MARKET STRATEGY

Dec 2025

Global Investment Strategy Team

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Samsung Securities

2026 Korea stock market outlook and strategy

The exponential law of shares

Korea stock market outlook and strategy for 2026

Shares double every three years—wild card is geopolitics

We expect a broadly bullish stock market in 2026, projecting that the Kospi will range 4,000-4,900 pts.
Since the introduction of cloud computing in 2018, liquidity in the global financial markets, US corporate earnings, and the US stock market have risen in tandem at a rate of 20-25% pa. The pace of growth has not been disrupted despite various negative surprises, but appears to be following a stable exponential trend, rising 0.065% a day. This year, liquidity growth has remained steady, except for March-April (US tariffs on China and reciprocal tariffs by China) and the first week of October (when credit concerns emerged). Unless semiconductor firms' capex rises far more rapidly than global liquidity growth (+20-25%), our Kospi target band looks appropriate.

Excluding inflationary pressure and systemic risks, geopolitical factors remain the key disrupting variables to what otherwise would be a continuous exponential function pattern. Major geopolitical factors include: 1) trade disputes in 2018 and 2025; 2) the COVID-19 pandemic in 2020; and 3) the Russia-Ukraine war in 2022. Geopolitical dynamics are also expected to influence fundamentals in 2026, coinciding with the US mid-term elections. While potential credit risks relating to weaker segments of the economy warrant attention, we believe the Fed now has sufficient capacity to manage these speedbumps.

Under our base-case scenario, we forecast the Kospi will move between 5,000-5,500 in 2026. Assuming a sustainable, 12-month forward ROE of 10.4-10.9% and a flat COE (8.9%), we see 1.44-1.57x as the Kospi's fair P/B. That said, considering the possibility of volatility arising (eg, around the US midterm election), we present 4,900 (our probability-weighted average) as our 2026 Kospi target.

We still prefer the AI value chain, securities, and pharma/bio sectors. Construction equipment also deserves attention as a potential beneficiary of US rate cuts. Defense is also noteworthy as a means to hedge against geopolitical risks. Our top picks include Samsung Electronics, SK Hynix, LG Chem, Hyosung Heavy Industries, Korea Investment Holdings, Hankook T&T, LigaChem Biosciences, Samsung E&A, Wonik IPS, and HD Hyundai Infracore.

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REPORT
CONTENTS

01 **Stock market outlook** p4

02 **Sector strategy (top down)** p19

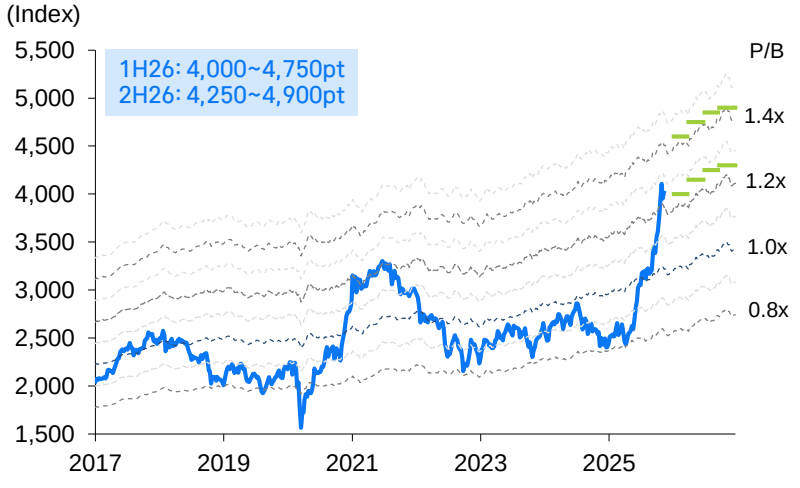
PART
01

Stock market outlook

Kospi to range 4,000-4,900 in 2026

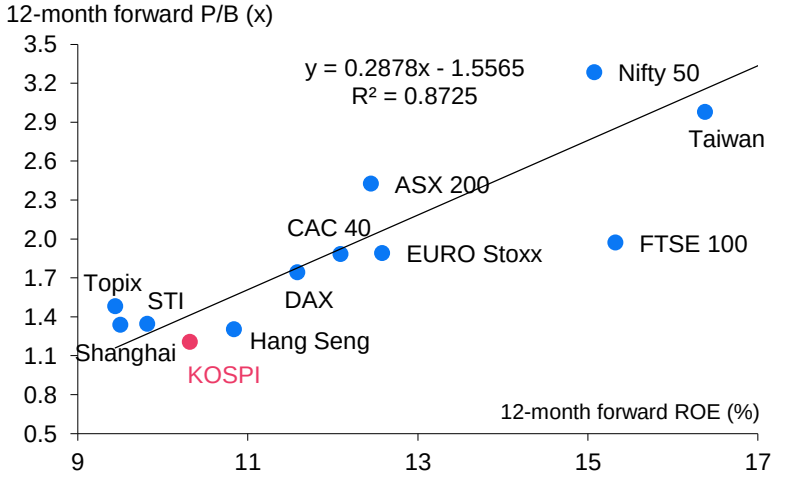
▶ In 2026, earnings momentum should remain solid and valuations should keep normalizing.

Kospi: 2026 outlook



Note: As of Nov 9
Source: LSEG Workspace, Samsung Securities

Major stock indices: P/B vs ROE



Note: As of Nov 9, S&P 500 - ROE 20.8%, P/B 4.8x
Source: LSEG Workspace, Samsung Securities

Kospi target estimated by using probability-weighted average

▶ Factoring in potential uncertainties in 2026, we derive our Kospi target at 4,900, which is based on the probability-weighted average of various scenario outcomes.

Kospi outlook, by scenario

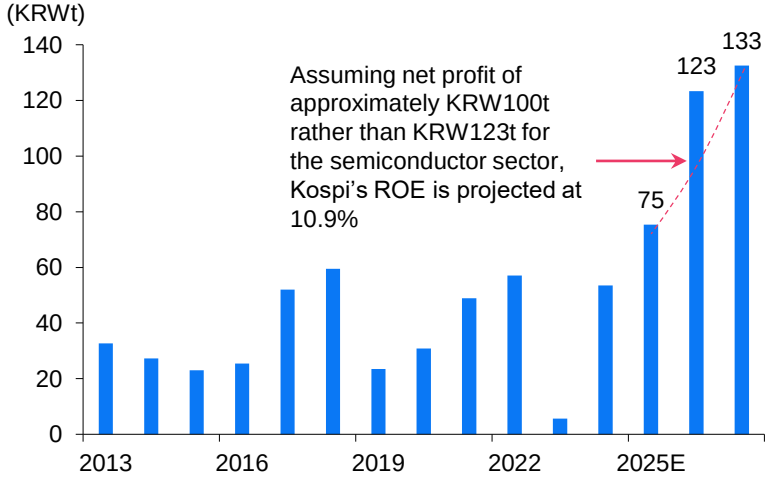
Scenario	Liquidity	Probability (%)	COE (%)	Semiconductor supply & demand	ROE* (%)	Target P/B (x)	Kospi target (pts)	Economic conditions	Preferred sectors
A-1)	Bull	5	8.5	Tight (Demand)	11.7	1.95	6,720	Stable inflation, improved liquidity	Semiconductors (large), AI value chain*, brokerage, pharma/bio
A-2)		15		Loose (Supply)	11.1	1.79	6,170	Continued earnings growth at AI companies	Semiconductors(mid/small), AI value chain*, brokerage, pharma/Bio
B-1)	Base	30	8.9	Tight (Supply)	10.9	1.57	5,410	Ongoing debate over AI profitability	Semiconductors (large), AI value chain*, brokerage, pharma/bio
B-2)		25		Loose (Demand)	10.4	1.44	4,980	Geopolitical risk, rising inflation	Semiconductors (mid/small), AI value chain*, banks, software
C-1)	Bear	15	9.6	Tight (Supply)	9.5	0.95	3,280	Inflation remains sticky	Defense, steel/non-ferrous metals, construction, consumer staples, retail
C-2)		10		Loose (Demand)	9.2	0.87	3,010	Credit risk intensifies	Telecom, utilities, food, cosmetics, insurance, defense
	Probability-weighted average						4,920		

Note: AI supply chain includes power equipment, robots, nuclear power plants, battery storage, *Sustainable ROE adjusted for semiconductor sector profits (see next page)
Source: LSEG Workspace, Samsung Securities

ROE calculated conservatively

▶ In estimating ROE, we use 2027 earnings (rather than 2026 figures) for the semiconductor sector.

