 26.
- Our global oil strategist now sees dated Brent price settling at around US$80/bbl from 4Q26 onwards.

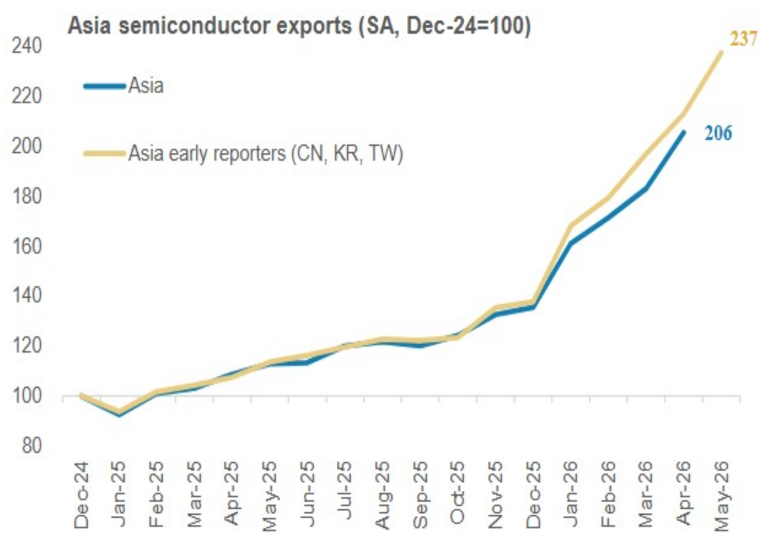
Asia's industrial production growth is at a four-year high



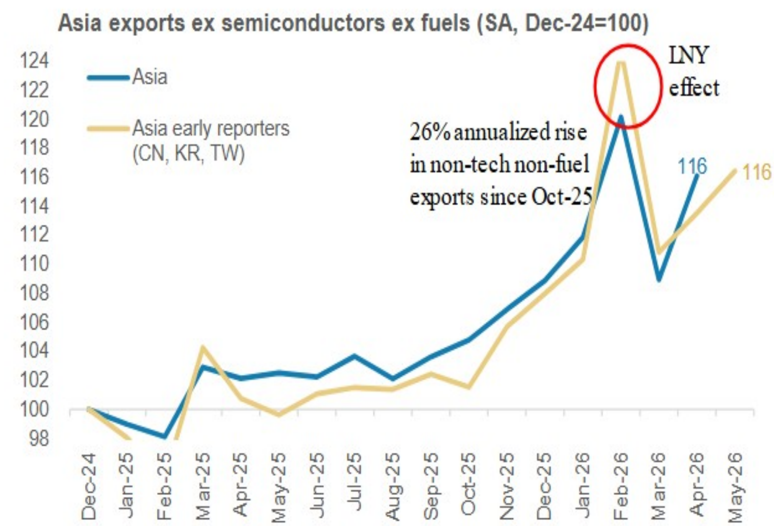
Source: Morgan Stanley Research

Ongoing Industrial Super-cycle Gets a Boost

Semis exports have continued to strengthen



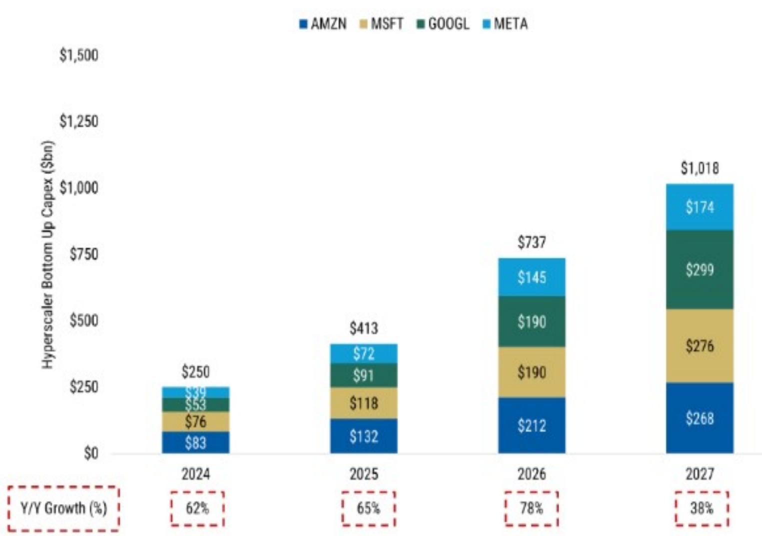
Strength in non-tech exports has sustained into May



