SPECIAL REPORT

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Bond market outlook for 2H26

Terms-of-trade shock and interest rates in Korea

A positive terms-of-trade shock, led by semiconductors, is lifting Korea's growth, inflation, and fiscal position all at once. Increased global investment in AI infrastructure has driven sharp increases in demand and exports for semiconductors. As a result, we forecast Korean GDP growth of 3.2% in 2026 and 2.6% in 2027. Exports (on a customs-clearance basis) are projected to rise 45% y-y in 2026—driven by a near 160% increase in semiconductor shipments—and 15% y-y in 2027. Yet, semiconductor production volumes are only rising at an annual rate of 20%, suggesting that roughly five-sixths of the export growth stems from price increases.

As export prices surge, income indicators such as GDI are projected to rise 9.9% in 2026, significantly outpacing GDP growth, with nominal growth forecast to reach 17.7% in 2026 and 8.9% in 2027. Unlike past positive terms-of-trade shocks, which were typically driven by commodity prices, this one originates from high-tech manufactured goods—an unusual phenomenon. A positive terms-of-trade shock driven by rising export prices exerts stronger and longer-lasting effects on the domestic economy than one driven by falling import prices.

Increased income spreads throughout the economy through three channels: taxation, wages, and investment. Corporate tax revenues are projected to rise from KRW85t in 2025 to KRW130t in 2026 and KRW220t in 2027, driven by sharply higher profits at the two leading semiconductor firms. Facility investment by these two firms is expected to expand from KRW75t in 2025 to KRW130t in 2027. As a result, total tax revenues are forecast to exceed KRW450t in 2026 and KRW565t in 2027, while the government debt-to-GDP ratio is expected to decline to 43% by end-2026 and 39% by end-2027. Private consumption is also projected to outpace GDP growth in 2H26 onward, increasing 2.7% in 2026 and 3.0% in 2027, supported by the fiscal multiplier effect, wealth effects from a buoyant stock market, and a rise in foreign tourist arrivals (projected at 22.5m in 2026).

EXECUTIVE SUMMARY

Korean bond market

In Korea, both growth and inflation expectations have risen together, sustaining upward pressure on interest rates. Our base case scenario is that the Bank of Korea will raise rates twice in 2026 (in July and October), bringing the policy rate to 3.0% by year-end, followed by two further hikes in 1H27 to reach a terminal rate of 3.5%—matching the peak level seen in 2023. This month, market-implied forward rates priced in up to six hikes over the next year. The 10-year government bond yield has already risen to 4.35% (currently at 4.13%). During the 2022-2023 rate surge, yields peaked at 4.63%—with sharp volatility, but only briefly: the yield spent 32 days between 4.2% and 4.4%, just 2 days between 4.4% and 4.6%, and one day above 4.6%. So, while bond market volatility is likely to remain elevated, the potential for yields to rise beyond recent peaks appears limited.

Bond supply-demand conditions are poised to improve, as surging corporate operating profits will significantly boost tax revenues, leading to a marked decline in net government bond issuance in 2027. Assuming a 10% growth in fiscal spending, net government bond issuance in 2027 would turn into a KRW13.7t repayment; even if fiscal spending grows 12%, fiscal balance would be achievable. (On a side note, net government bond issuance was KRW112t in 2025 and KRW109t in 2026). The end-August release of the government's budget proposal will be a key variable in validating this outlook. For 2H26, we expect the 3-year government bond yield to range between 3.50% and 4.00%, and the 10-year yield between 3.80% and 4.40%. Considering upward pressures on the economy, we recommend a conservative investment strategy with shorter duration exposure. However, investors may consider extending duration if yields rise beyond current levels.

US bond market

Near-term US monetary policy momentum remains muted, with no clear upside or downside catalysts for rates. Although the June FOMC was perceived as hawkish, we anticipate that the effects of tariffs and energy price increases will fade by late 2026-early 2027, leading to a moderation in inflation. We therefore expect the US rate-cutting cycle to continue, maintaining our forecast of two additional cuts (in Dec 2026 and Mar 2027). Amid mixed signals on growth and inflation, we project the 2-year US Treasury yield to range between 3.90% and 4.20%, and the 10-year yield between 4.10% and 4.60% in 2H26.

PART

01

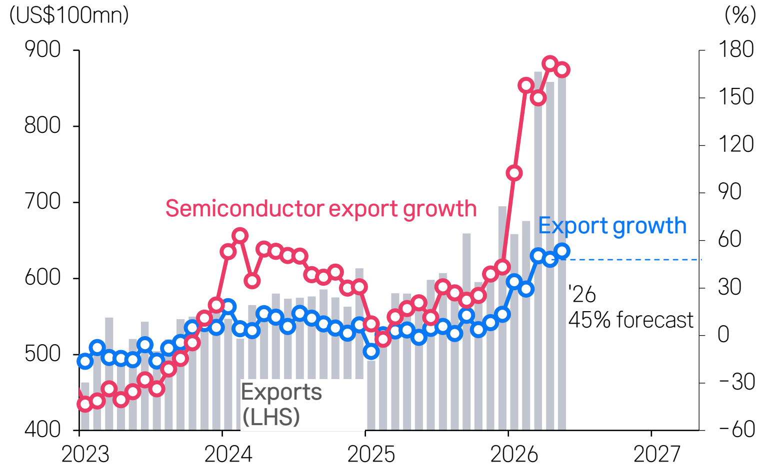
Korea Economy

Semiconductor-Led Strengthening of Export Momentum

Samsung Securities expects 3.2% growth in 2026

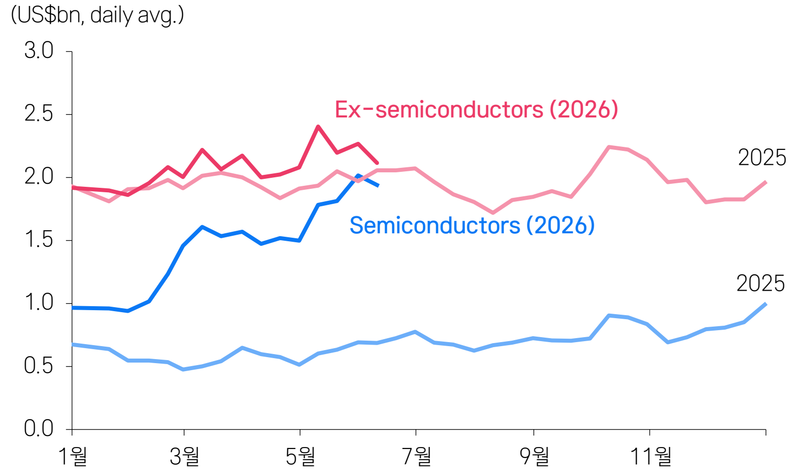
- With semiconductor exports surging on expanding global AI investment, the Middle East conflict's drag on Korean exports also smaller than initially expected
- 2026 export forecast raised from 33% to 45%, 15% in 2027 as well (semiconductor exports: 160% in 2026, 30% in 2027)