Korean semiconductor sector: Net profit estimates



Note: Based on WI26 sector classification
Source: QuantiWise, Samsung Securities

Kospi: ROE estimates

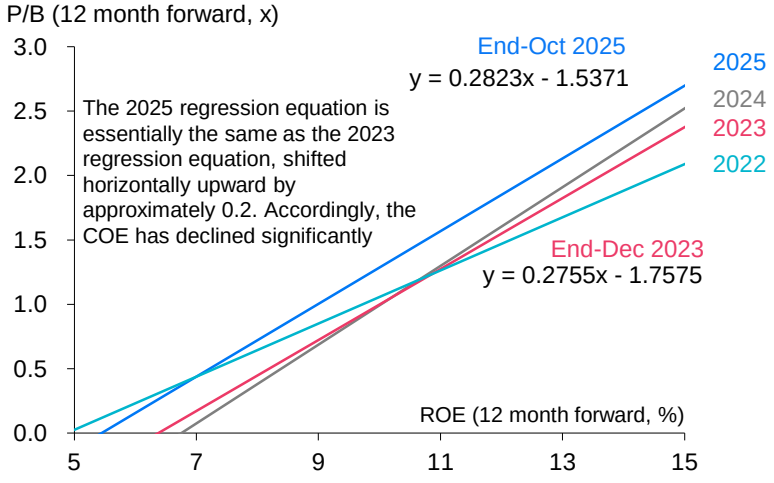
Scenario	Semiconductor sectors' net profit (KRWt)			Kospi
	('25~'27 CAGR, %)	2027E	Implied 2026E	Target ROE (%)
A-1)	58.4	189	119	11.7
A-2)	40.6	149	106	11.1
B-1)	31.3	130	99	10.9
B-2)	16.5	102	88	10.4
C-1)	(15.6)	54	64	9.5
C-2)	(25.0)	42	56	9.2

Note: Based on WI26 sector classification. Refer to the previous page for scenario classification
Source: QuantiWise, Samsung Securities

Global liquidity environment in 2025 highly favorable for Korea

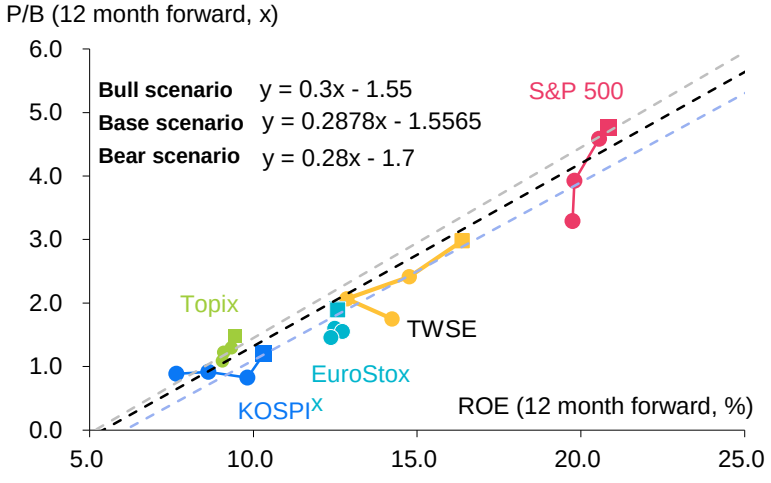
▶ In 2025, markets with low ROEs (Asia) have outperformed those with higher ROEs (the US).

Global stock market changes in ROE and P/B regression lines



Note: Year-end of each period; 2025 is as of end-October
Source: LSEG Workspace, Samsung Securities

Changes in stock market valuations by major country and regression line forecasts

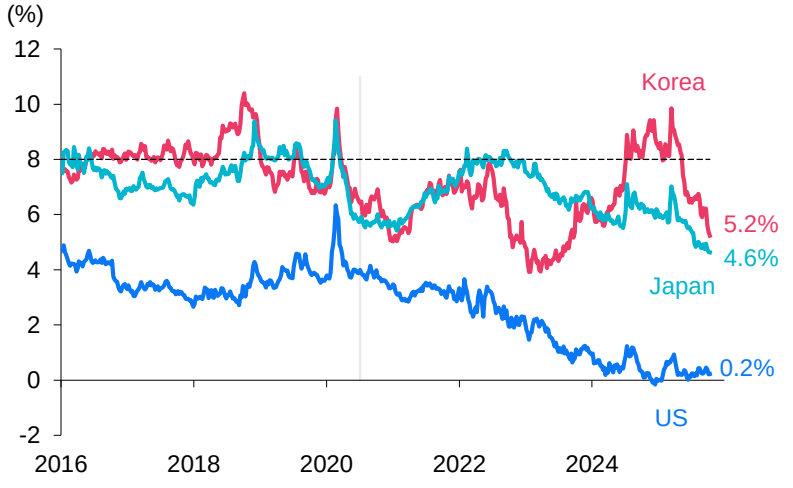


Note: Squares represent data as of end-Oct 2025; circles represent data as of end of 2022, 2023, and 2024. The base scenario (black line) is identical to the data as of end-Oct 2025
Source: LSEG Workspace, Samsung Securities

US yield gap low—positive once again for Asian stock markets

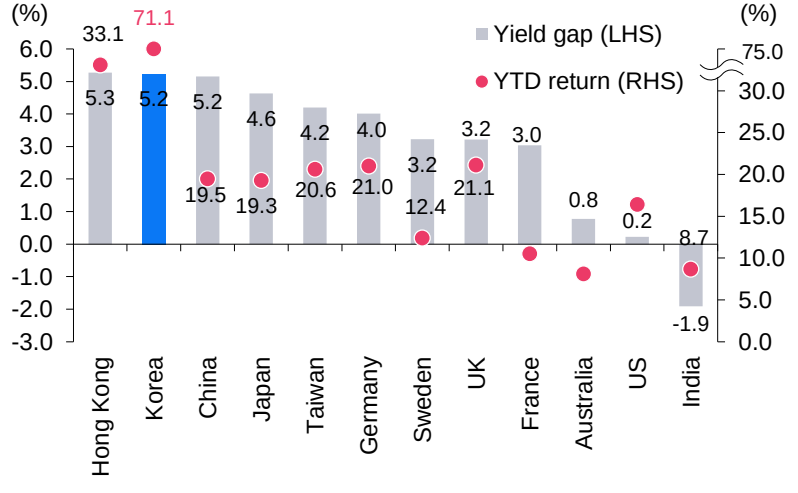
▶ Lower-ROE markets (Asia) may keep outperforming higher-ROE markets (the US) in 2026.

Yield gap in Korea, US, Japan*



Note: Inverse of the 12-month forward P/E ratio - 10-year government bond yield for each country
Source: LSEG Workspace, Samsung Securities

Major country indices: Yield gap vs performance



Note: As of Nov 11
Source: LSEG Workspace, Samsung Securities

AI technological progress advancing

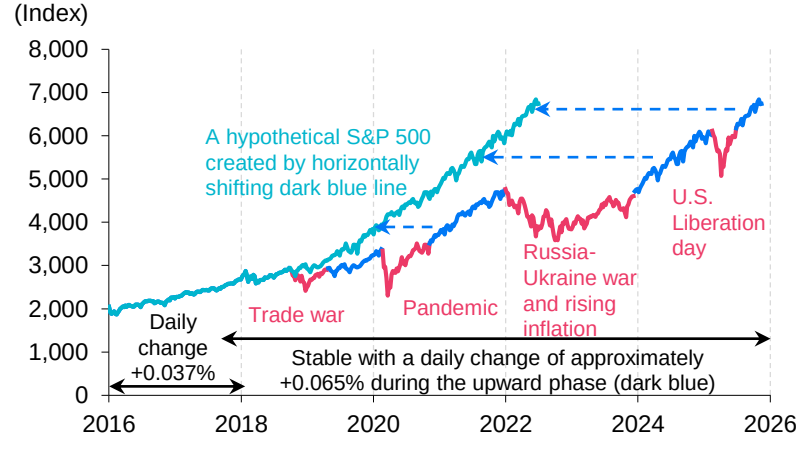
- Corporate earnings and share prices should follow an exponential growth pattern, characterized by limited short-term volatility and an almost continuous upward trend.
  - We assume daily global stock market growth of 0.065% (the base of exponential function minus 1) for our base-case scenario. This corresponds to roughly +0.45% a week, +1.8% a month, and + 20-25% *pa*.
- Geopolitical risks are likely to persist through 2026 given the upcoming US midterm elections.

Historical breakthrough product inventions and commercialization

Product/ Service	Invention/ Commercialization	Impact
Personal computer	Early 1970s	Innovations in work, learning, and entertainment
Mobile phone	1983	Greater personal freedom and convenience
Internet	Late 1980s	Expansion of global information-sharing and communication networks
GPS	1978 (satellite launch)	Revolution in location-based services and navigation
Smartphone	2007	Integration of mobile computing and internet access
Cloud computing	Early 2020s	Optimizing the utilization of IT resources

