MARKET STRATEGY

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Korean Stock Market: Outlook and Strategy

Sep 2026: Market flows over fundamentals

- The combined free cash flow (FCF) of 10 major global AI-linked companies rose 111% y-y and 38% q-q to USD148.3b in 2Q, underscoring the robust cash-generating capacity of the AI value chain.
- As major semiconductor companies step up share buybacks, we expect foreign supply-demand dynamics to improve over time, supported by a structural shift in foreign ownership—from investors sitting on large unrealized gains toward those with a more constructive view of Korea's long-term fundamentals.
- A portfolio centered on the AI value chain (*eg*, semiconductors) and industrials remains a compelling strategic approach.

WHAT'S THE STORY?

Foreign supply-demand dynamics to improve over time: Although the Korean market corrected in July, foreign selling pressure was most pronounced in 1H. From a supply-demand perspective, this reflected two factors: 1) the Korean market, led by semiconductors, rallied sharply in early 2026; and 2) foreign investors, having accumulated substantial gains, took profits and reduced exposure to further volatility. Foreign investors' average purchase price is now gradually rising, a trend that should accelerate as major Korean companies step up share buybacks. This points to a potential structural shift in foreign ownership—from investors sitting on large unrealized gains toward those with a more constructive view of Korea's long-term fundamentals. While passive foreign flows remain negative, active foreign investors appear to have turned net buyers in July, suggesting a potential inflection point in sentiment.

Global capital concentration in the AI value chain: The combined FCF of the 10 key AI-linked companies—five hyperscalers, three memory chipmakers, Nvidia, and TSMC—reached USD148.3b in 2Q, up 111% y-y and 38% q-q. This underscores continued capital allocation into the AI ecosystem. The three memory companies—Samsung Electronics, SK Hynix, and Micron—generated USD115.3b, or 77.8%, of the five semiconductor companies' total FCF. Nevertheless, with global liquidity and AI-related FCF continuing to expand, we believe maintaining exposure to a basket of semiconductor companies and hyperscalers remains a sound investment strategy that avoids the risk of being left behind by the market.

(Continued on the next page)

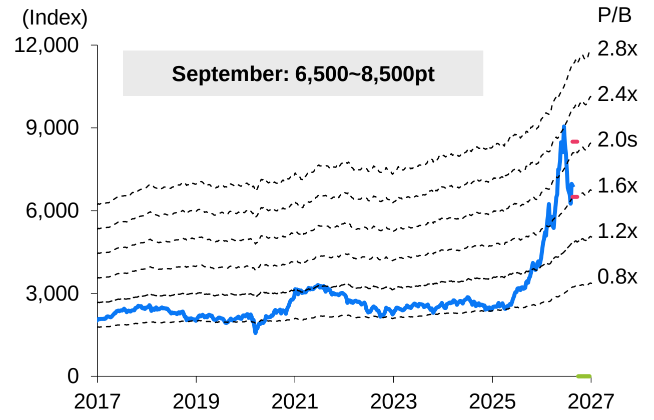
Samsung Securities

AI value chain and industrials remain compelling: Rising US long-term rates are cited as a headwind to global equities, yet the MSCI AC World Index has risen 80% since late Oct 2023, when yields on 10-year USTs peaked at 4.99%. This suggests that long-term interest rates and subsequent equity returns are not necessarily inversely correlated. With long-term rates showing signs of stabilizing, global equities could rally further, supported by attractive valuations and earnings growth. We recommend maintaining core exposure to AI-related names while increasing allocations to industrials, where global earnings momentum is broadly strengthening. A forward P/E of 8x—historically a valuation floor for the Kospi—would imply an index level of 9,500, above its previous all-time high. While a level above 9,000 is not inherently unsustainable, we apply a 10-30% discount to the historical 8x P/E multiple in deriving our September range, reflecting continued global investor caution over the sustainability of AI-related investment.