Korea's exports: forecasts rise with each update



Source: MOTIE, Samsung Securities

Semiconductors and computers account for most of the export



Source: MOTIE, Samsung Securities

Korea Economy Houseview

The semiconductor export surge spreads across the economy via taxes, wages, and investment

- Korea growth forecast 3.2% in 2026, 2.6% in 2027; current account surpluses of US$300bn and US$330bn respectively

Korea economic and fiscal indicator forecasts

		2025	2026	2027
Growth	GDP growth	1.0%	3.2%	2.6%
	Private consumption	1.3%	2.7%	3.0%
	GDI growth	1.7%	9.9%	4.0%
	Nominal growth	3.2%	17.7%	8.9%
Prices	CPI	2.1%	2.7%	2.3%
	Core CPI	1.9%	2.3%	2.4%
Fiscal	National tax revenue	373.9 tn KRW	396tn KRW → 450tn KRW+ (Samsung)	565tn KRW
	Corporate tax revenue	85tn KRW	87.5tn KRW → 130tn KRW (Samsung)	220tn KRW
	Government debt (% of GDP)	48%	44%	39%

Source: Samsung Securities

How the increased income propagates through the economy

	Transmission channel	Scale
Taxes	Higher corporate income → higher corporate tax → higher government spending	Corporate tax revenue of KRW 130tn in '26, KRW 220tn in '27
Wages	Higher employee compensation (wages) → higher private consumption	+KRW 55tn in '27 vs. '26, +KRW 88tn in '28 Wage income tax revenue: +KRW 20tn in '27 vs. '25, +KRW 30tn in '28
Investment	Excess demand → capex↑ + infrastructure expansion (construction investment↑)	KRW 75tn in '25, KRW 105tn in '26, KRW 130tn in '27 (Samsung Electronics and SK Hynix capex, Bloomberg)

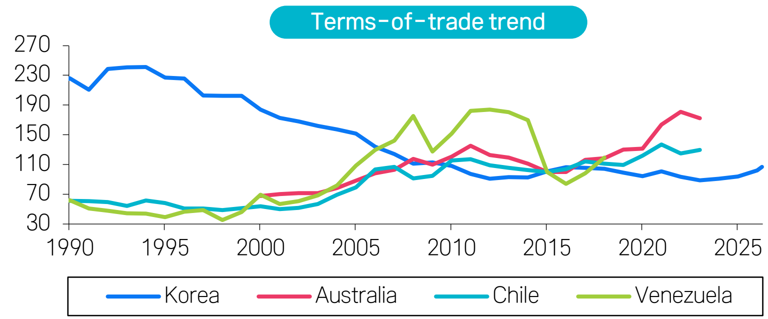
Source: Samsung Securities

Korea Experiencing a Positive Terms-of-Trade (ToT) Shock

ToT shocks driven by rising export prices have a much larger and more persistent impact on the economy

- Rising export prices are accompanied by expanded investment, higher real income, and increased tax revenue

Examples of terms-of-trade shocks



	Case	Causes and characteristics
Cases	Australia (mid-2000s ~2010)	Surging commodity demand more than doubled the terms of trade real income and investment expanded
	Netherlands (1970s~80s)	Natural gas exports weakened manufacturing competitiveness
Korea	'86~88, '14~16	Cases of ToT shocks from falling import prices (oil)
	2025 ~ present	ToT shock from rising export prices (semiconductor prices)

Source: UNCTAD, Samsung Securities

Why Korea Can Avoid Dutch Disease

Dutch Disease?

After the Netherlands discovered vast natural gas reserves in the North Sea in 1959, exports surged, the fiscal and current account balances improved, and the currency (Dutch guilder) appreciated
→ rising fiscal spending expanded the public sector, while manufacturing competitiveness declined. The oil shock that followed dealt a major blow to manufacturing and caused unemployment to surge

Factor	Description
Supply constraints	Unlike commodities, semiconductors have a limited number of suppliers
Continued overseas investment	Residents' expanding overseas investment portfolios offset the current account surplus
Industry characteristics	Advanced manufactured products rather than commodities → require sustained technological competitiveness

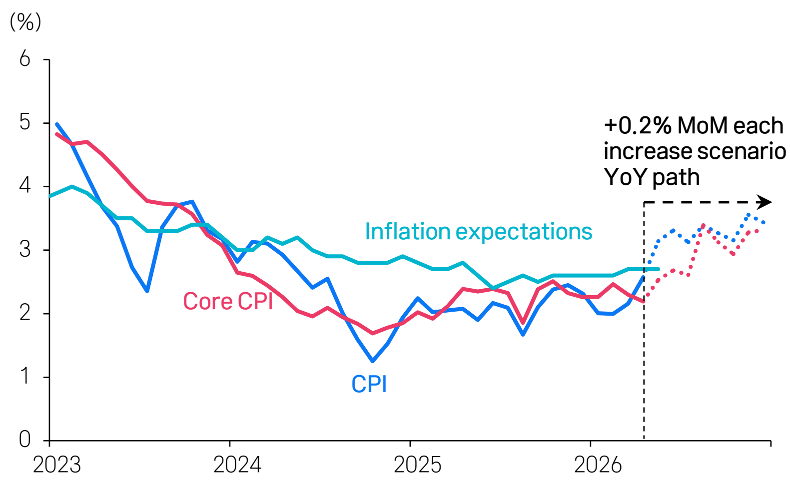
Source: Samsung Securities

A time when inflation expectations also need to be contained

Just as the price-cap scheme limited the increase, the pace of price stabilization is also gradual

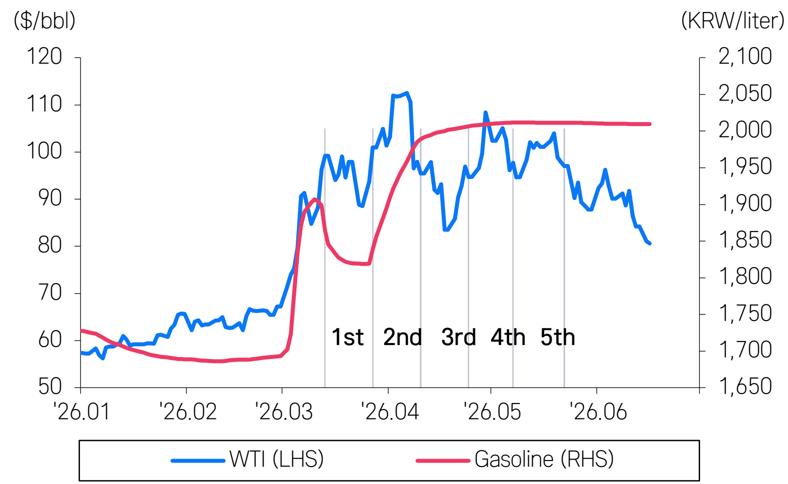
- Inflation expectations rose 20bp in the wake of the Middle East conflict
- Base forecast for 2026 CPI inflation 2.7% (annual peak 3.4~3.6%)

