Korea Equity Strategy

Assessing recent price action

Equity Macro Research

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For the third time this year (following March and July), KOSPI hit a -15% 5-day drawdown last week. What initially started alongside a slowdown in corporate buybacks accelerated with jitters in global AI sentiment and likely faced further technical selling as KOSPI slipped below its 200d moving average. Over this period, apart from outright defensives (Staples, Healthcare, Low Vol), Quality, Value and Earnings Revisions as factors delivered the best returns, while Price Momentum saw the deepest correction. Note that the broader equity risk environment was already weakening. We have been signaling tactical caution about regional equities since mid-Sep. As we wrote last month, "*From here [mid-September] to late October, we continue to expect that risk appetite will be subdued as the Fed hiking cycle gets underway, long bond yields remain biased higher, JPY strength puts pressure on carry trades, oil prices remain elevated, and seasonal weakness bites into US mid-term elections. The Quality factor and Financials sector are the best hedge for this period.*"

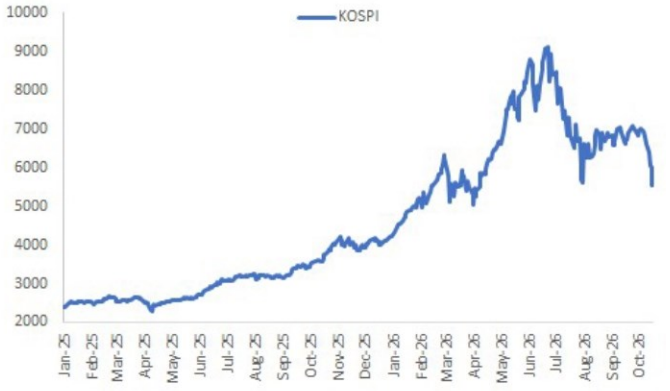
- **Where are we now?** On technicals (low RSIs, lots of oversold stocks) and valuations (KOSPI fwd P/E at record lows and KOSPI ex memory at 11th percentile), KOSPI now looks attractive, but we are yet to see evidence of flow support that would make for a convincing base. While we remain fundamentally bullish on the AI ecosystem and Korean equities (benefiting not only from AI capex, but also security/resilience spending, governance reforms and a liquidity surplus) on a 6-12m view, resolution of this flow imbalance and global risk aversion may still take some time. Upcoming near-term catalysts include memory company earnings reports + updates on shareholder returns, resumption of moderation in VKOSPI, as well as repair in global risk appetite post US mid-terms, hyperscaler earnings, release of financial details of model companies, etc.
- **Flows in the market:** The main change in flows recently has been the slowdown in corporate buybacks (which was the main flow support in the market since late August) as Samsung's buyback program completed and Hynix's approaches close to completion. Among foreign investors, we have seen selling of AI stocks across the region (Taiwan has seen even larger outflows), and trend-following investors have likely substantially reduced Korea exposure recently. We see appetite to buy from LO investors, but only after volatility moderates. Domestic institutional flows have been modest, both from pensions and brokers. Retail investor sentiment appears extremely fragile as KOSPI has now fallen below the estimated average entry point for retail investors YTD. Leveraged ETFs, while much smaller in AUM now, remain outstanding (we have seen very limited outflows) and drive still-large sell flows on large down days (especially relative to market volumes that are well off the June highs).
- **Why is non-memory selling off?** All the flow issues appear specific to memory names (end of buybacks, souring sentiment on memory, leveraged ETF rebalancing), but Korean stocks ex memory are down too. Admittedly, the correction here is more modest, but also presents opportunities uncorrelated with global AI sentiment. Figure 29 shows extremely oversold stocks, while Figure 30 lists Quality stocks that have corrected a lot from their highs.

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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Figure 1: KOSPI has seen a rapid decline in recent days

index



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 2: For the third time this year, we have witnessed a sharp correction (>15% drop in a week) - after March and July

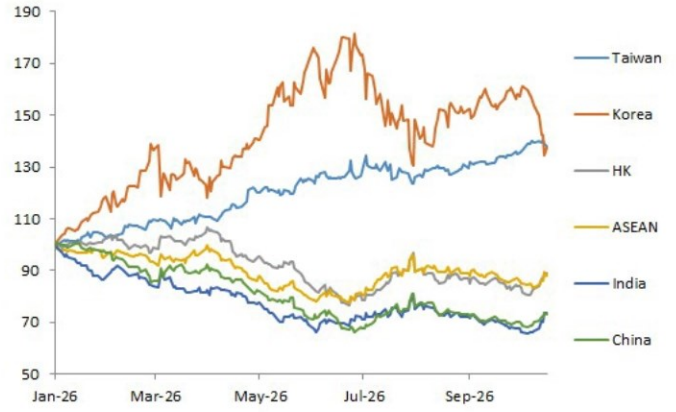
5d % change



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 3: With this, Korea's relative outperformance in the region has pulled back, but still remains strong