Kospi outlook and valuation

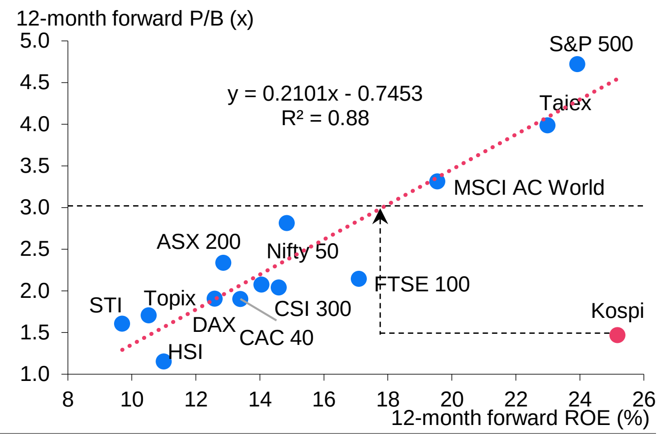
Kospi to range between 6,500 and 8,500 in September: Despite growth momentum moderating recently, the Kospi's 12-month forward ROE remains among the highest globally at 25.2%, surpassing the S&P 500's 23.9%. We expect the Kospi to trade in arrange of 6,500-8,500 in September. A forward P/E of 8x—historically a valuation floor for the Kospi—would imply an index level of approximately 9,500, near its all-time high. Although levels above 9,000 are not inherently unsustainable, we apply a 10-30% discount to the historical 8x P/E multiple in deriving our target range for September, reflecting continued global investor caution over the sustainability of AI-related investments.