Korea CPI inflation trend



Source: National Data Agency, Samsung Securities

International oil prices and retail gasoline price trends



Source: KNOC, Bloomberg, Samsung Securities

PART

02

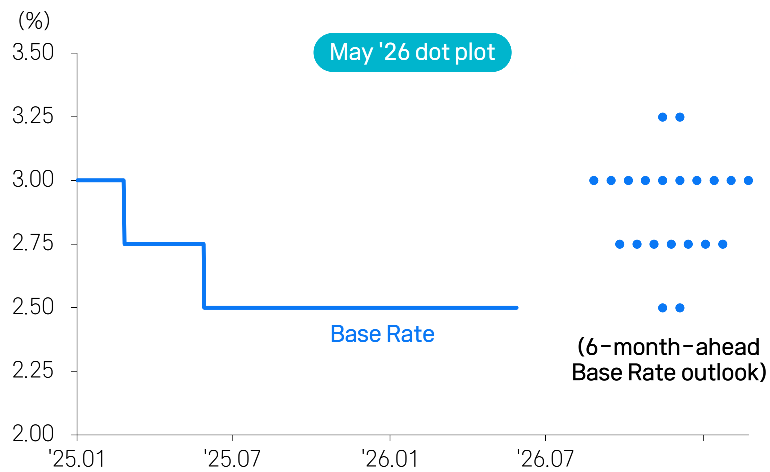
Korea Bond Market

Base Rate Outlook

Korea's Base Rate to be raised to 3.0% within the year (terminal rate expected at 3.5%)

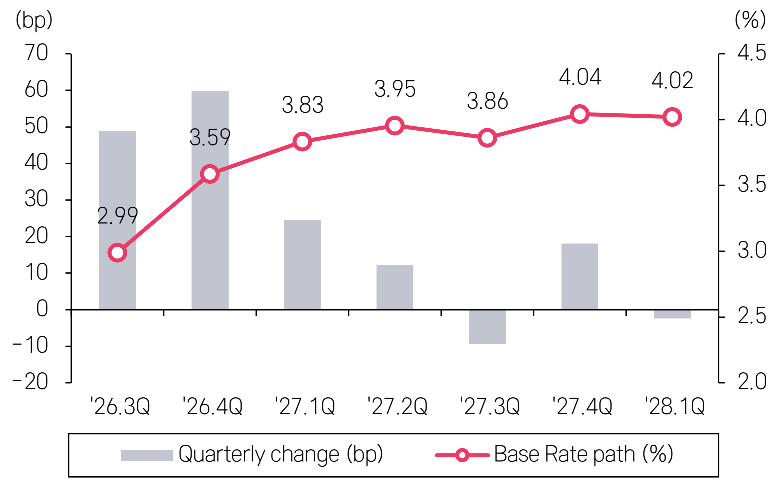
- On the ToT shock and inflation expectations, hikes expected in July and October 2026 plus two more in H1 2027
- Implied forward rate prices in up to six hikes within a year — a path judged unlikely (in 2022, a path up to 4.3% was priced in)

BOK dot plot



Source: Bank of Korea, Samsung Securities

STRIPS-implied forward rate prices in up to six hikes



Source: Samsung Securities

Summary of Korea's Base Rate hiking cycles

A feature is that the timing of the bond yield peak varies with the level of the final rate (= terminal rate)

- Type (1) Government bond yield peak before the first hike: 2002 and 2010~11 cases
- Type (2) Government bond yield peak early in the hiking cycle: 2017~18 case
- Type (3) Government bond yield peak late in the hiking cycle: 2005~08 and 2021~23 cases

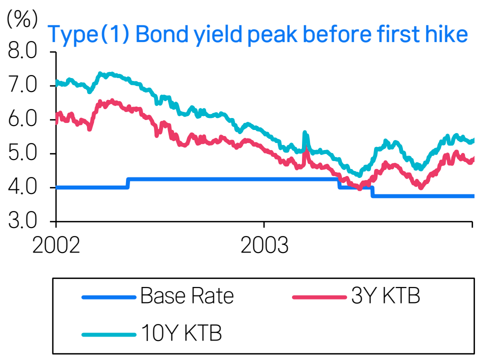
Summary of Korea's Base Rate hiking cycles

	Base Rate hiking period	Base Rate change	Hike size (bp)	No. of hikes	Bond yield peak timing	Spread at first hike (3Y)	Spread at first hike (10Y)	3Y peak	3Y peak timing	10Y peak	10Y peak timing
1	2002.05 (1 hike)	4.00 →4.25	25	1	Type (1) before first hike	234	322	6.58% (02.04.09)	before hike 28 days	7.37% (02.03.19)	before hike 49 days
2	2005.10 ~2008.08	3.25 →5.25	200	8	Type (3) Base Rate late in hiking cycle	139	193	6.17% (08.07.14)	98% through	6.20% (08.07.03)	97% through
3	2010.07 ~2011.06	2.00 →3.25	125	5	Type (1) before first hike	194	294	4.31% (10.01.28)	before hike 162 days	5.39% (10.01.18)	before hike 172 days
4	2017.11 ~2018.11	1.25 →1.75	50	2	Type (2) Base Rate early in hiking cycle	82.5	122.7	2.32% (18.02.20)	22% through	2.81% (18.05.15)	45% through
5	2021.08 ~2023.01	0.50 →3.50	300	10	Type (3) Base Rate late in hiking cycle	89.8	142.8	4.55% (22.09.26)	78% through	4.63% (22.10.21)	83% through
6	(forecast) 2026.07 ~2027.05	2.50 →3.50	100	4	in progress						