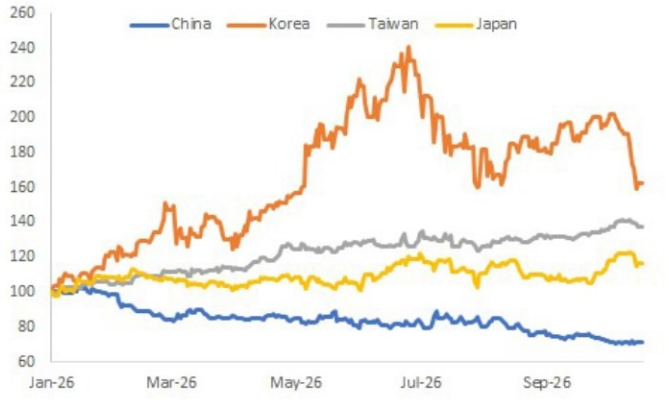
relative performance of MSCI indices



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 4: Within AI stocks in particular, Korea continues to lead

relative average performance of key AI-exposed stocks vs MXASJ

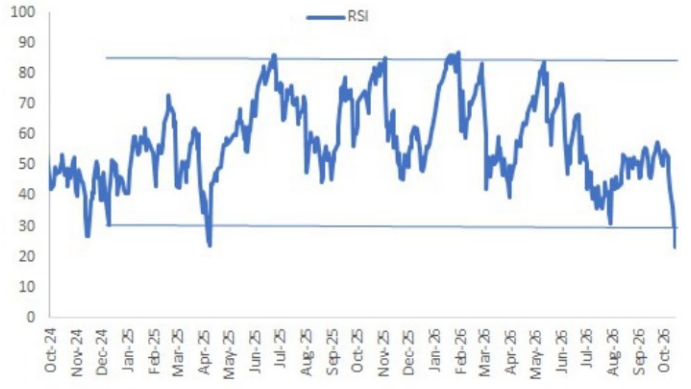


Source: Bloomberg Finance L.P., J.P. Morgan.

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Figure 5: But with the correction, KOSPI RSI has declined sharply - to the lowest level since Liberation Day

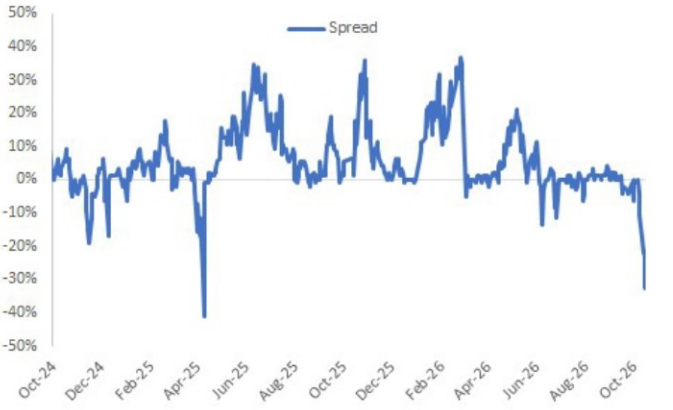
14d RSI



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 6: The number of stocks at "oversold" conditions has similarly widened to extremes

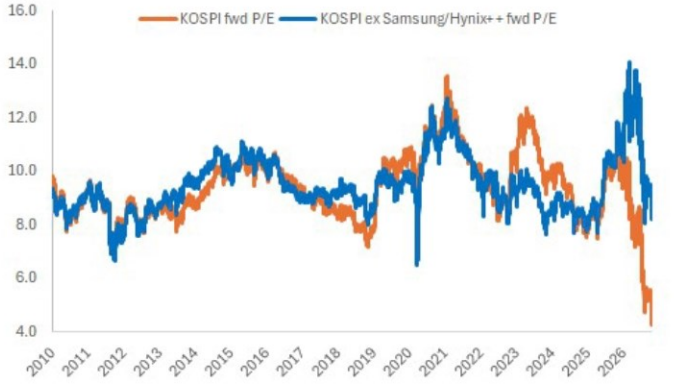
spread of % of stocks at overbought vs oversold levels on RSI