Source: Media, Samsung Securities

Reconfiguration of S&P 500

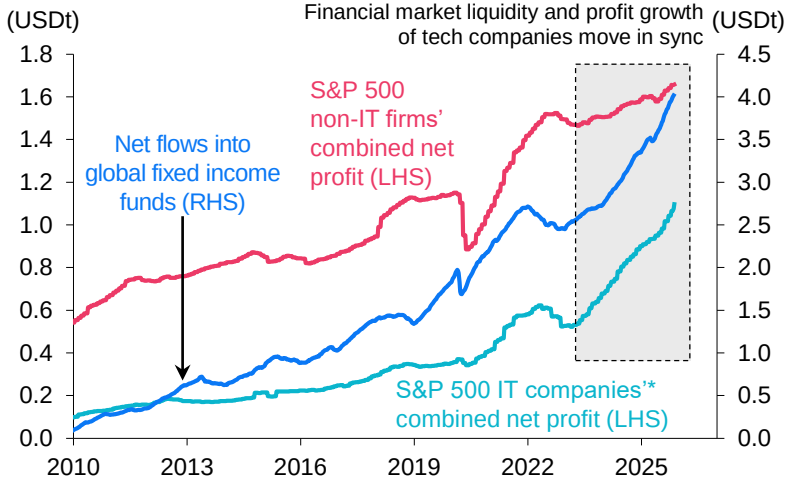


Source: LSEG Workspace, Samsung Securities

Earnings momentum in IT sector to remain solid

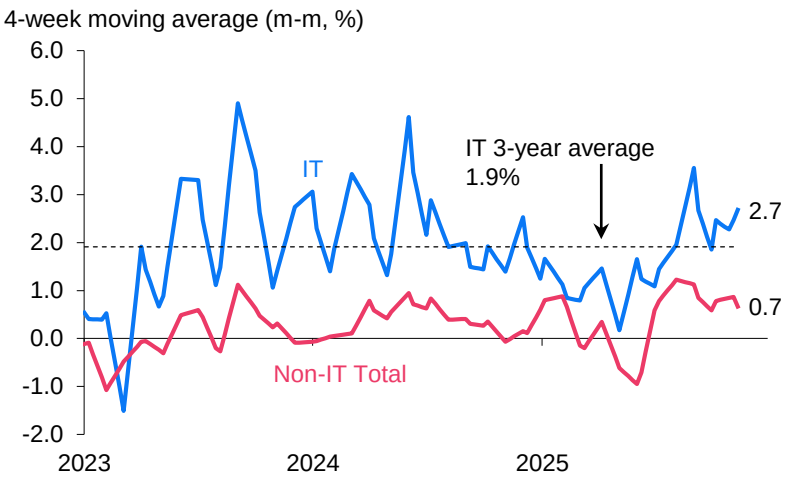
- Flows into global bond funds, which exhibit a high correlation with earnings in the global IT sector, have been rising steadily.
- The pace of liquidity growth roughly matches the rate of corporate earnings growth (estimated at 24% *pa*).

S&P 500 12-month forward net profit: IT firms vs others



Note: Based on ICT sector classification, *Amazon included in IT sector rather than in retail sector
Source: EPFR, LSEG Workspace, Samsung Securities

Changes in S&P 500 12-month forward net profit estimates

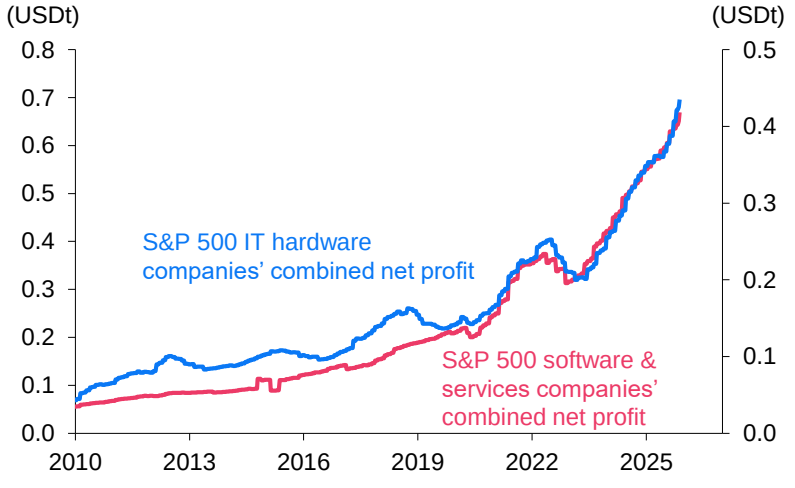


Note: Based on ICT sector classification
Source: LSEG Workspace, Samsung Securities

IT software and IT hardware move in tandem; supply-demand dynamics key to semiconductor cycle

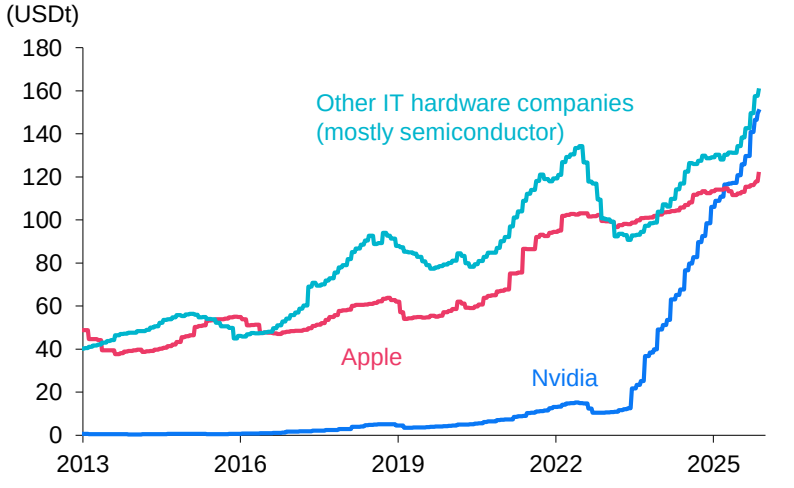
- Net profit at IT hardware and IT software companies generally moves in tandem.
- The IT sector should post stable earnings growth in 2026 given the semiconductor segment's capex growth of 25-30% *pa*.

S&P 500 12-month forward net profit: IT hardware vs IT software



Note: Based on ICT sector classification
Source: EPFR, LSEG Workspace, Samsung Securities

S&P 500 12-month forward net profit: IT hardware

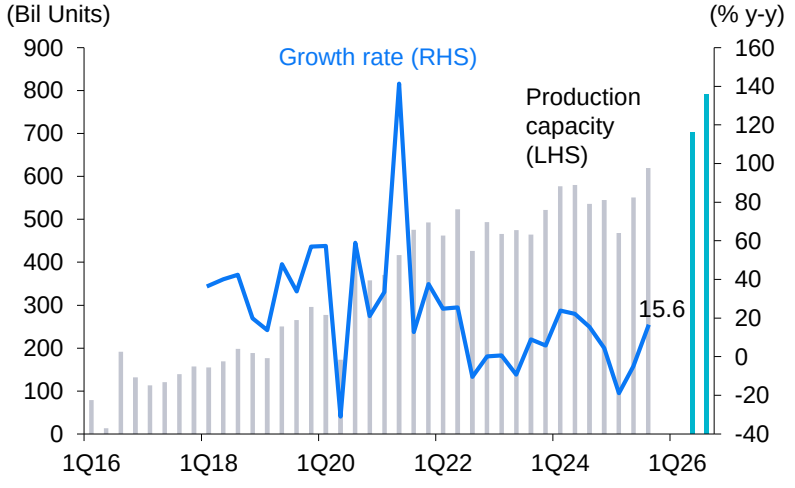


Note: Based on ICT sector classification, The sum of these three graphs is the IT hardware on the left
Source: LSEG Workspace, Samsung Securities

Semiconductor companies' capacity expansion plans do not seem overly aggressive

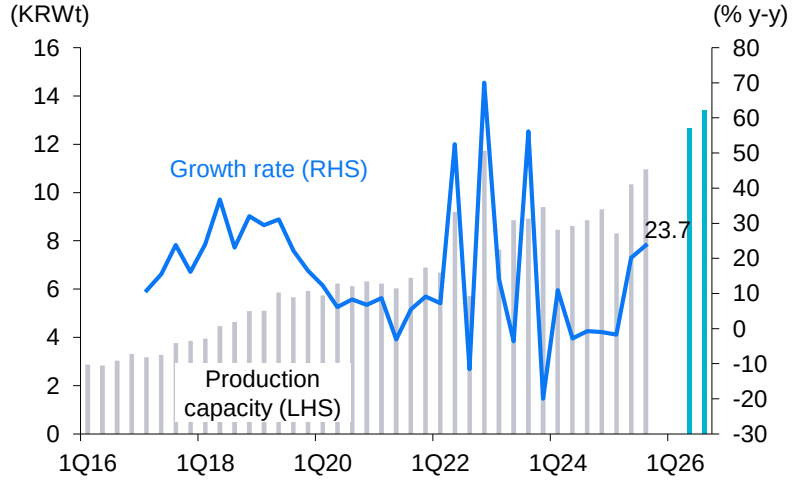
▶ We do not see Korean semiconductor players' capacity expansion plans as being overly excessive.

Samsung Electronics: Capacity at the DS division



Note: Based on converted production output using 1GB-equivalent conversion. 2Q26 and 3Q26 figures assume a 28% y-y increase in capacity
Source: Samsung Electronics, Samsung Securities

SK Hynix: Production capacity

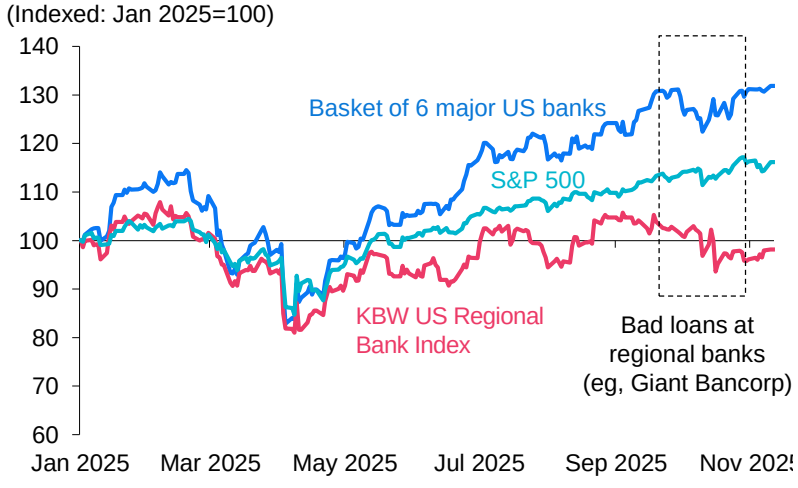


Note: Calculated as the maximum annual production day output x cumulative number of days x average cost. 2Q26, 3Q26 figures assume a 22% y-y increase in capacity. Date from Solidigm included starting 2Q22.
Source: SK Hynix, Samsung Securities