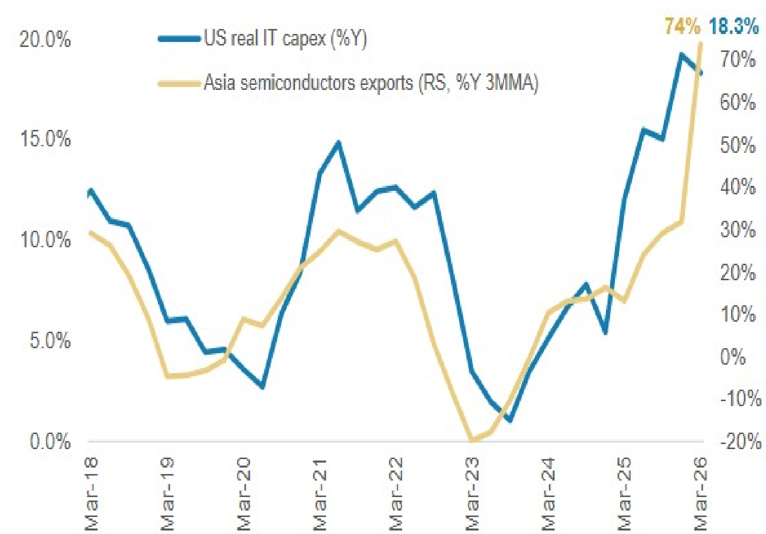
Source: CEIC, Haver, Morgan Stanley Research

Trends in Semis Exports: Still Surging Driven by Strong Demand from Hyperscalers

US hyperscaler capex to sustain strong growth through 2027



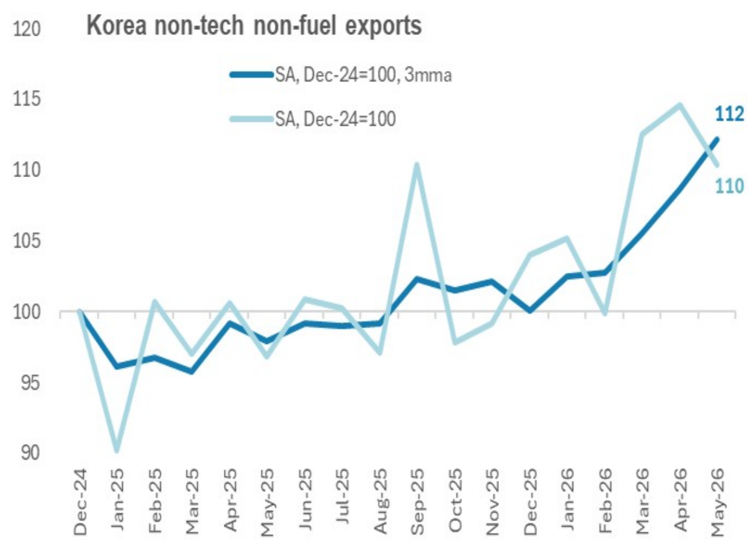
Strong US IT capex to sustain Asia's tech exports



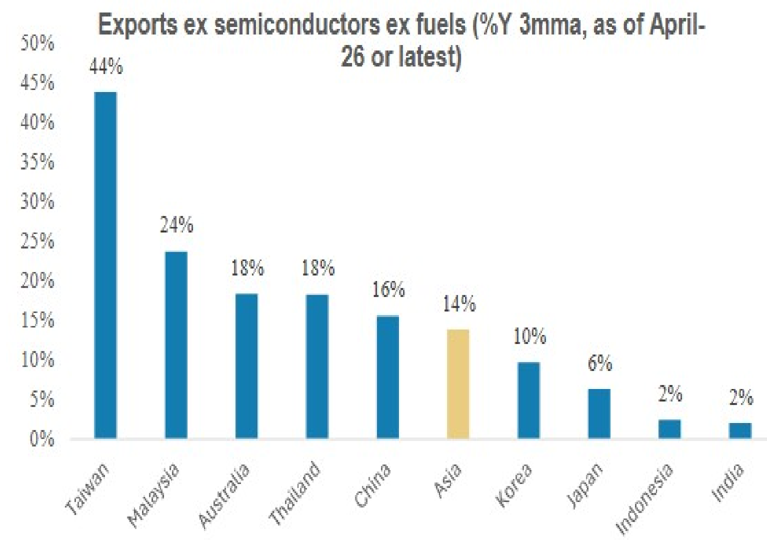
Source: Haver, Morgan Stanley US Equity Research team