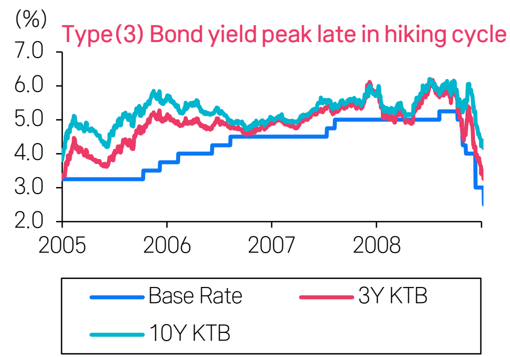
Source: Infomax, Samsung Securities

Summary of Korea's Base Rate hiking cycles

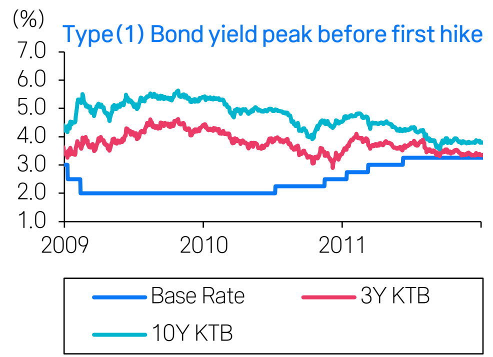
2002 Base Rate hike



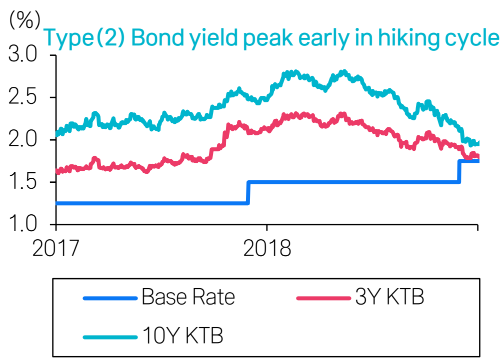
2005~08 Base Rate hikes



2010~11 Base Rate hikes

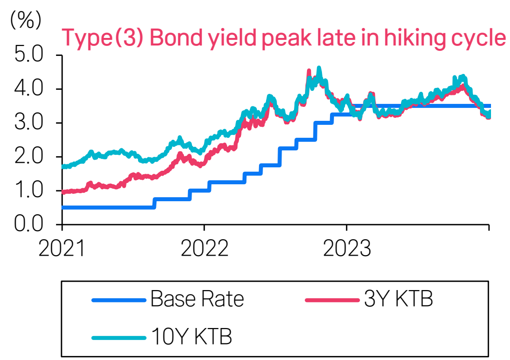


2017~18 Base Rate hikes



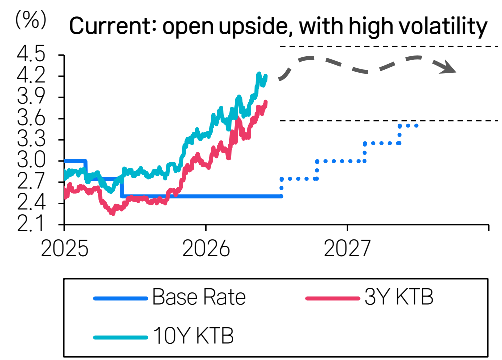
Source: KOFIA, Samsung Securities

2021~23 Base Rate hikes



Source: KOFIA, Samsung Securities

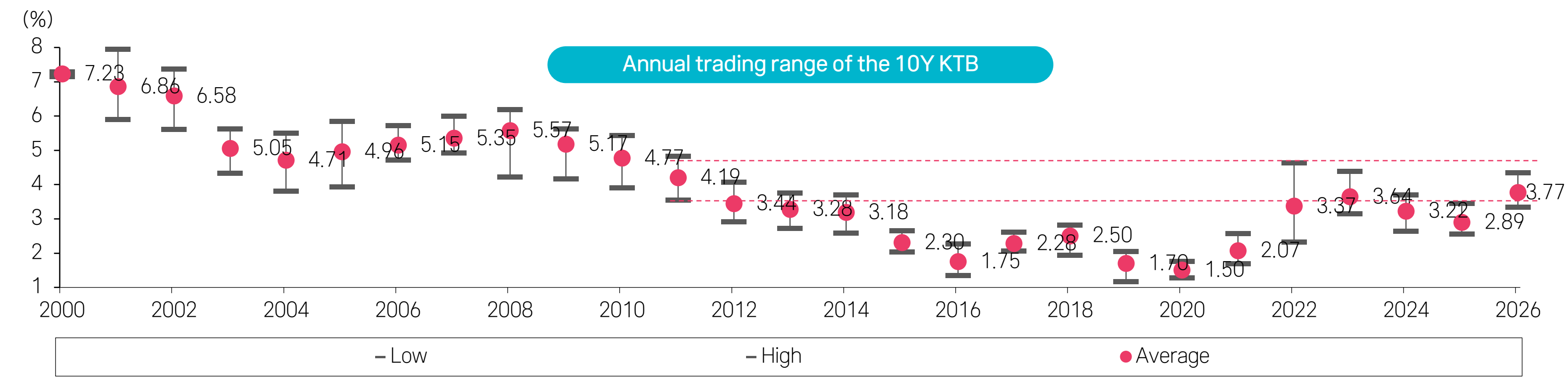
Current: hiking expected to begin in July

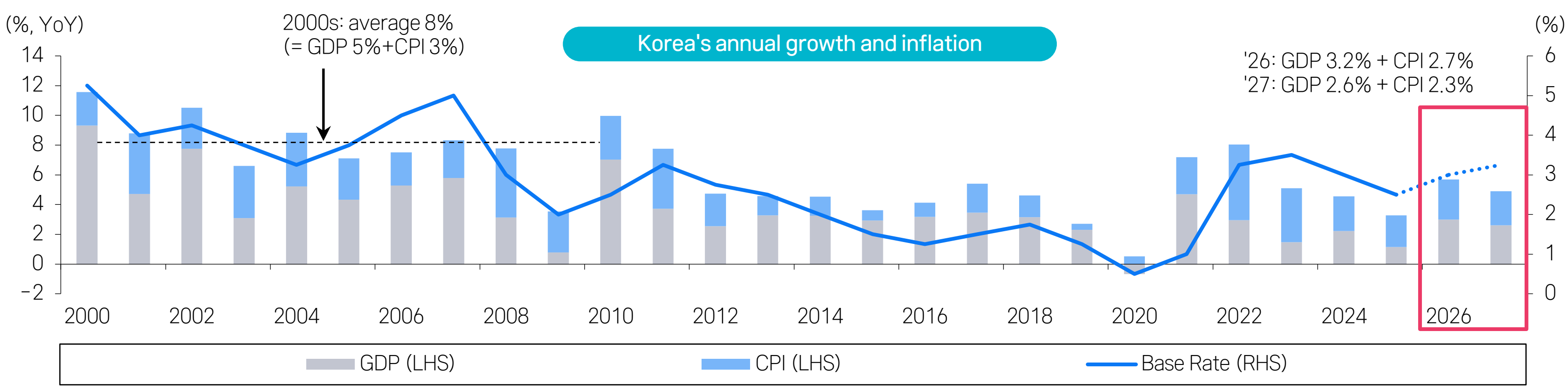


Source: KOFIA, Samsung Securities

Rates fluctuate to reflect economic conditions

Government bond yields largely pre-reflect the future economic outlook



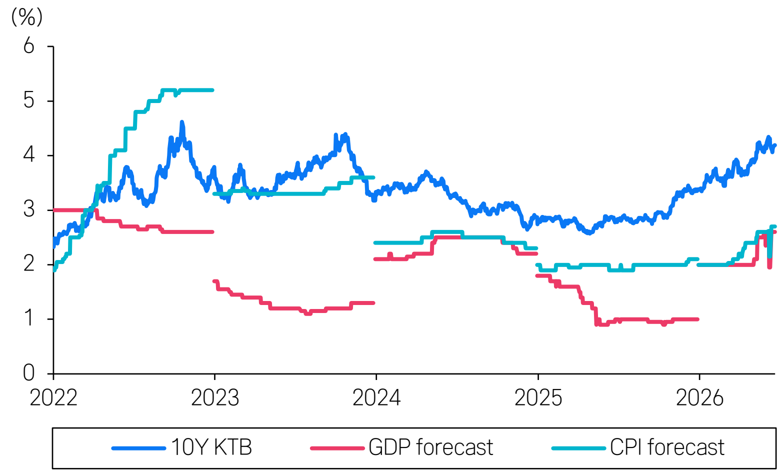


Note: 2026 and 2027 GDP and CPI are based on our forecasts
Source: Bank of Korea, KOFIA, Samsung Securities