Kospi: 2026 outlook



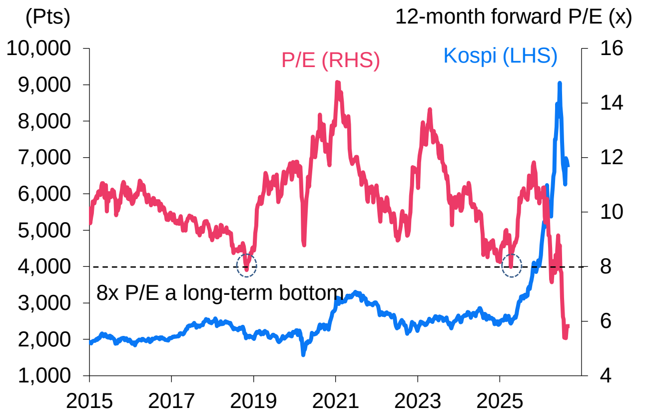
Source: LSEG, Samsung Securities

Major stock indices: P/B vs ROE



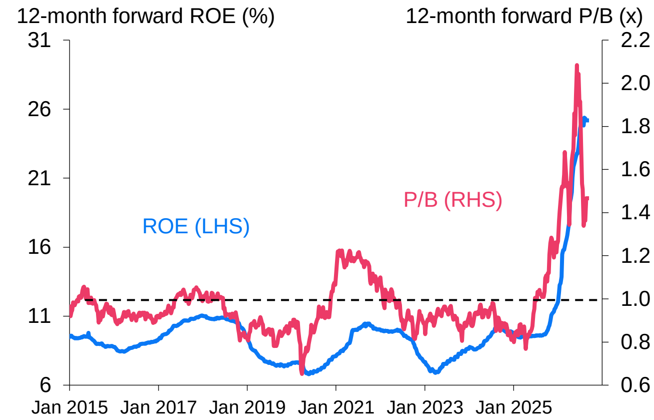
Source: LSEG, Samsung Securities

Kospi vs 12-month forward P/E



Source: LSEG, Samsung Securities

Kospi: P/B vs ROE

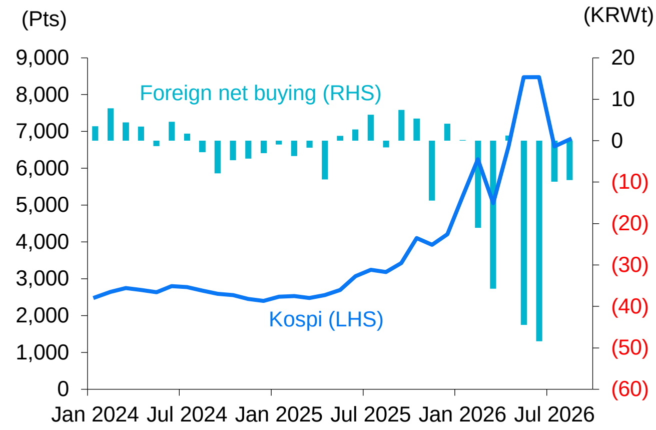


Source: LSEG, Samsung Securities

Korea equity market supply and demand analysis

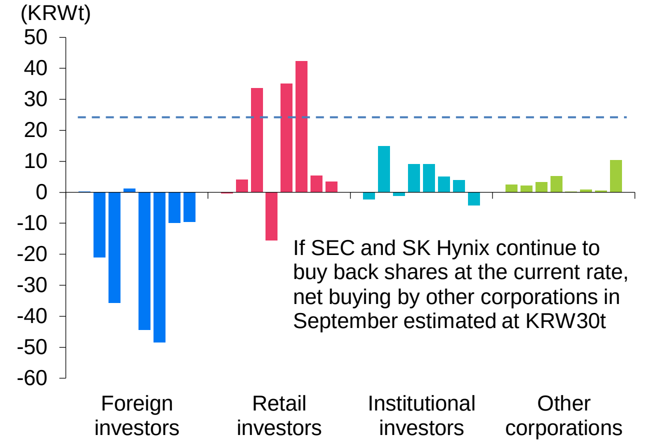
Foreign net selling concentrated in 1H26… Setting aside fundamental factors and focusing solely on supply-demand dynamics, the Jul 2026 market correction can be viewed as reflecting the inability of retail investors—the main drivers of the rally in 1H—to absorb foreign selling. As of Aug 28, 2026, foreign investors had net sold a massive KRW168t in the Kospi ytd. Monthly flow data, however, show that foreign selling was concentrated from the start of the year through June. Selling slowed markedly from July as the market corrected, suggesting limited willingness to sell aggressively at lower price levels.

Foreign investors: Daily net buying of Kospi



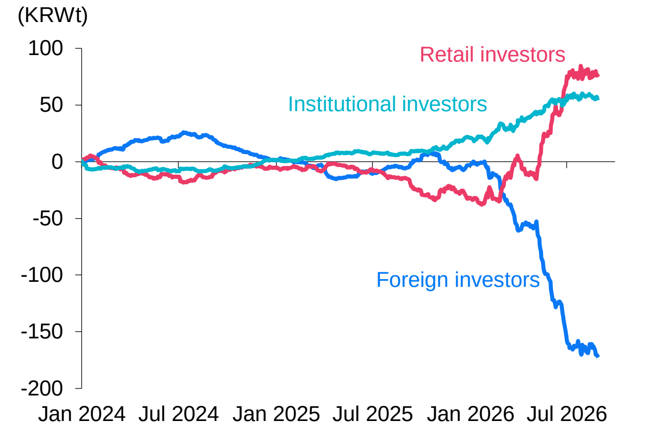
Note: * Cumulative total on the KRX as of Aug 28
Source: QuantiWise, Samsung Securities

Monthly net buying, by investor type (Jan-Aug 2026*)