Sustainability of corporate earnings growth a key variable

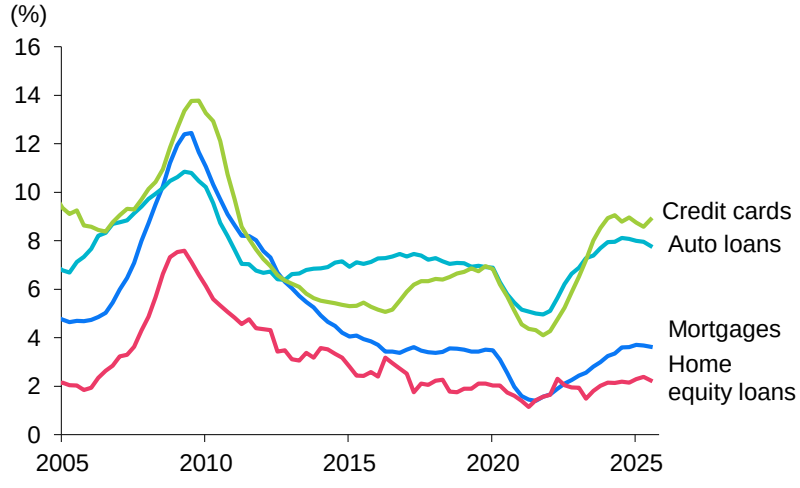
▶ Credit risk for low-income households can be a factor that contracts financial market leverage.

US bank index vs S&P 500



Note: The US 6-bank basket is equally weighted and indexed with BofA, JPM, Citi, Wells Fargo, GS, and MS Source: Bloomberg, Samsung Securities

US major loan delinquency rates

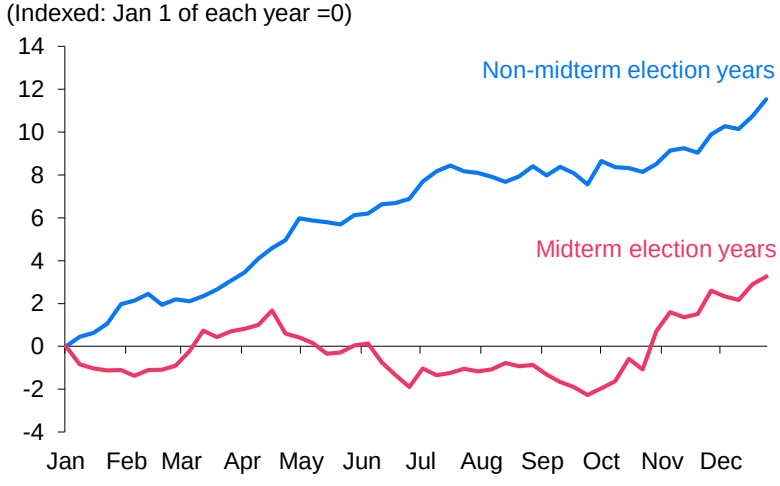


Source: CEIC, Samsung Securities

US midterm election may add volatility in 2H26

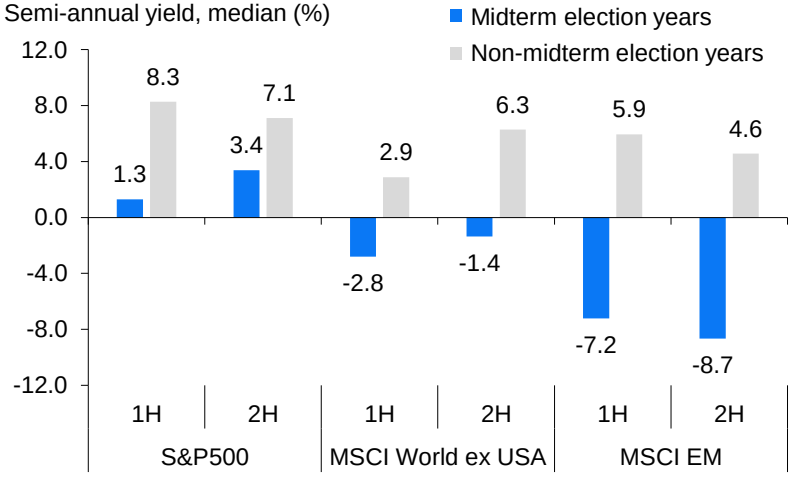
▶ US midterm elections have historically had visible negative impacts on stock market returns.

S&P 500 performance:
Midterm vs non-midterm election years



Note: Since 1945
Source: Bloomberg, Samsung Securities

MSCI index performance:
Midterm vs non-midterm election years



Note: Based on data available for the MSCI EM Index since 1990
Source: Bloomberg, Samsung Securities

2025 tax code amendments

▶ The maximum tax rate for separate taxation of dividend income in Korea was confirmed at 30% on Dec 2.

Key contents of the 2025 Tax Reform Bill

Jul 31 MOEF announces tax reform bill

Aug 1-14 Inter-ministerial consultation, advance notice of legislation

Aug 26 Cabinet resolution

Sep 3, Submission to National Assembly

Effective in 2026

Tax Increases

1) Corporate tax; Corporate tax act

- Uniform increase of 1%pt to all tax brackets
- Maximum tax rate to rise from 24% to 25%

2) Education tax for financial and insurance sectors; Education tax act

- To stay unchanged at 0.5% for annual profit up to KRW1t
- To rise from 0.5% to 1% for annual profit exceeding KRW1t

3) Securities transaction tax (Kospi, Kosdaq); Enforcement decree of the securities transaction tax act

- To rise from 0.15% to 0.20%

4) Tighter criteria for large shareholders subject to capital gains tax: Income tax enforcement decree

- Threshold for stock holdings: 5KRWb →1KRWb

Category	Kospi	Kosdaq	Konex
① Ownership	1%	2%	4%
② Stock holdings amount	KRW5b →KRW1b		

(* If either ① or ② is met, the shareholder would be subject to capital gains tax)

Tax cuts

5) Introduce separate taxation for dividend income; Act on the restriction of special taxation

* On Dec 2, the plenary session finalized the eligibility criteria for separate taxation to dividend income: 1) companies with a dividend payout ratio of 40% or higher; or 2) Companies with a dividend payout ratio of at least 25% and a dividend increase of 10% or more y-y

Tax brackets	Proposed rates
Up to KRW20m	14%+**1.4%
KRW20m-KRW300m	20%+2.0%
KRW300m-KRW5b	25%+2.5%
KRW5b-	30%+3.0%

(**A 10% local tax to be levied separately)

- As this matter relates to an amendment of an enforcement decree, cabinet approval is not needed.
- Discussions are underway in the National Assembly regarding whether to retain the current KRW5b threshold

A total of 13 bills were approved at the cabinet meeting as originally proposed by the MoEF

Effective for fiscal years beginning on or after Jan 1, 2026

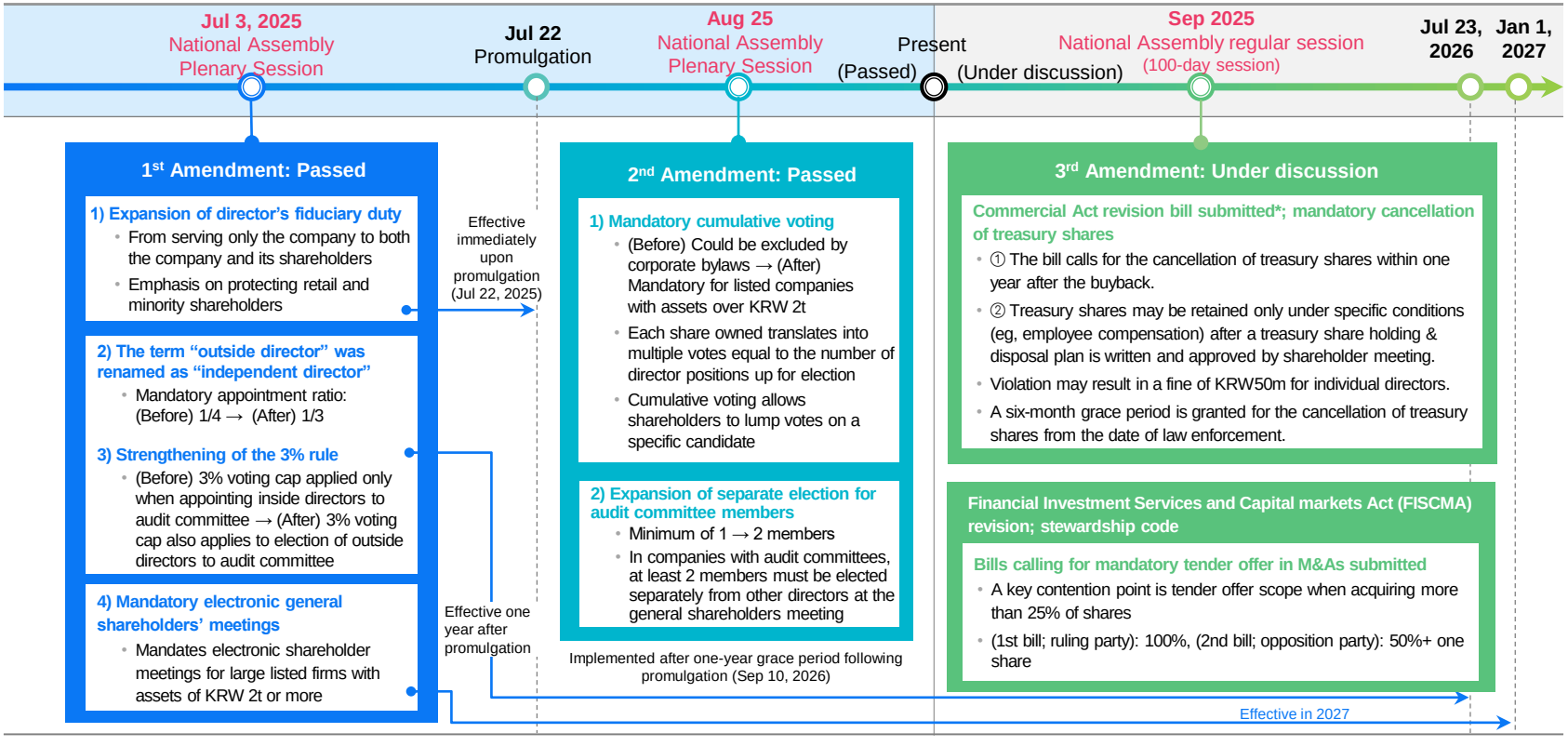
Effective for securities transferred on or after the effective date of the enforcement decrees