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 7: Valuations on fwd P/E in Korea are at record lows. Even ex memory, valuations at 8.4x are at the 11th percentile

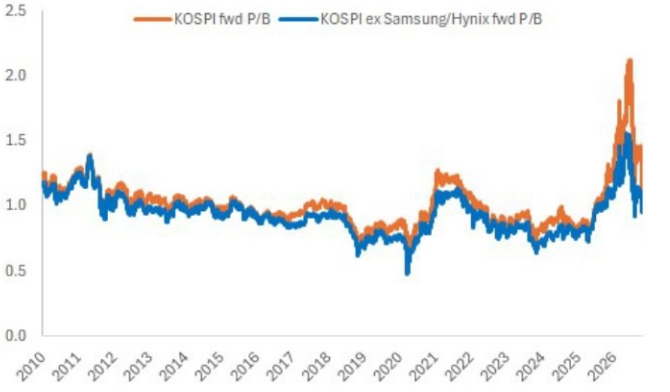
blue line excludes Samsung, Hynix, SK Square, SK Inc and Samsung C&T



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 8: Valuations on fwd P/B are also low, especially when compared with governance and ROE improvements underway

blue line excludes Samsung, Hynix, SK Square, SK Inc and Samsung C&T



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 9: Tech complex has seen the deepest correction in Oct, together with Defense and Holdcos, while Consumer, Telcos, Financials and Bio have done better

price change across marked periods

	Tech / AI exposure				Value exposure				Industrials and commodities						Others				
Average performance	Samsung	Hynix	Grid/Power	Tech supply chain	Autos	Banks	Non Bank Fin	Holdco	Battery	Oils/Chemicals	Metals	Shipping /building	Defense	E&C	Bio-Pharma	Internet/ Media	Consumer exports	Telco	Services
31 Mar - 22 Jun	114%	267%	35%	155%	28%	1%	15%	86%	-6%	9%	-6%	11%	3%	13%	-11%	-5%	-8%	2%	6%
22 Jun - 31 Jul	-27%	-42%	-26%	-39%	-16%	5%	-8%	-18%	-31%	-15%	-14%	-14%	-23%	-19%	-6%	-2%	7%	-4%	-5%
31 Jul - 2 Oct	7%	7%	4%	22%	-13%	0%	0%	9%	27%	26%	9%	-6%	11%	12%	12%	-7%	-2%	3%	12%
2 Oct - now	-22%	-31%	-21%	-22%	-4%	-4%	-10%	-19%	-7%	-7%	-7%	-11%	-17%	-14%	-3%	-6%	5%	-3%	-8%

Source: Bloomberg Finance L.P., J.P. Morgan.

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Figure 10: Earnings revisions have been largely positive through this correction in Tech