Given past cycles, limited further upside; high volatility expected

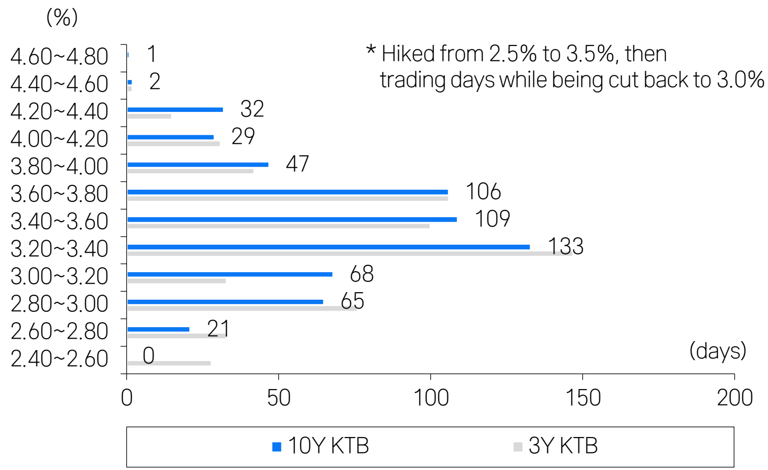
- Market consensus is also continuing to revise growth and inflation upward (currently 2.6% and 2.7%, respectively, Bloomberg)
- Market expectations already price in substantial Base Rate hikes and can be compared with past hiking cycles
- At that time the 10Y yield rose to the 4.6% area (4.63%), but the period was brief (32 days in the 4.2~4.4% range, 2 days in 4.4~4.6%, 1 day above 4.6%)
- Limited room for the rate peak to climb further, but high volatility expected

A phase of continued upward pressure on rates as growth and inflation forecasts rise together



Source: KOFIA, Bloomberg, Samsung Securities

Past rate cycle: number of days spent at each yield level, Aug '22~Feb '25



Source: KOFIA, Samsung Securities

The KTB issuance stance needs to be reassessed

Even under an aggressive fiscal stance, net KTB issuance set to fall sharply

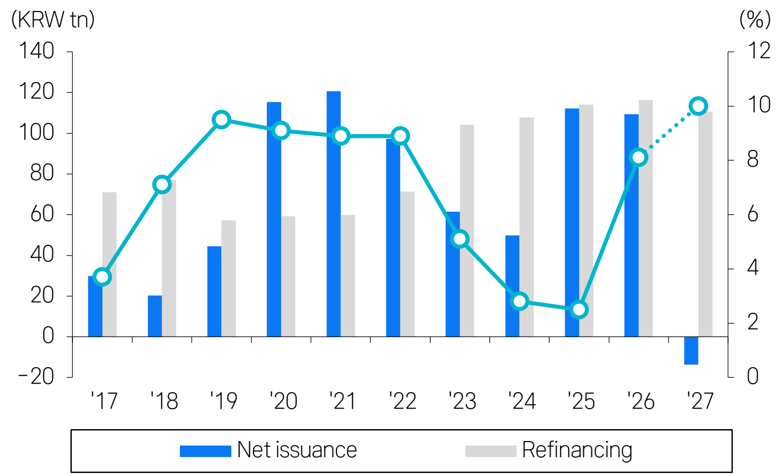
- Fiscal stance set to continue, but even at 10% expenditure growth, net KTB redemption of KRW −13.7tn expected
- Note: net KTB issuance was KRW 112.2tn in 2025 and KRW 109.4tn in 2026

'27 scenarios by fiscal expenditure growth rate (unit: KRW tn)

Fiscal expenditure assumption (%)	Fiscal expenditure	Consolidated balance	Net issuance
0%	753	105.0	-89.0
6%	798.2	59.8	-43.8
8%	813.2	44.8	-28.8
10%	828.3	29.7	-13.7
12%	843.4	14.6	1.4
14%	858.4	-0.4	16.4
16%	873.5	-15.5	31.5

Source: Samsung Securities

Even assuming a 10% increase in fiscal expenditure, net KTB issuance declines sharply



Source: Ministry of Economy and Finance, Samsung Securities

Government debt path outlook

The government debt-to-GDP ratio declines to 43% at end-2026 and 39% at end-2027

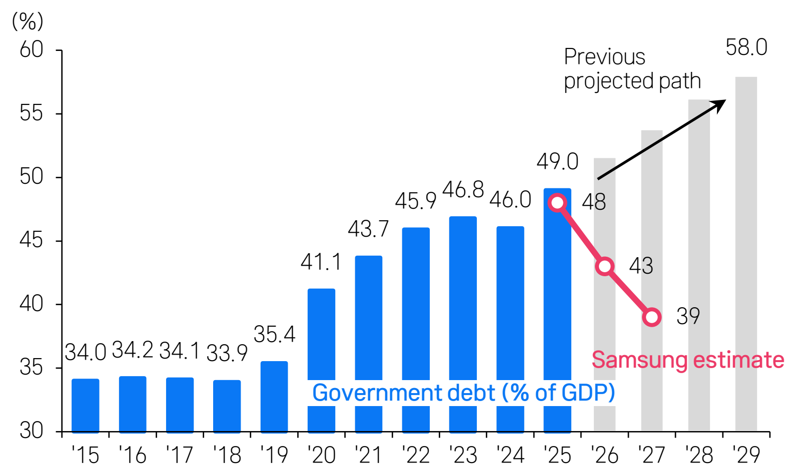
- Relative to the 2026 supplementary budget, the increase in corporate tax revenue alone amounts to KRW 30tn in 2026 and KRW 120tn in 2027, plus nominal GDP growth of 17.7% in 2026 and 8.9% in 2027
- Reflecting medium- to long-term spending increases, higher nominal growth and revenue bring the government debt-to-GDP ratio to 43% (end-2026) and 39% (end-2027)
- Lower government debt ratio set to widen medium-term policy capacity

Corporate tax revenue surges in 2026 and 2027

Tax item	'24 actual	'25 actual	'26 forecast (NABO)	'26 forecast (Samsung)	'27 forecast (Samsung)
Total national tax	336.5	373.9	396.1	450+a	565+a
Income tax	117.4	130.5	136.7	140	160
Corporate tax	62.5	84.6	87.5	130	220
VAT	82.2	79.2	86.7	90	92
Other	74.5	79.6	85.3	90	93