Don’t Underestimate the Recovery in Non-tech Exports

On an annualized basis, non-tech exports for Asia’s early reporting economies have grown at 27% since October through April



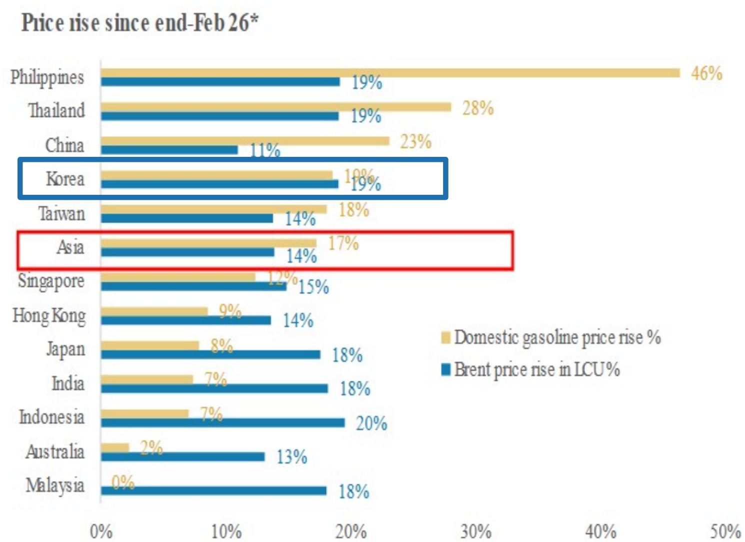
On a YoY three-month trailing basis, Asia's non-tech exports growth has accelerated to 14%Y



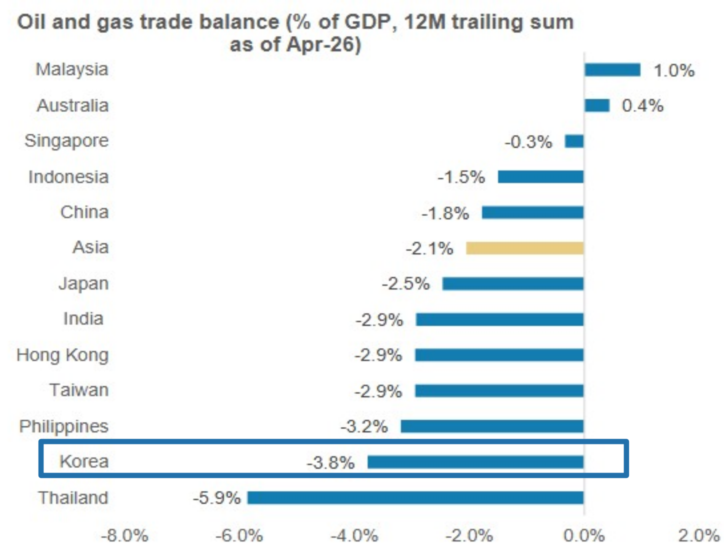
Source: CEIC, Morgan Stanley Research; Note: Asia includes China, India, Indonesia, Korea, Malaysia, Thailand, Taiwan, Australia and Japan. Non-tech non-fuel exports have risen at an annualized run rate of 25% (and 27% for early reporters) since October 2025, when the US signed trade deals with most Asian economies.

Korea Benefits from Lower Oil Prices

Policymakers have mitigated the pass-through from international oil price increases to domestic fuel price increases



Lower oil prices to minimize Korea's large exposure to oil balance deficits



Source: CEIC, Globalpetrolprices.com, Morgan Stanley Research; Note: *Data for brent price as of June 16, data for domestic fuel price as of June 8.