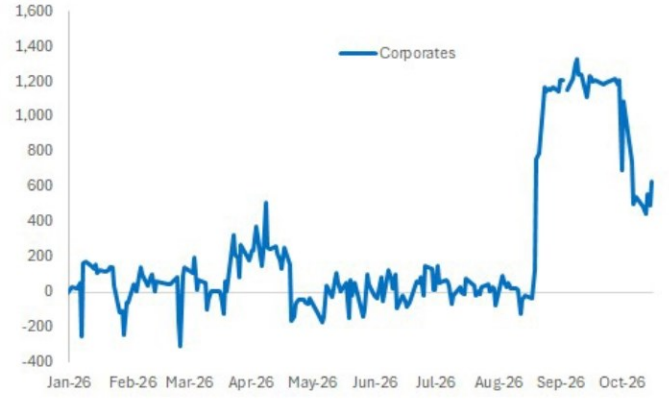
fwd EPS change over marked periods

	Tech / AI exposure				Value exposure				Industrials and commodities						Others				
Average change	Samsung	Hynix	Grid/Power	Tech supply chain	Autos	Banks	Non Bank Fin	Holdco	Battery	Oils/Chemicals	Metals	Shipping /building	Defense	E&C	Bio-Pharma	Internet/ Media	Consumer exports	Telco	Services
31 Mar - 22 Jun	96.1%	78.1%	-1.3%	22.2%	-1.8%	4.0%	13.8%	47.5%	64.8%	65.1%	-3.6%	8.2%	4.9%	7.3%	15.7%	9.4%	3.2%	2.1%	-3.7%
22 Jun - 31 Jul	11.4%	14.0%	5.7%	3.4%	0.5%	2.8%	3.8%	7.8%	-7.5%	2.2%	2.8%	11.7%	-1.7%	6.5%	4.0%	0.5%	4.4%	1.8%	2.8%
31 Jul - 2 Oct	10.0%	4.2%	-0.1%	9.0%	0.4%	1.5%	7.2%	16.6%	18.4%	2.8%	1.1%	5.1%	6.7%	5.4%	4.9%	0.9%	2.5%	3.0%	6.6%
2 Oct - now	2.9%	3.4%	-0.2%	-5.6%	-3.1%	-0.6%	-2.5%	-0.2%	2.1%	14.3%	1.7%	-0.8%	-1.5%	-0.3%	0.1%	-1.5%	-0.1%	0.4%	-2.2%

Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 11: The correction coincided with the slowdown in the pace of buybacks…

USD mn, daily corporate purchases of equities



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 12: At the same time, retail sentiment remains weak as KOSPI dropped below YTD average entry point

estimated average entry level for net YTD trades



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 13: Foreign investors had been selling into buybacks, and this has continued in October

USD mn

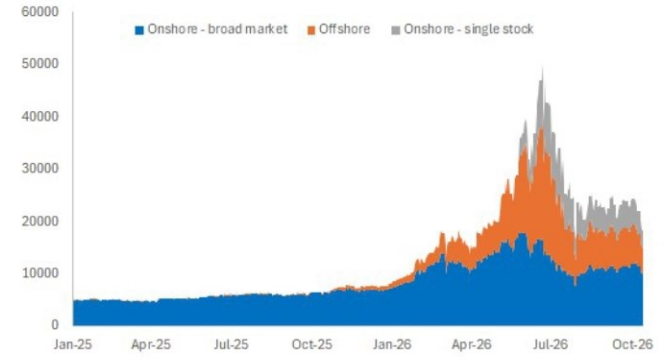
	Tech / AI exposure				Value exposure				Industrials and commodities						Others				
USD mn	Samsung	Hynix	Grid/Power	Tech supply chain	Autos	Banks	Non Bank Fin	Holdco	Battery	Oils/Chemicals	Metals	Shipping /building	Defense	E&C	Bio-Pharma	Internet/ Media	Consumer exports	Telco	Services
31 Mar - 22 Jun	-17913	-17105	-1947	-1611	-4180	-97	50	-2073	1027	963	-79	-1190	833	-220	10	-892	81	-255	-330
22 Jun - 31 Jul	-9299	-13448	-138	1283	228	-390	158	-2048	8	-55	73	-177	15	218	101	80	141	-203	-29
31 Jul - 2 Oct	-4455	-13482	61	-1060	-81	113	-53	703	-492	278	-235	66	50	-871	26	-301	71	-205	383
2 Oct - now	-3292	-6718	-431	-742	-116	-287	-131	-512	-354	-75	-35	179	-297	-122	-72	-21	3	22	19

Source: Bloomberg Finance L.P., J.P. Morgan.

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Figure 14: Leverage ETF AUM has remained stubbornly elevated

USD mn



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 15: Outflows from onshore single stock leveraged ETFs have been modest, while offshore instruments have recently seen inflows again

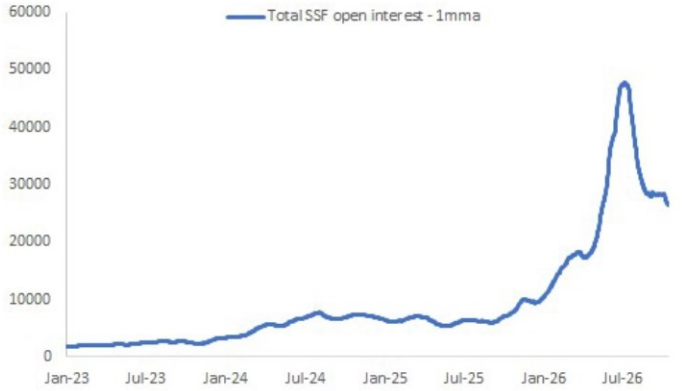
USD mn, cumulative inflows



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 16: As a result, open interest in single stock futures is still elevated

USD mn



Source: Bloomberg Finance L.P., J.P. Morgan.