Source: MOEF, Media, Samsung Securities

Regulatory changes in 2025—*eg*, Amendments to Commercial Act

▶ The 1st and 2nd amendment bills of the Commercial Act have been passed.

Amendments to Commercial Act & Financial Investment Services and Capital Markets Act (FISCMA)

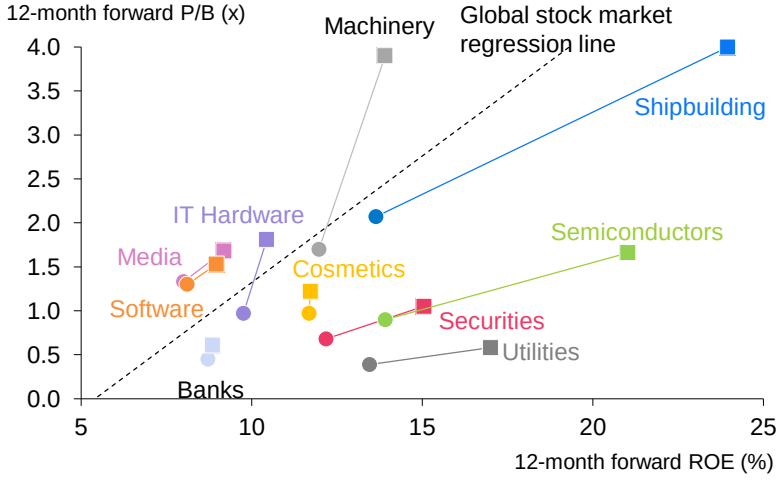


Note: *Regular National Assembly session that began in September; Bill No. 2214519 (Nov 25, 2025)
Source: National Assembly of the Republic of Korea, Ministry of Government Legislation, media, and Samsung Securities

Efforts to align fundamentals and share prices to occur at end-2026

▶ Efforts to boost the correlation between stocks' fundamentals and their share price should occur from end-2026.

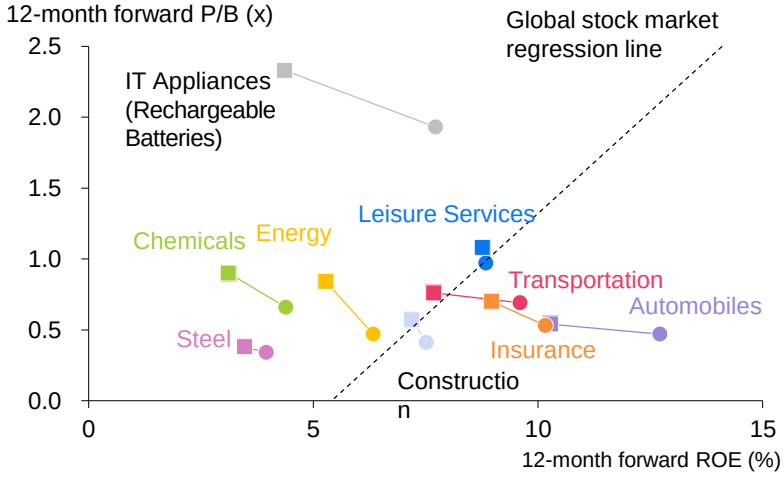
Sectors where ROE and P/B move together



Note: Based on WI26 sector classification, The square is Nov 17, 2025, and the circle is Nov 17, 2024

Source: Quantiwise, Samsung Securities

Sectors where ROE and P/B move in opposite directions



Note: Based on WI26 sector classification, The square is Nov 17, 2025, and the circle is Nov 17, 2024

Source: Quantiwise, Samsung Securities

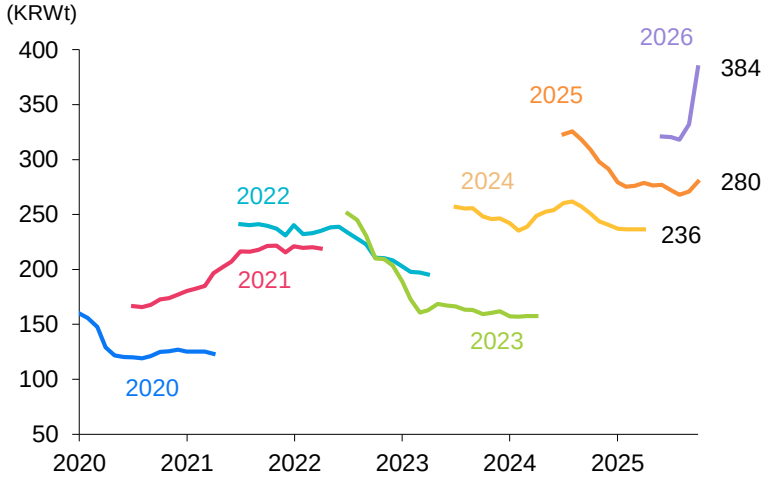
PART
02

Sector strategy (top down)

2026 earnings forecasts have yet to be fully priced in

▶ 2026 earnings forecasts for the Kospi 200 have rapidly risen. Going forward, the pace of forecast hikes may slow, but the earnings targets should remain high in absolute terms.

Kospi 200: Consensus operating profit, by year



Note: As of Nov 18
Source: QuantiWise, Samsung Securities

2026 net profit forecast, by sector

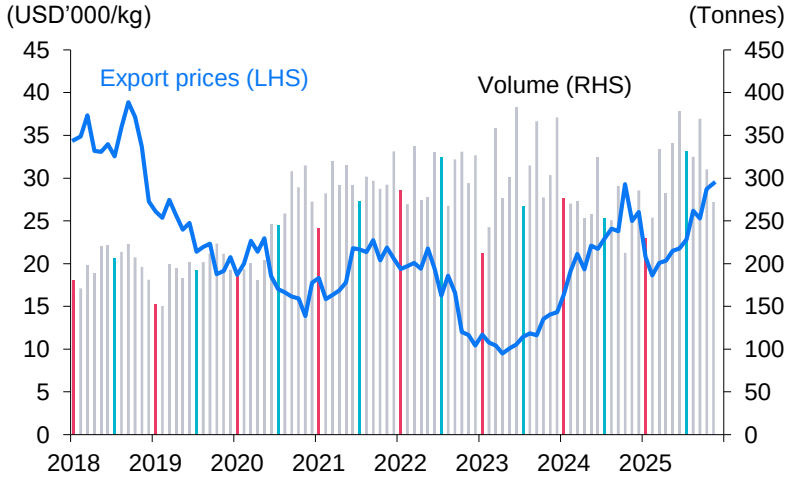
(KRWt)	2026 net profit estimates		
Date estimates made	**Jun 30, 2025**	**Nov 21, 2025**	**Chg (%)**
IT	80.5	139.0	72.6
Utilities	9.9	11.6	17.2
Steel/Materials	11.8	13.7	15.7
Energy	2.7	2.9	7.8
Steel/Materials	3.5	3.7	6.9
Financials	39.9	41.7	4.6
Healthcare	4.1	4.2	2.5
Communication	8.6	8.8	2.2
Consumer discretionary	31.7	31.3	(1.2)
Consumer staples	7.0	6.9	(2.7)
Industrials	12.2	11.4	(6.3)
Construction	5.6	5.2	(7.1)
Chemicals	7.3	5.3	(26.7)
Total	*224.8*	*285.7*	*27.1*

Note: Based on Kospi 200, but the four oil refiners are reflected in energy (not chemicals), and the two utilities companies are reflected in utilities (not consumer staples)
Source: QuantiWise, Samsung Securities

Semiconductor: Price hike momentum to remain solid through end-1H26

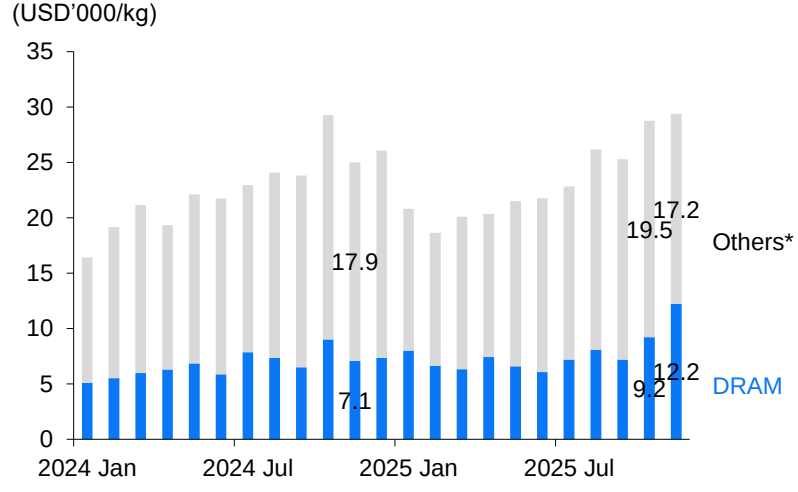
▶ Some may doubt the sustainability of semiconductor export price hikes, but we believe that the current uptrend in export prices will remain intact through at least end-1H26.