Source: NABO, '2026 NABO National Tax Revenue Outlook: 2025~2029, Samsung Securities

Government debt-to-GDP outlook



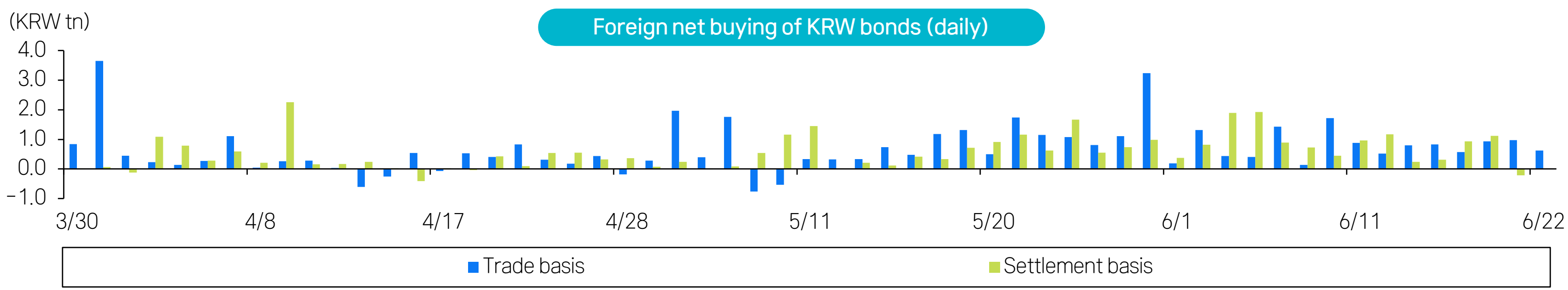
Source: Ministry of Economy and Finance, Samsung Securities

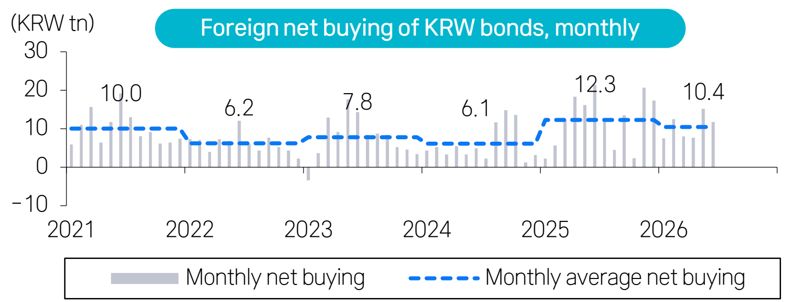
WGBI inflows: where do they stand?

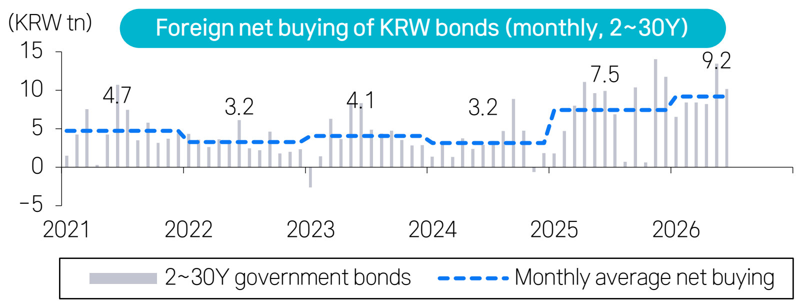
Net buying is rising, centered on WGBI-eligible bonds

- Holdings rise mainly in WGBI-eligible bonds, while investment is weak in WGBI-ineligible KTBs, Monetary Stabilization Bonds (MSBs), agency bonds, and bank bonds
- Foreign holdings of KRW bonds rose from KRW 338.3tn at the start of the year to KRW 351.2tn currently

Foreign net buying of KRW bonds







Source: Infomax, Samsung Securities

Insurers' incentive to invest in long-term bonds has weakened

Insurers' K-ICS ratios are rising

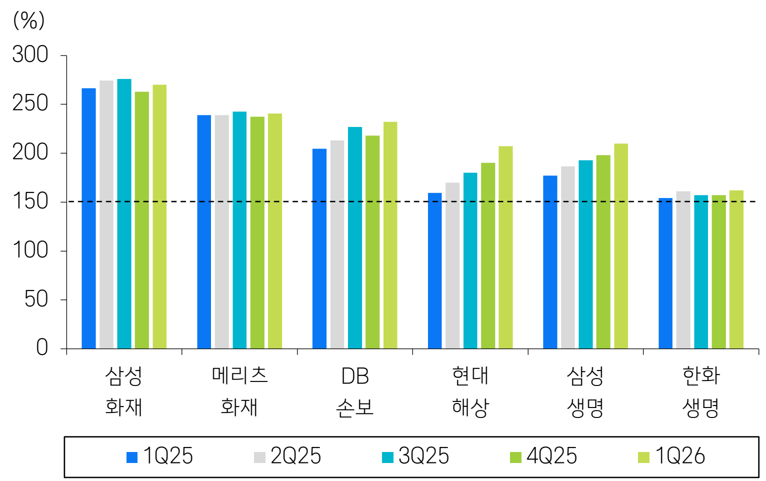
- There is no issue once K-ICS exceeds 100%, but the financial authorities' recommended threshold is effectively 150%; with many companies now above 200%, the incentive has diminished
- Hyundai M&F, Samsung Life: higher liability sensitivity means a larger reduction in liabilities when rates rise
- Hanwha Life: sensitivity has fallen after sharply raising asset duration last year

Changes in K-ICS ratios by insurer

	1Q25	2Q25	3Q25	4Q25	1Q26
Samsung F&M	266.6	274.5	276	262.9	270.1
Meritz F&M	238.9	238.9	242.7	237.4	240.7
DB Insurance	204.7	213.3	227	217.9	232.1
Hyundai M&F	159.4	170	180	190.1	207.2
Samsung Life	177.2	186.7	193	198	209.9
Hanwha Life	154.1	161	157	157	162