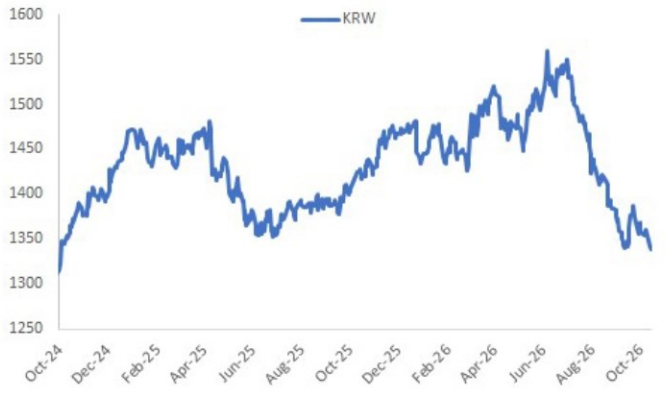
Figure 17: Price Momentum has again borne the brunt of the selloff in October. EPS momentum held up better and Quality, Value delivered positive returns other than defensive Low Vol

indicative L/S quintile performance

	Px Momentum	EPS revision	Growth	Quality	Value	Low Vol
6-Oct	0.9%	-0.8%	0.5%	-3.5%	-0.2%	-4.4%
7-Oct	-1.7%	2.1%	-1.6%	-0.2%	0.9%	4.6%
11-Oct	-0.2%	-1.2%	0.6%	-1.7%	-0.2%	0.0%
12-Oct	-3.1%	0.9%	-0.6%	3.2%	2.6%	6.7%
13-Oct	-4.0%	-2.7%	-0.3%	-1.5%	-0.7%	3.3%
14-Oct	-0.2%	-0.7%	0.6%	-3.6%	-0.9%	-1.5%
15-Oct	-6.8%	-1.9%	-1.8%	1.8%	0.5%	10.0%
16-Oct	-0.8%	-1.6%	3.1%	2.2%	-2.5%	-0.1%

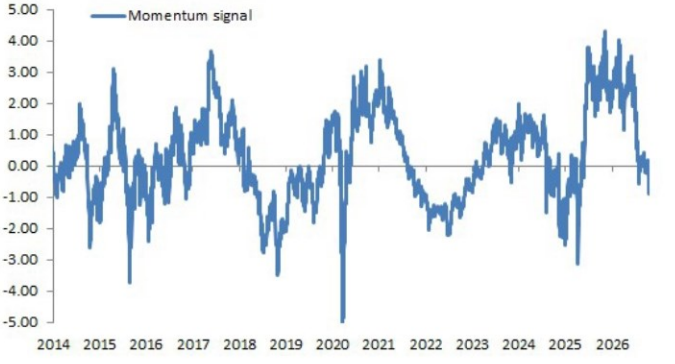
Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 18: Ongoing KRW strength has kept macro investors interested…



Source: Bloomberg Finance L.P., J.P. Morgan.

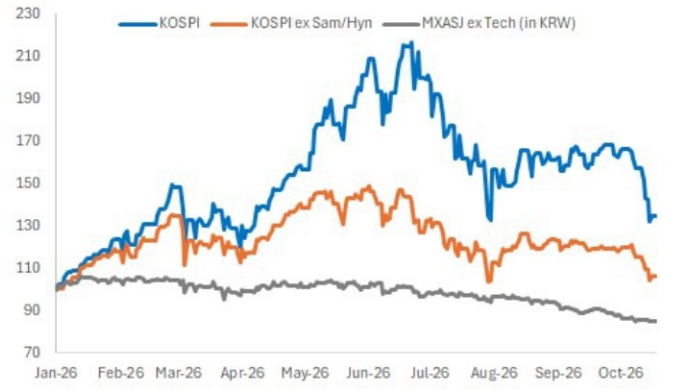
Figure 19: …but trend-following investors have likely turned net short now from extreme long over the past year



Source: Bloomberg Finance L.P., J.P. Morgan.

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Figure 20: KOSPI ex memory has also corrected in this recent pullback



Source: Bloomberg Finance L.P., J.P. Morgan.