USDKRW

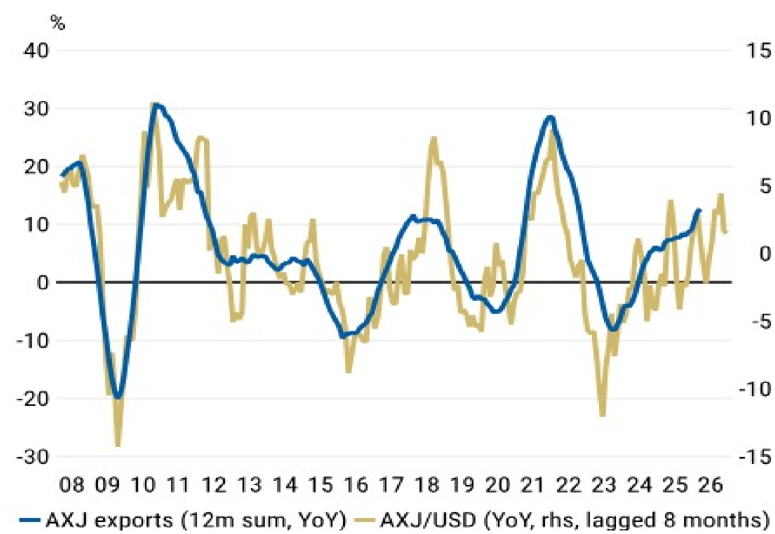
KRW Has Potential to Outperform

Our FX strategist sees KRW outperforming when the Strait of Hormuz re-opens given its high beta and cheap valuations. Domestic fundamentals are also supportive: 1) Korea's current account surplus is likely to continue expanding to a new high with tailwinds from the industrial cycle; 2) NPS's foreign investments may not weaken KRW to the same extent as before given its higher FX hedge ratio; 3) Outflows from Korea retail investors have eased; and 4) Our equity strategists see further upside for KOSPI.

We expect AXJ currencies to recover in 2H26 as oil prices ease

	12-May-26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
USD/CNY	6.80	6.78	6.72	6.75	6.77	6.80	6.77	6.75
USD/HKD	7.83	7.81	7.79	7.77	7.81	7.80	7.79	7.78
USD/IDR	17529	17300	17150	17100	17200	17400	17111	16826
USD/INR	95.6	94.0	93.0	93.5	94.2	95.0	93.8	92.7
USD/KRW	1494	1450	1430	1420	1430	1440	1418	1397
USD/MYR	3.93	3.89	3.83	3.80	3.83	3.86	3.86	3.87
USD/PHP	61.5	60.3	59.8	59.6	60.0	60.5	60.0	59.4
USD/SGD	1.272	1.260	1.240	1.230	1.240	1.250	1.266	1.282
USD/THB	32.4	31.9	31.4	31.2	31.6	31.9	31.8	31.8
USD/TWD	31.5	31.2	30.7	30.5	30.8	31.0	30.7	30.4
DXY	98	97	95	96	98	99	99	99

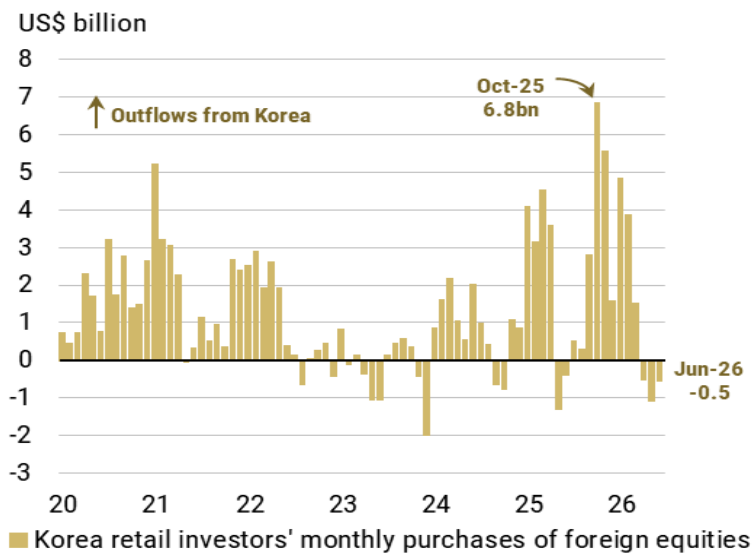
The capex cycle should continue to underpin Asia export strength and FX recovery