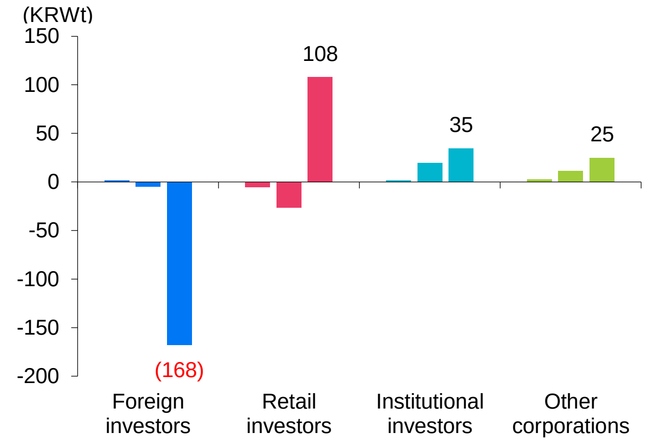
Note: *Cumulative total as of Aug 28
Source: QuantiWise, Samsung Securities

Cumulative net buying, by investor type



Source: QuantiWise, Samsung Securities

Annual net buying, by investor type (2024-2026*)



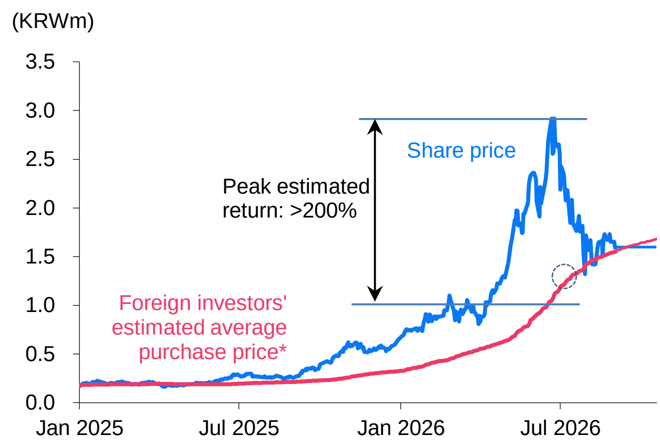
Note: *2026 figures are cumulative totals as of Aug 28
Source: QuantiWise, Samsung Securities

...to lock in substantial gains: From a supply-demand perspective, foreign net selling in 1H can be attributed to two factors: 1) the Korean equity market rallied sharply, led primarily by semiconductors; and 2) the rally left foreign investors sitting on substantial gains, encouraging profit-taking and reduced risk exposure. For example, foreign investors' unrealized return on SK Hynix is estimated to have exceeded 180% at its Jun 22, 2026 peak. Under such circumstances, profit-taking is a rational—and even fiduciary—decision for professional portfolio managers, despite strong long-term fundamentals.

Hynix rebounds sharply as its share price approaches foreign investors' estimated average purchase price: As shown in the left-hand chart below, Hynix rebounded sharply on Jul 31 as its share price approached foreign investors' estimated average purchase price. Other positive catalysts were also at work that day, including Microsoft's earnings surprise, but the scale of the rally—nearly reaching the daily limit-up level—suggests supply-demand dynamics also played a significant role.

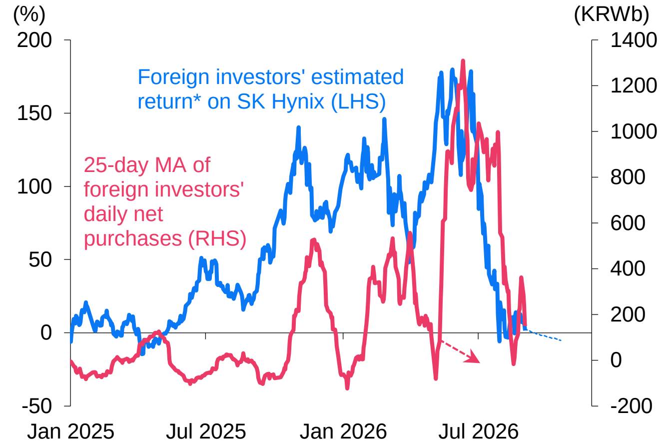
Share buybacks to raise foreign investors' average purchase cost for Hynix: Hynix's share buyback program, which began on Aug 20, is proceeding at approximately KRW1t per day. Even at this pace, the program should continue through Oct 20. If foreign investors maintain average daily purchases of at least KRW3t over this period—regardless of whether they remain net buyers or sellers—their average acquisition cost is likely to exceed KRW1,700,000 per share before the buyback ends, well above the current market price. Meanwhile, the right-hand chart shows that foreign investors' 25-day moving average of daily net selling slightly lags the estimated return on Hynix. We believe sustained foreign net selling is unlikely once estimated returns converge toward 0%. By then, the investor base should have shifted from the original cohort of long-term holders sitting on substantial unrealized gains toward newer investors with a more constructive view of Hynix's long-term fundamentals and prospects for further share-price appreciation.