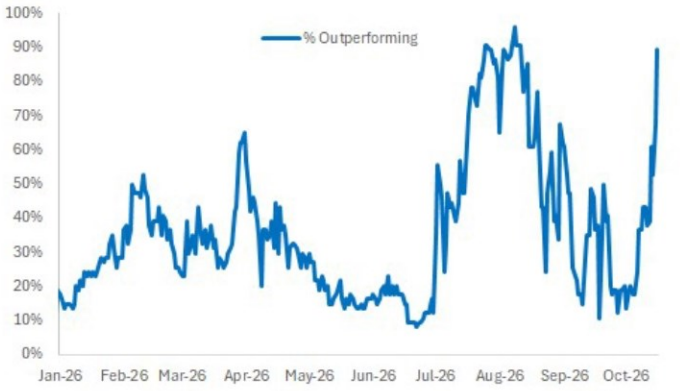
Figure 21: Though not as severe as the pullback in memory



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 22: As a result, the share of stocks in Korea outperforming the index has surged again

% of stocks outperforming benchmark over past 1 month



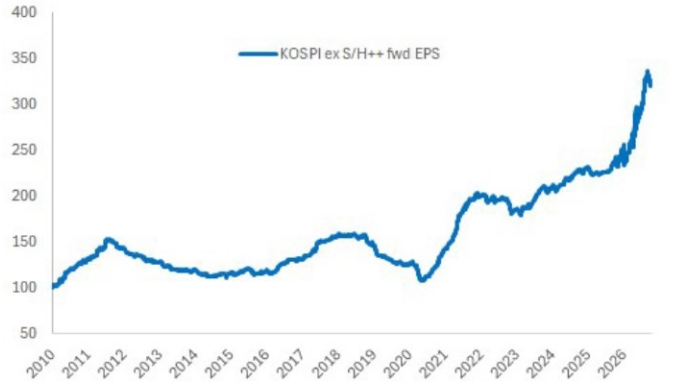
Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 23: Market breadth was already worsening before this correction



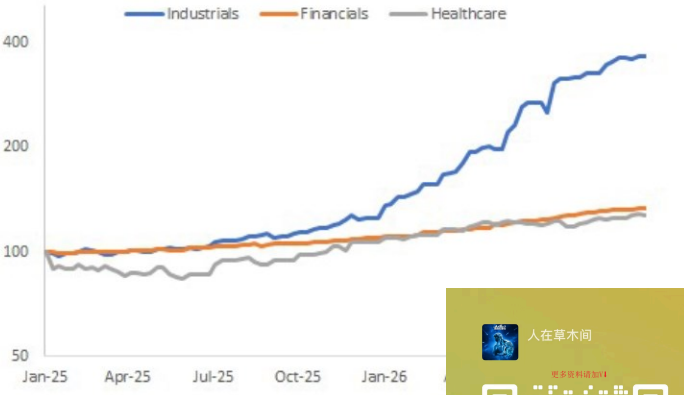
Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 24: KOSPI ex memory EPS estimates also continue to move higher…



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 25: …especially in Industrials, Financials and Healthcare among the larger sectors ex Tech



Source: Refinitiv, Bloomberg Finance L.P., J.P. Morgan.

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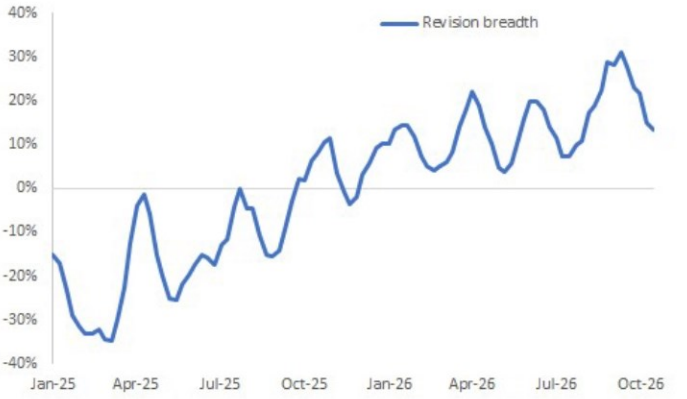
Figure 26: EPS revisions by sector

	2026 EPS			2027 EPS		
	1m	3m	6m	1m	3m	6m
Market	-0.9%	4.6%	41.5%	-0.2%	4.4%	60.2%
Tech	-1.2%	3.8%	47.7%	-0.1%	4.2%	69.5%
Financials	0.8%	4.9%	11.0%	0.4%	2.9%	9.8%
Industrials	0.2%	14.6%	60.7%	-0.5%	8.1%	73.9%
Discretionary	-0.9%	-3.3%	-7.7%	-1.7%	-2.7%	-6.1%
Materials	-8.3%	-7.8%	-19.3%	-0.7%	-1.7%	-3.3%
Staples	0.8%	3.4%	11.9%	1.0%	3.8%	13.5%
Healthcare	0.9%	5.7%	-0.8%	1.3%	3.0%	-6.9%
Comm Serv	-2.2%	-3.3%	-8.9%	-0.7%	-0.5%	-0.8%

Source: Refinitiv, Bloomberg Finance L.P., J.P. Morgan.