Korea: Memory semiconductor exports



Note: January is red and July is green; November volume = data over Nov 1-20 *1.5
Source: KITA, Samsung Securities

Contribution of semiconductor export unit prices

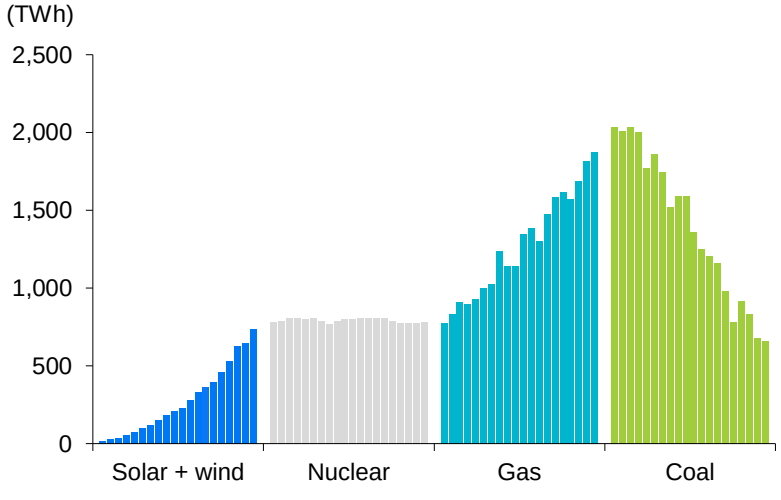


Note: The sum of DRAM and others corresponds to the blue line(export prices) in the left graph.
November figures are data over Nov 1-20, * NAND and HBM are also expected to be included
Source: Korea Customs Services, Samsung Securities

Energy/infrastructure: Possibility of rise in LNG demand in North America

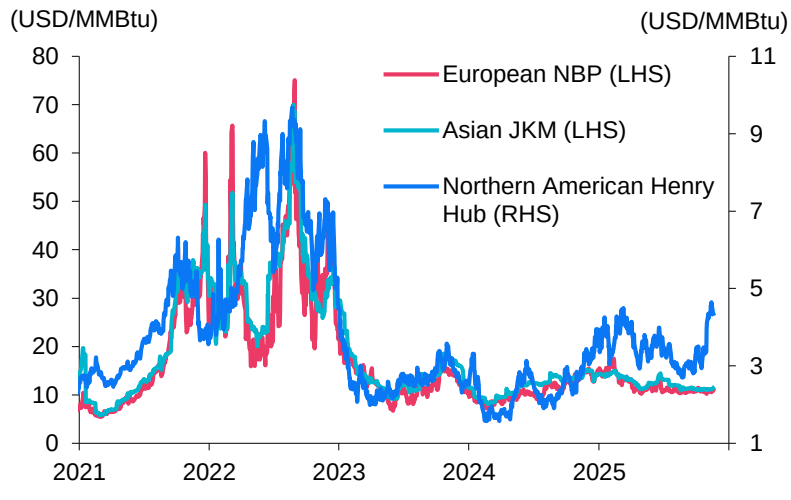
- Electricity demand growth in the US should outpace that in most countries (except China). Attention should be paid to US LNG EPC companies.
- A hike in LNG demand in the US may trigger a fall in US LNG exports.

US electricity generation, by energy source (2005-2024)



Source: BNEF, Samsung Securities

LNG prices, by region

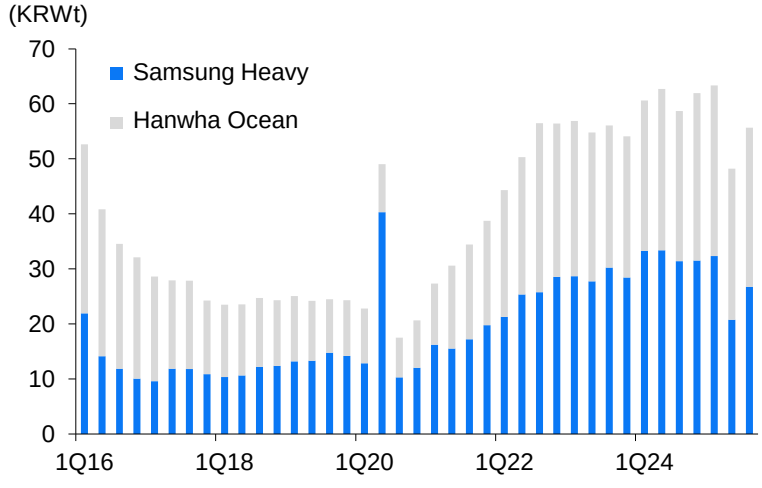


Source: Bloomberg, Samsung Securities

Shipbuilding/power equipment: AI vs non-AI players

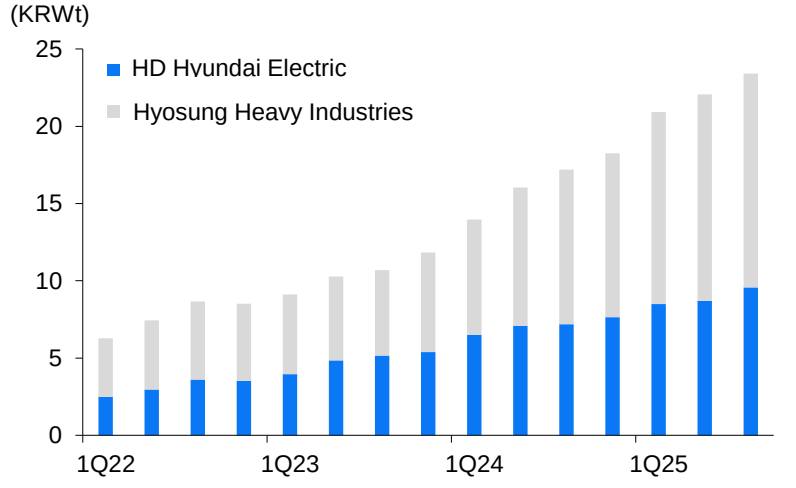
- We like power equipment makers more than shipbuilders as power equipment lies within the AI value chain.

Order backlogs at shipbuilding companies



Source: Company data, Samsung Securities

Order backlogs at power equipment companies

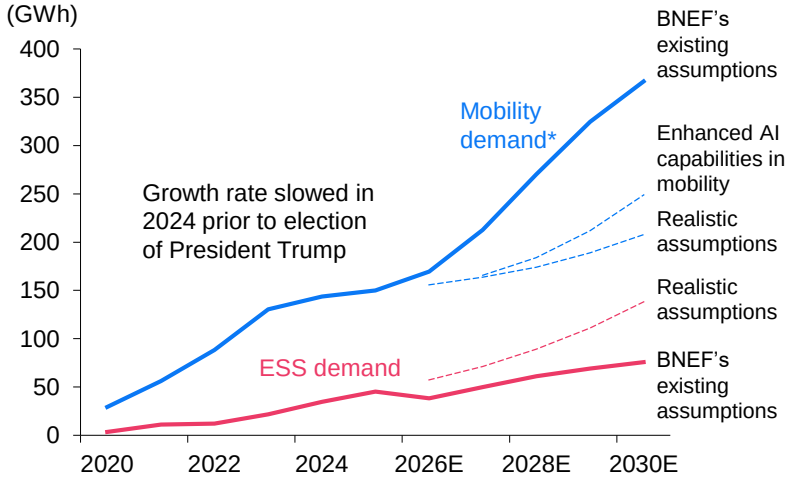


Source: Company data, Samsung Securities

Rechargeable batteries: AI vs non-AI (ESS vs EVs)

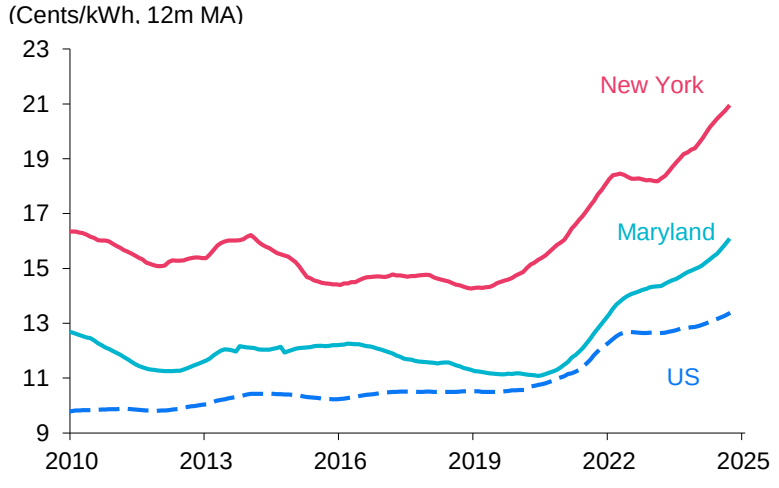
- The portion of battery production that is used for ESS should rise.
- Electricity tariff hikes are negative for EV demand but positive for ESS demand.