Source: Bank of Korea, Samsung Securities

K-ICS ratios rise as rates increase



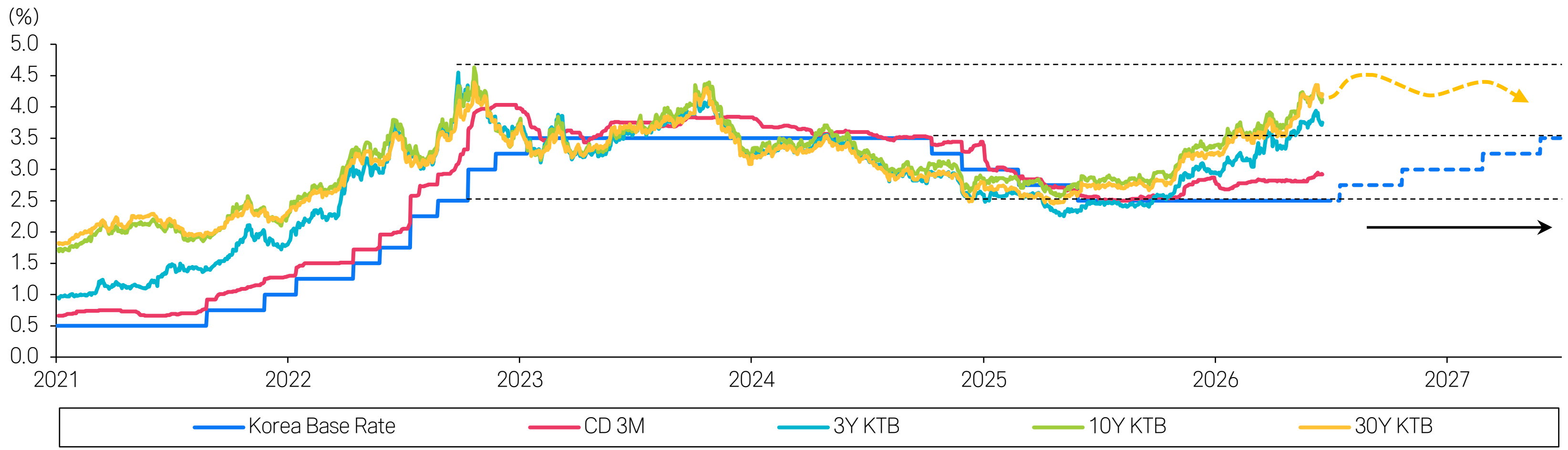
Source: Each company, Samsung Securities

A conservative strategy of keeping duration short is needed

Given upside pressure on the economy, a conservative strategy of keeping duration short as a baseline

- H2 2026 KTB ranges: 3Y 3.50~4.00%, 10Y 3.80~4.40%
- Given upside pressure, a conservative short-duration stance preferred as a baseline; extending duration worth considering when rates rise above current levels

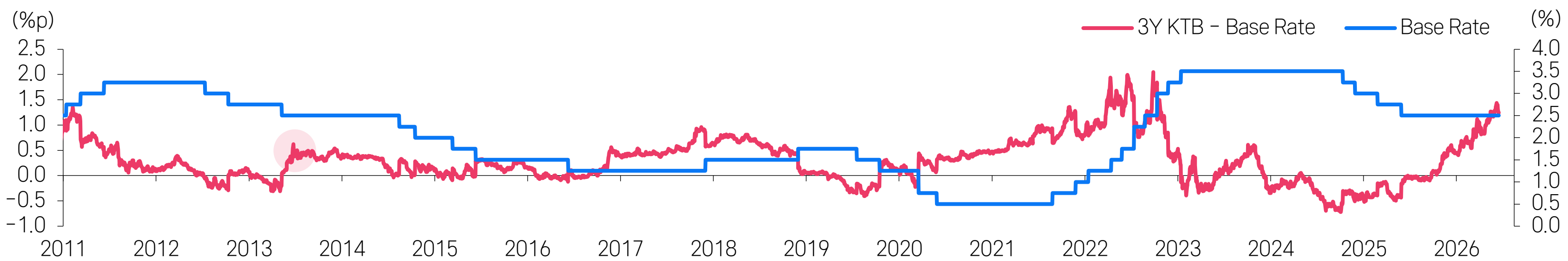
High volatility is inevitable as the Base Rate hikes unfold

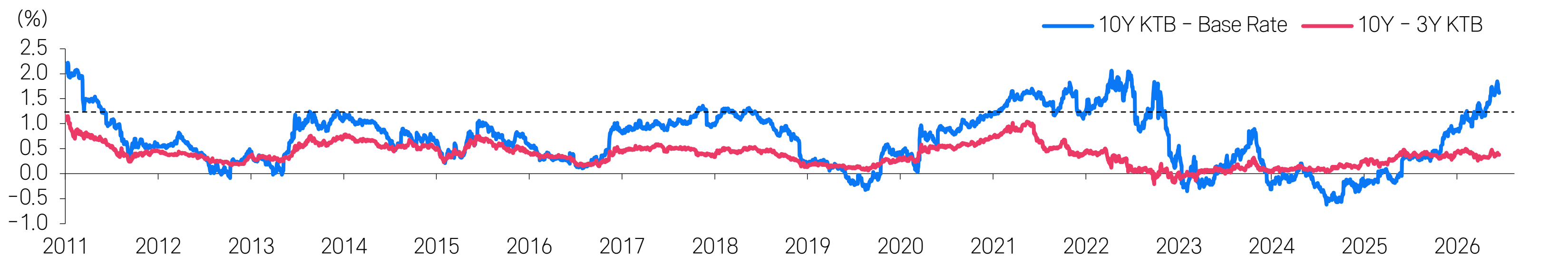


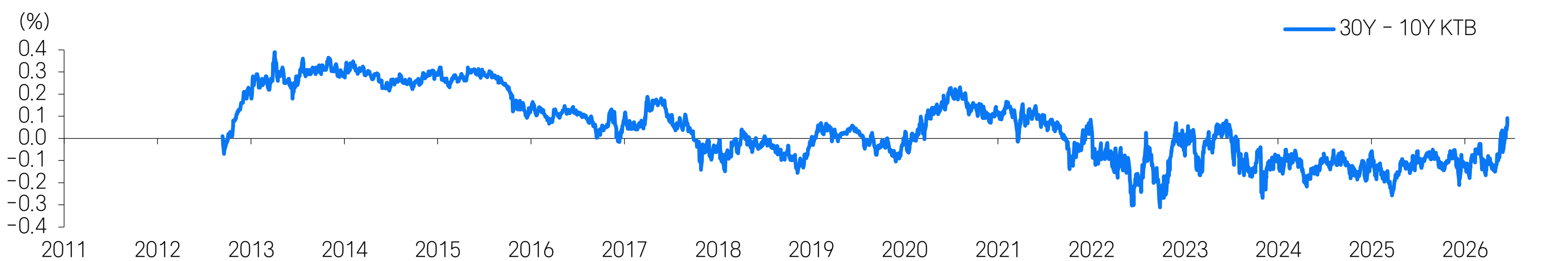
Source: KOFIA, Samsung Securities

Korea Bond Market

Key spreads







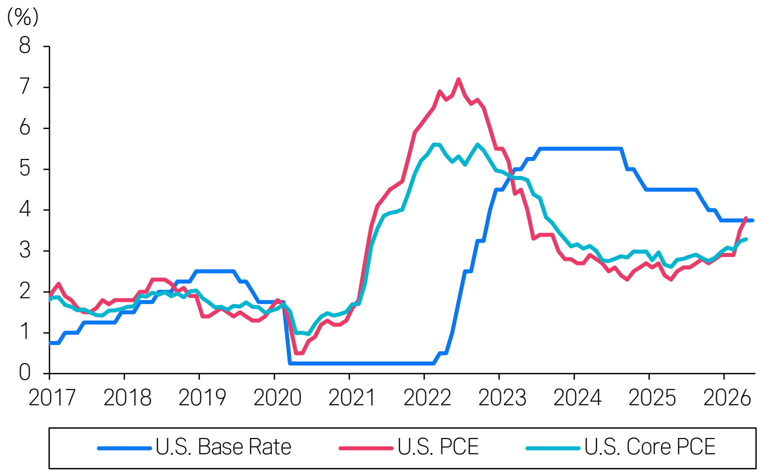
PART
03
US Bond Market

Shifts in rate-cut expectations affect the U.S. Treasury market

The intermediate sector, which had heavily priced in rate cuts, has retraced over the year