Figure 27: Revision breadth in Korea remains positive

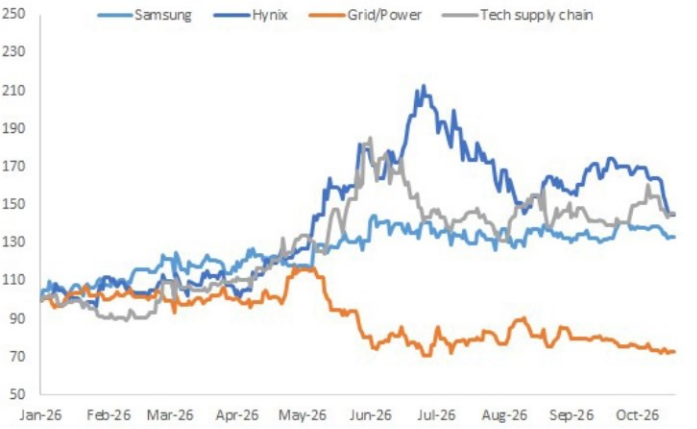
number of stocks seeing (upgrades - downgrades) / total changes

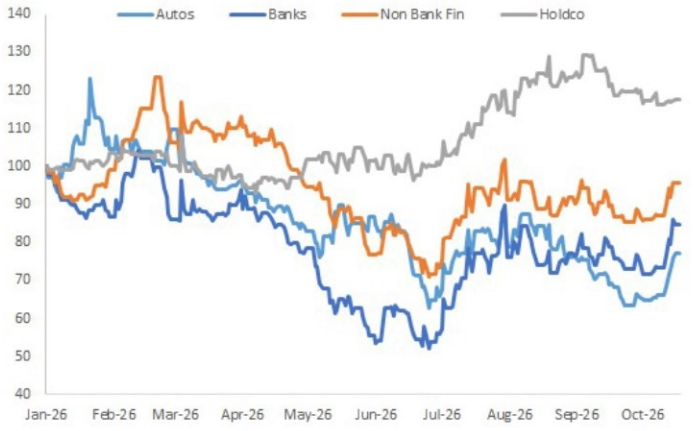


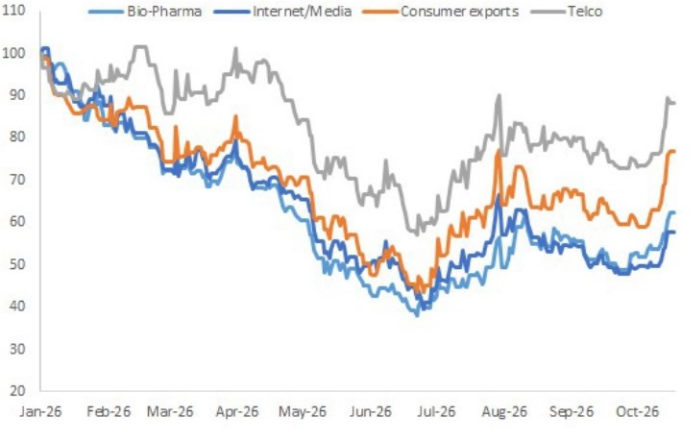
Source: Refinitiv, Bloomberg Finance L.P., J.P. Morgan.

Figure 28: Relative performance of various market segments YTD









Source: Bloomberg Finance L.P., J.P. Morgan.

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Figure 29: Oversold + Value stocks outside of Tech sector