Battery demand in North America



Note: *Includes passenger cars, commercial vehicles, buses, and two-wheeled/three-wheeled vehicles.
The dotted lines are for illustrative purposes only and don't represent precise estimates
Source: BNEF, Samsung Securities estimates

Electricity prices: US average vs that in individual states

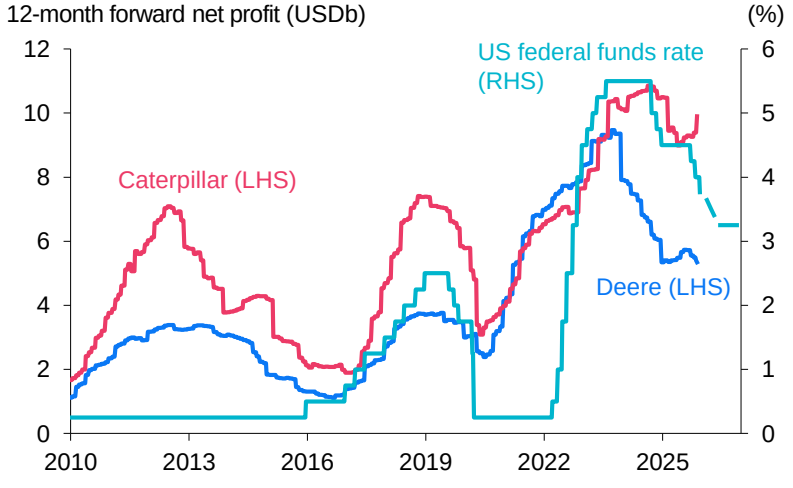


Note: Total = Residential + Commercial + Industrial + Transportation (By purpose)
Source: EIA, Samsung Securities

Construction/infrastructure: Rate cuts to boost infrastructure investments

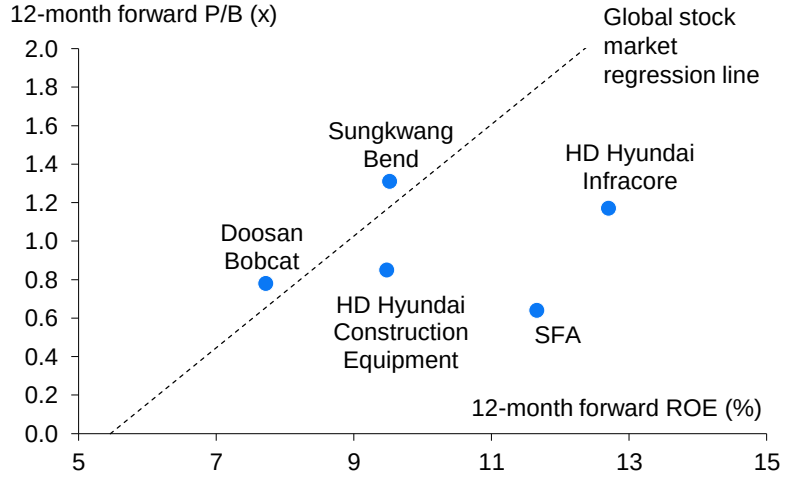
- We expect US policy rates to reach a neutral level in 1H26.
- We view HD Group's construction equipment subsidiaries as being attractively valued.

Caterpillar, Deere: 12M forward net profit vs US federal funds rate



Source: LSEG Workspace, Samsung Securities

MSCI machinery: P/B vs ROE



Note: Based on WI26 sector classification
Source: QuantiWise, Samsung Securities

Internet: Sector facing risks but opportunities also exist

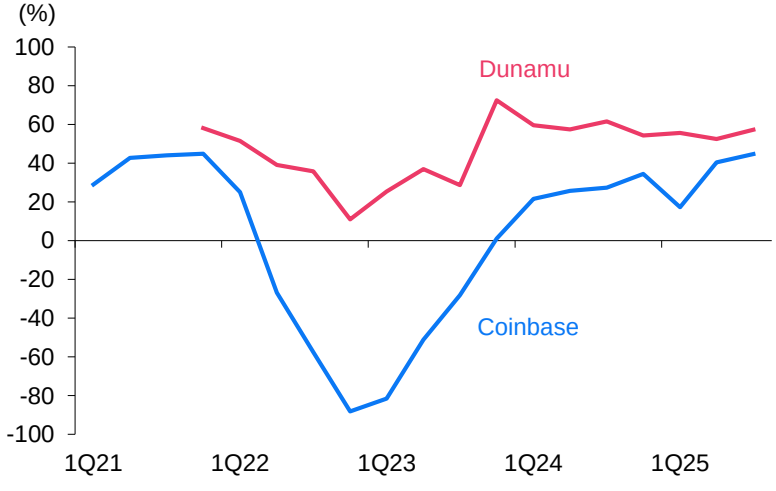
▶ If Naver can turn its cryptocurrency exchange (Dunamu; recently acquired) into a cash cow, it would be able to get ahead in the AI space as well.

Leading search engine, by country vs Google

Country	Google's M/S	#1 search engine
China	2.5~3.9%	Baidu
Russia	39~55%	Yandex
South Korea	31~58%	Naver
Turkey	70~78%	Google
Japan	76~77%	Google
Czech Republic	83%	Google
US	88%	Google
France	87~91%	Google

Source: Media, Samsung Securities

Operating margin: Dunamu vs Coinbase

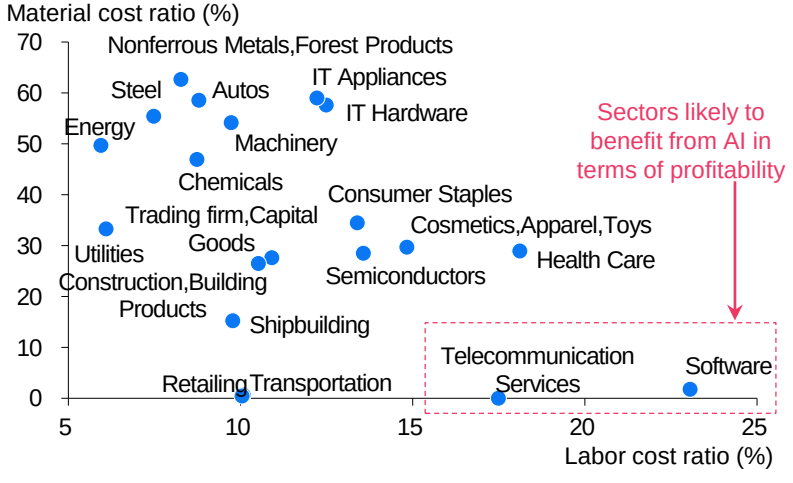


Source: QuantiWise, Bloomberg, Samsung Securities

Games: Sector has the potential to fully utilize AI

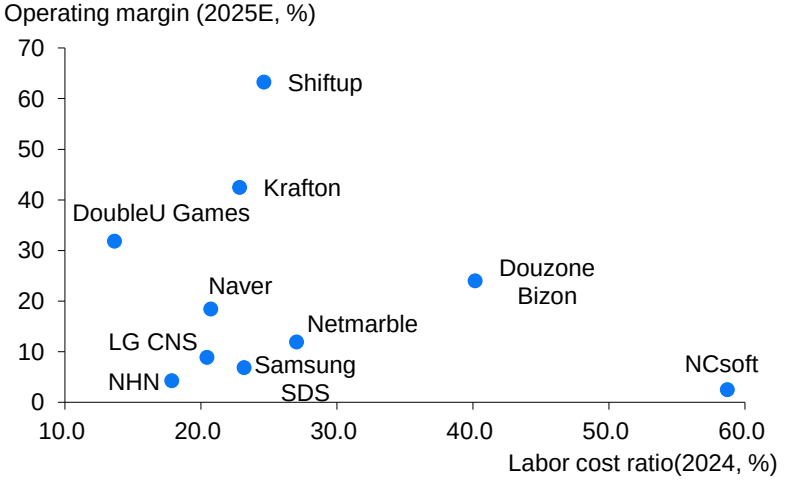
- AI could be more useful (vs robotics) in making virtual operations more efficient.
  - Opportunities could emerge in sectors such as software and telecommunication services.