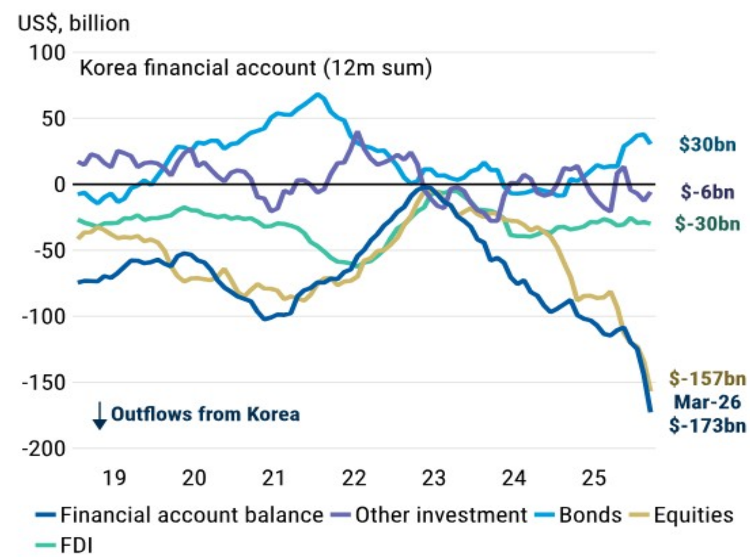
Source: Bloomberg, Macrobond, Morgan Stanley Research

Outflows from Korea Retail Investors Have Eased vs. Foreigners

Outflows from Korea retail investors have eased since March 2026



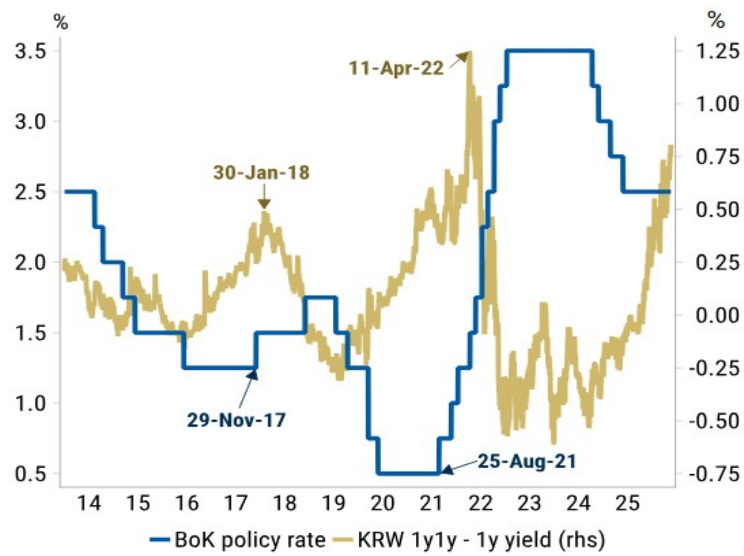
Equities are the key source of capital outflows from Korea



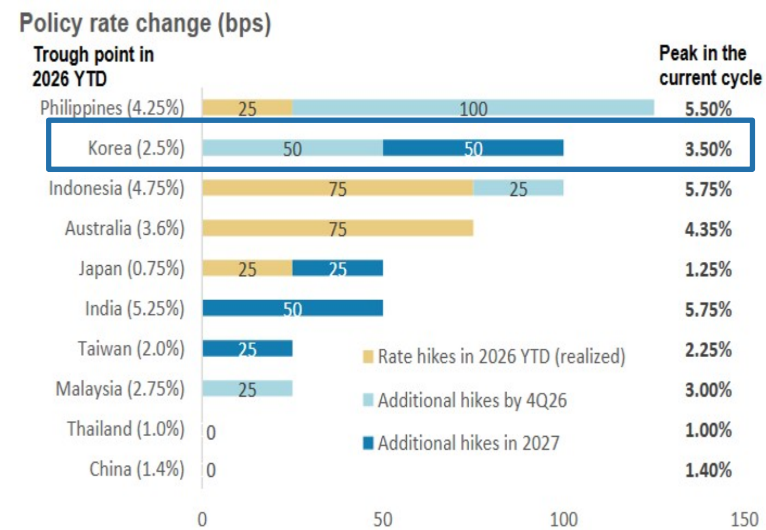
Source: Bloomberg, Macrobond, Seibro, Morgan Stanley Research

Inflation Above Target Putting Upside Risks for Korea Yields

Rate hike pricing historically peaks after the start of the hiking cycle



We see upside risks to our policy rate forecasts arising from upside risks to growth



Source: Bloomberg, Haver Analytics, Morgan Stanley Research forecasts

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