Foreign investors' estimated average purchase price for SK Hynix



Note: Assumes: 1) FIFO treatment of foreign investors' shareholdings; and 2) the current share price remains unchanged
Source: QuantiWise, Samsung Securities

SK Hynix: Foreign investors' estimated return* and net purchases

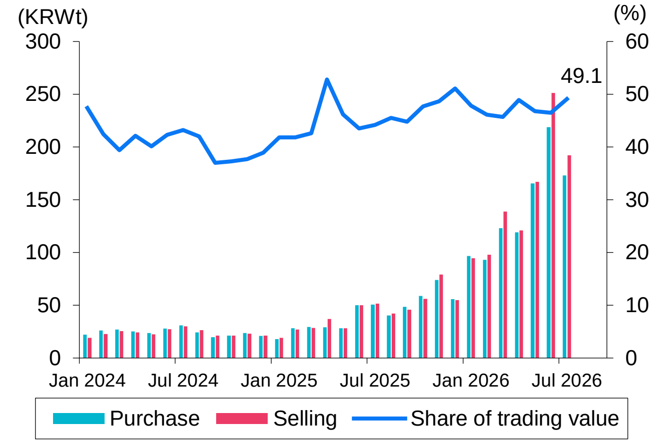


Note: *Estimated return—*ie*, the ratio between the blue and red lines in the chart to the left left—calculated as: (share price / estimated average purchase price -1) x 100
Source: QuantiWise, Samsung Securities

UK-linked flows likely a proxy for passive investors: Monthly foreign investor trading data compiled by the Financial Supervisory Service (FSS) show that the UK consistently accounts for more than 40% of foreign trading in most periods, effectively dividing foreign equity flows in Korea into UK-linked and non-UK flows. This dominance appears to reflect structural features of passive investing rather than simply the size of UK-based funds. First, passive funds typically use a single omnibus custody account with a global custodian to achieve cost efficiency. Second, to optimize execution and settlement efficiency during rebalancing, passive funds execute large trades simultaneously across dozens of markets, with London serving as a preferred operational hub given its time zone, which bridges US and Asian trading hours. Third, London-based global custodians have developed advanced capabilities in fully automated trade processing. European insurers, pension funds, and Middle Eastern sovereign wealth funds are also known to use UK-based custodians for similar operational and efficiency reasons.

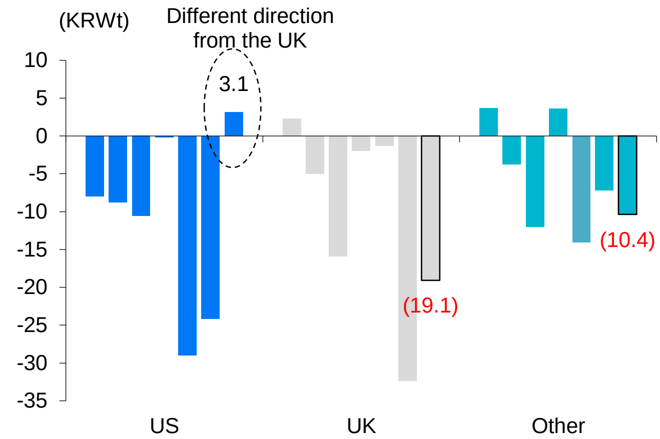
Divergent foreign flows in July suggest selling pressure may ease: Despite substantial overall foreign selling in July, UK, Singapore, Luxembourg, and Ireland-based investors were net sellers, while investors from the US, Cayman Islands, Australia, and France were net buyers. Given the heterogeneous nature of funds registered in each jurisdiction, definitive conclusions are difficult to draw. Nevertheless, the selling pressure appears to have come primarily from passive investors, including UK-linked funds. Meanwhile, US-based investors—a group with a relatively high proportion of active managers—turned net buyers in July after nine consecutive months of net selling since Oct 2025, suggesting that foreign demand may be finding a floor.