Labor costs and material costs as a percentage of sales



Source: QuantiWise, Samsung Securities

Labor costs and OPM as portion of sales in software industry

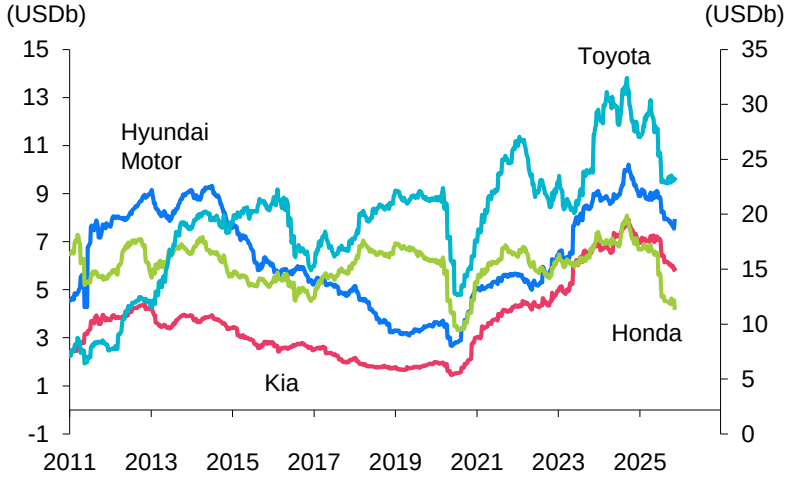


Source: QuantiWise, Samsung Securities

Autos: Autonomous driving a boon for tire industry

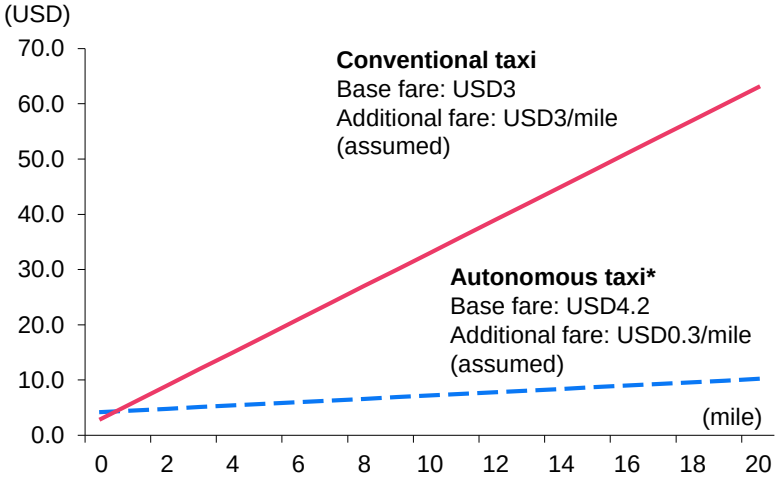
- The number of marginal companies is rising in the auto sector, but global capacity expansions do not present a favorable backdrop for the sector.
- The greater adoption of autonomous vehicles should lead to structurally higher tire demand. We like Hankook Tire & Technology.

Korea, Japan's major automakers: 12-month forward net profit



Source: LSEG Workspace, Samsung Securities

US taxi fares: Conventional taxis vs autonomous taxis

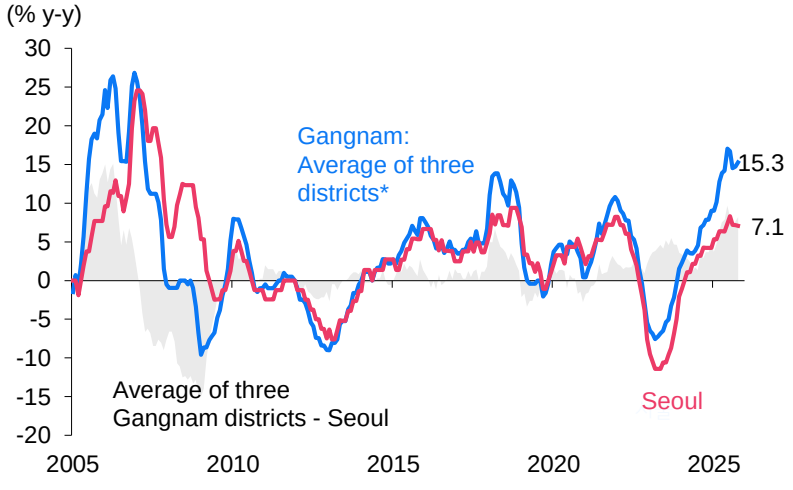


Note: * Based on future fare assumptions for Tesla Robotaxi
Source: QuantiWise, Samsung Securities

Financials: Sector benefiting from increased liquidity

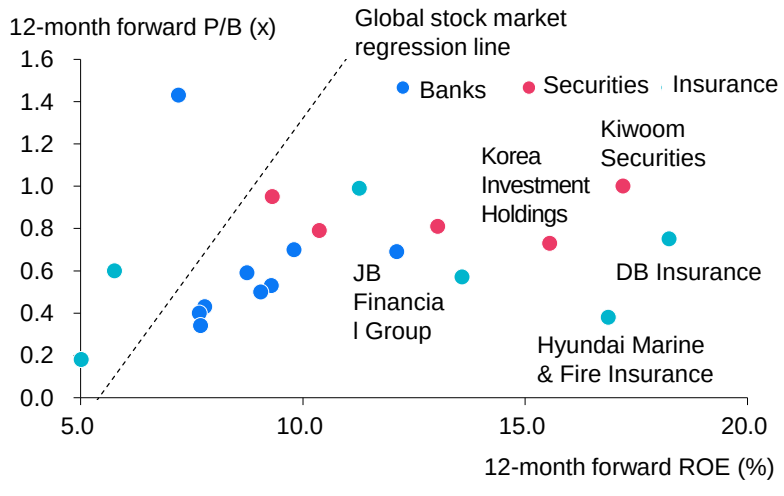
- If stabilizing housing prices becomes a key policy focus ahead of local elections, sentiment towards the banking sector could weaken.
- The securities sector should be a prime beneficiary of improvements in Korea's corporate governance framework.

Seoul apartment sales price index



Note: Simple average of Gangnam 3 districts
Source: Korea Real Estate Board, Samsung Securities

MSCI Securities Brokers: P/B vs ROE



Source: QuantiWise, Samsung Securities

Pharma/bio: Stronger price reactions seen in time of high liquidity

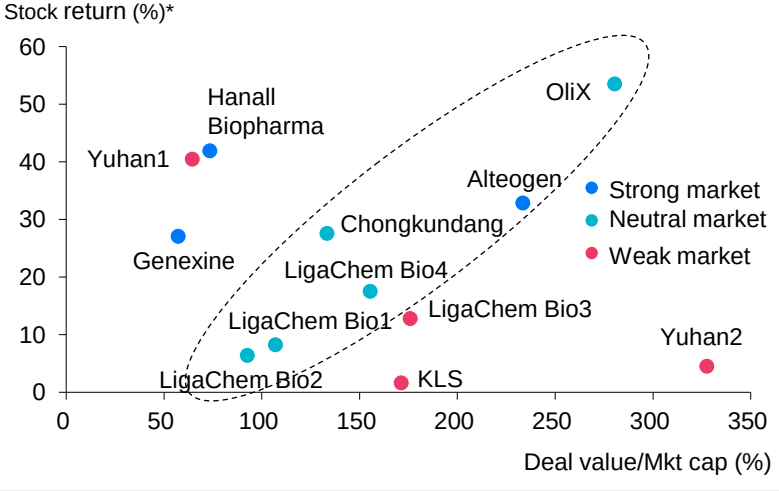
▶ The announcement of deals in the pharmaceutical/biotech sector is met with stronger share-price reactions in times of ample market liquidity.

Technology export deals by major biotech companies

Announcement date	Company	Technology
2017-12-19	Hanall Biopharma	New antibody drug for autoimmune disease
2017-12-22	Genexine	Immunotherapy drug, Hyleukin
2018-11-05	Yuhan1	Non-small cell lung cancer treatment
2019-01-07	Yuhan2	Non-alcoholic steatohepatitis
2019-12-02	Alteogen	Subcutaneous injection formulation conversion enzyme platform
2021-11-17	LigaChem Bio1	(ADC) Anticancer drug development platform
2021-12-27	LigaChem Bio2	(LCB14) HER2-targeted ADC candidate compounds
2022-04-13	KLS	Knee osteoarthritis gene therapy
2022-12-23	LigaChem Bio3	(LCB84) ADC-based candidate compounds
2023-11-06	Chongkundang	(CKD-510) Treatment for atrial fibrillation
2023-12-26	LigaChem Bio4	(LCB84) Treatment for metastatic solid tumors
2025-02-07	OliX	Candidate compound for non-alcoholic steatohepatitis

Note: Events in the left table correspond to stock return shown in the right chart
Source: Media, Samsung Securities

Stock price reaction to technology export deals



Source: Market classification is based on the US stock market, *Stock price returns are based on the closing price before and after the announcement date
Source: Media, Samsung Securities

2026: Top-10 picks

Sector	Company	Ticker	Price (KRW)		Market cap	Valuations (%)				
			Now	Target	(KRWt)	P/E (x)	P/B (x)	EPS growth	ROE	Div yield
IT	Samsung Electronics	005930 KS	99,300	130,000	587.8	10.3	1.4	79.8	13.5	1.6
	SK Hynix	000660 KS	519,000	700,000	377.8	6.6	2.2	52.0	33.4	0.4
	Wonik IPS	240810 KS	60,000	86,000	2.9	25.0	2.8	71.0	11.1	0.3
Healthcare	LigaChem Bio	141080 KS	172,900	-	6.3	291.2	10.2	697.3	3.5	0.0
Consumer Discretionary	Hankook Tire & Technology	161390 KS	58,400	72,000	7.2	5.7	0.6	11.0	9.7	5.3
Financials	Korea Investment Holdings	071050 KS	154,600	210,000	8.6	5.3	0.7	-8.0	13.9	4.4
Industrials	Hyosung Heavy Industries	298040 KS	1,940,000	2,660,000	18.1	26.1	6.2	46.0	23.6	0.4
	Samsung E&A	028050 KS	25,100	39,000	4.9	7.2	1.0	9.4	13.1	2.7
	HD Hyundai Infracore	042670 KS	14,380	20,600	2.7	10.1	1.2	49.2	11.9	1.0
Materials	LG Chem	051910 KS	363,000	500,000	25.6	44.2	0.8	407.2	1.9	0.5

Note: As of Nov 25, 2025
Source: QuantiWise, Samsung Securities

Samsung Securities

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