Quantitative screen based on RSI, P/B, 1m performance

Name	Ticker	Industry Group	Market cap ($mn)	3m ADV ($mn)	Price	RSI 14d	1m Perf	3m Perf	Fwd P/E	P/S	P/B
Hyundai Motor Co	005380 KS	Automobiles & Comp	47,567	290	312,000	31	-14.5	-26.0	7.4	0.3	0.52
Samsung Life Insurance Co Ltd	032830 KS	Insurance	35,742	101	238,500	30	-15.9	-26.5	8.7	2.3	0.30
Shinhan Financial Group Co Ltd	055550 KS	Banks	32,855	93	93,400	28	-15.2	-13.1	7.0	1.0	0.73
LG Electronics Inc	066570 KS	Consumer Durables &	20,712	252	169,700	35	-14.5	-4.7	10.8	0.3	1.03
Woori Financial Group Inc	316140 KS	Banks	17,308	82	31,350	34	-13.2	0.5	6.6	0.8	0.64
Korea Zinc Co Ltd	010130 KS	Materials	14,796	30	946,000	26	-15.8	-6.2	15.9	0.9	1.70
HD Korea Shipbuilding & Offsho	009540 KS	Capital Goods	14,053	55	265,000	22	-21.5	-25.0	4.3	0.6	1.26
SK Telecom Co Ltd	017670 KS	Telecommunication S	12,618	136	78,400	33	-12.1	-11.8	12.2	1.0	1.08
Mirae Asset Securities Co Ltd	006800 KS	Financial Services	10,437	53	25,650	28	-19.0	-35.0	7.0	0.7	0.73
Hyundai Engineering & Construc	000720 KS	Capital Goods	7,827	91	93,800	31	-24.8	-4.4	15.9	0.4	1.13
Korea Investment Holdings Co L	071050 KS	Financial Services	6,339	33	151,800	27	-16.7	-33.0	3.4	0.8	0.58

Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 30: Quality stocks that have corrected a lot outside of Tech sector

Quantitative screen based on % from 52w high, ROE, Altman Z

Name	Ticker	Industry Group	Market cap ($mn)	3m ADV ($mn)	Price	RSI 14d	1m Perf	3m Perf	Pct from 52w high	Fwd EPS revn 1m	Fwd ROE	Net Profit Margin	Altman Z Score	Net debt / Equity	EPS Growth Fwd 2yr CAGR	Fwd P/E
Hanwha Aerospace Co Ltd	012450 KS	Capital Goods	34,309	166	888,000	39	-17.6	-5.5	-48.2	-1.3	22.0	5.3	1.85	29.4	41.8%	16.2
Kia Corp	000270 KS	Automobiles & Comp	32,238	94	110,200	38	-9.6	-25.3	-48.1	-5.1	12.6	6.6	3.17	-31.5	7.1%	5.0
HD Hyundai Heavy Industries Co	329180 KS	Capital Goods	27,645	112	351,500	25	-23.6	-26.3	-53.7	-3.2	28.5	8.1	3.27	-30.9	49.2%	10.4
Hanwha Ocean Co Ltd	042660 KS	Capital Goods	14,924	118	65,000	27	-21.6	-24.3	-58.0	-2.8	22.5	9.7	2.82	80.8	26.5%	10.1
HD Korea Shipbuilding & Offsho	009540 KS	Capital Goods	14,053	55	265,000	22	-21.5	-25.0	-46.4	-1.8	25.6	7.2	2.31	-39.5	44.1%	4.3
HD Hyundai Electric Co Ltd	267260 KS	Capital Goods	13,937	100	516,000	27	-28.8	-34.4	-64.4	-2.4	38.5	18.0	8.57	-34.9	27.4%	16.4
Samsung Heavy Industries Co Lt	010140 KS	Capital Goods	12,133	82	18,400	38	-11.5	-17.1	-48.7	-1.5	23.7	5.1	1.60	29.8	62.6%	11.8
Mirae Asset Securities Co Ltd	006800 KS	Financial Services	10,437	53	25,650	28	-19.0	-35.0	-70.9	-7.8	12.8	14.2	-	-	8.7%	7.0
Hyundai Rotem Co Ltd	064350 KS	Capital Goods	7,925	51	96,900	29	-20.9	-39.1	-65.6	-8.2	24.3	13.2	3.57	-37.6	18.2%	10.3
Korea Aerospace Industries Ltd	047810 KS	Capital Goods	7,917	47	108,400	32	-16.5	-26.8	-49.7	-2.4	17.6	5.0	1.78	111.9	50.7%	27.7
NH Investment & Securities Co	005940 KS	Financial Services	6,764	12	24,450	39	-4.3	-20.1	-44.9	-1.8	13.3	24.9	-	-	14.7%	6.3
Korea Investment Holdings Co L	071050 KS	Financial Services	6,339	33	151,800	27	-16.7	-33.0	-50.1	-5.3	17.3	26.2	-	-	10.0%	3.4
Samsung Securities Co Ltd	016360 KS	Financial Services	5,286	38	79,000	34	-7.4	-26.7	-54.1	-2.8	16.2	26.9	-	-	23.2%	4.6

Source: Bloomberg Finance L.P., J.P. Morgan.

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Completed 19 Oct 2026 07:04 AM HKT

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