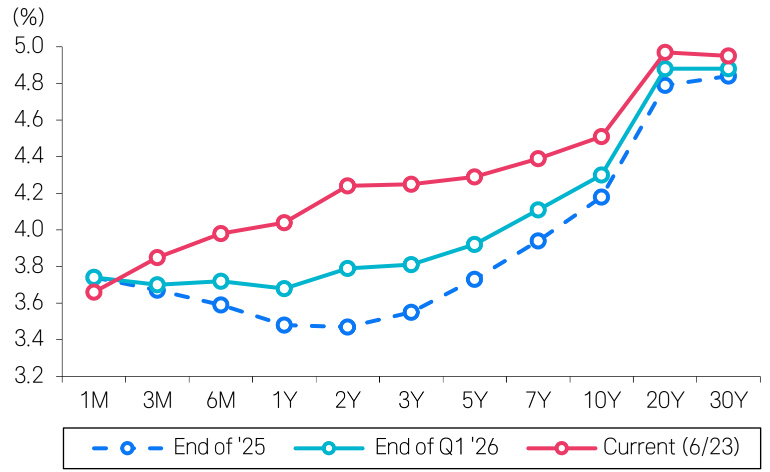
- U.S. inflation has risen close to the current U.S. Base Rate level, and from a data-dependent perspective, conditions require more time before another rate cut
- The year began with the intermediate sector heavily depressed, and shifting monetary policy expectations have driven U.S. Treasury yields higher in the intermediate sector

Conditions where rising U.S. inflation has pushed back expectations for Fed rate cuts



Source: Fed, Bloomberg, Samsung Securities

Shifting monetary policy expectations drive higher yields in the intermediate sector



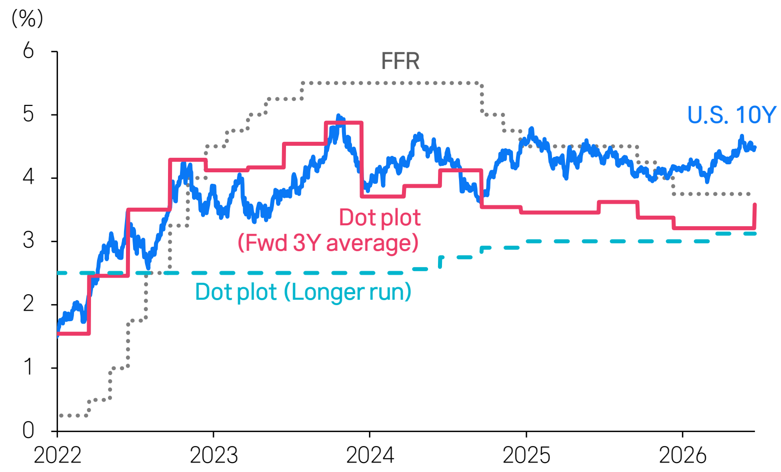
Source: Bloomberg, Samsung Securities

Both upside and downside risks are limited

Although the June FOMC was widely seen as hawkish, the threshold for a rate hike remains high

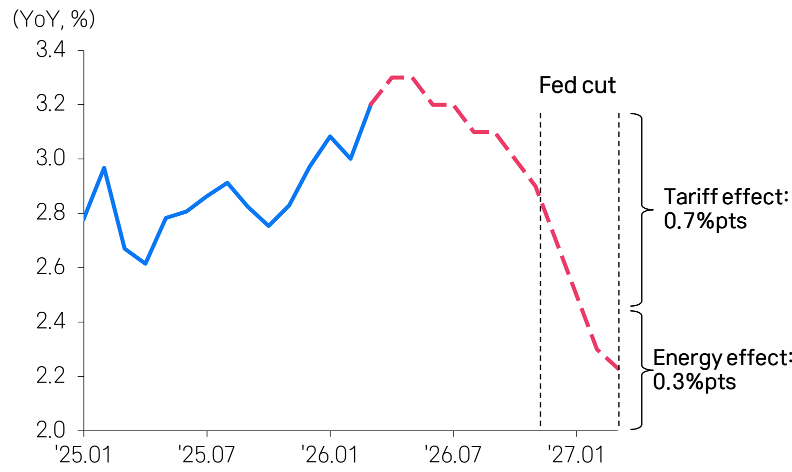
- As tariff and energy-price effects fade, U.S. headline and core YoY inflation set to fall 0.8~1.0%pts between this December and next March
- Bar for a hike judged to stay high; two more U.S. Base Rate cuts maintained ahead (Dec '26 + Mar '27)
- With mixed upside/downside risks to growth and inflation, the 10Y UST set to keep trading in a higher range than before (4.20~4.60%)

U.S. FFR, dot plot changes, and the 10Y UST yield trend



Source: Bloomberg, Samsung Securities

U.S. core PCE projected path



Source: Samsung Securities

Event calendar and rate forecast table

Key events & calendar

June 2026
- ECB(6/11)
- BOJ(6/16)
- FOMC (6/17)

2026 3Q
- MPC (7/16, 8/27)
- ECB (7/23, 9/10)
- FOMC (7/29, 9/16)
- BOJ (7/31, 9/18)
- Government budget proposal (late Aug)

2026 4Q
- MPC (10/22, 11/26)
- FOMC (10/28, 12/9)
- ECB (10/29, 12/17)
- BOJ(10/30, 12/18)
- 2027 KTB issuance plan (December)

Rate forecast table

(%)	26.1Q	26.2Q	26.3Q	26.4Q
Korea Base Rate	2.50	2.50	2.75	3.00
Korea 3Y KTB	3.20	3.66	3.70	3.75
Korea 10Y KTB	3.61	4.05	4.10	3.90
Korea 30Y KTB	3.51	4.00	4.15	4.00
U.S. Base Rate (upper)	3.75	3.75	3.75	3.50
U.S. 2Y Treasury	3.57	4.00	4.10	4.00
U.S. 10Y Treasury	4.20	4.45	4.40	4.30
U.S. 30Y Treasury	4.82	5.00	4.95	4.90

Note: Base Rate is period-end; government bond yields are period averages
Source: Samsung Securities

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