UK-linked share of transaction value



Source: FSS, Samsung Securities

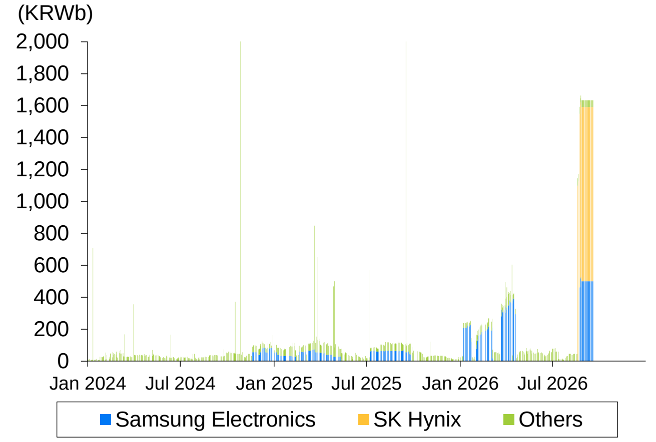
Foreign investor net buying, by country (Jan-Jul 2026)



Source: FSS, Samsung Securities

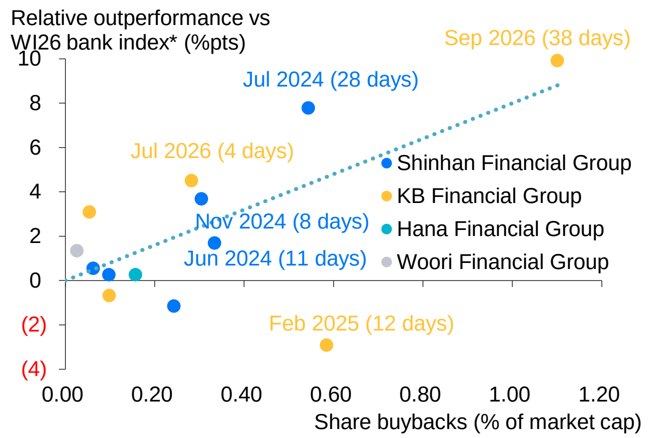
Semiconductor companies step up shareholder returns to unprecedented levels: Samsung Electronics (SEC) has announced a KRW90t-110t shareholder return plan for 2026, while Hynix launched a KRW40t share buyback program on Aug 20. Separately, SEC began repurchasing KRW15t worth of shares on Aug 24 for employee compensation. Through August, Hynix and SEC were repurchasing shares at daily rates of approximately KRW1t and KRW0.5t, respectively—unprecedented in the history of Korea's equity market. This aggressive pace of buybacks should provide meaningful support to domestic market liquidity and sentiment. For reference, SEC repurchased KRW10t of shares over 2024-2025 as part of its shareholder value enhancement strategy and conducted additional buybacks for employee compensation in 1H26.

Kospi 200: Share buybacks



Note: Actual buybacks through Aug 28;
Total buybacks for September are estimated at KRW30t
Source: QuantiWise, Samsung Securities

Banking sector: Share buyback impact



Note: *Relative outperformance vs the WI26 bank index attributed solely to share buybacks among the four major financial groups;
Figures in parentheses indicate buyback duration;
Dotted line: 8%pts of outperformance for each 1% of market cap repurchased;
KB Financial Group's share price weakness in Feb 2025 reflected capital ratios and shareholder returns falling short of market expectations
Source: QuantiWise, Samsung Securities

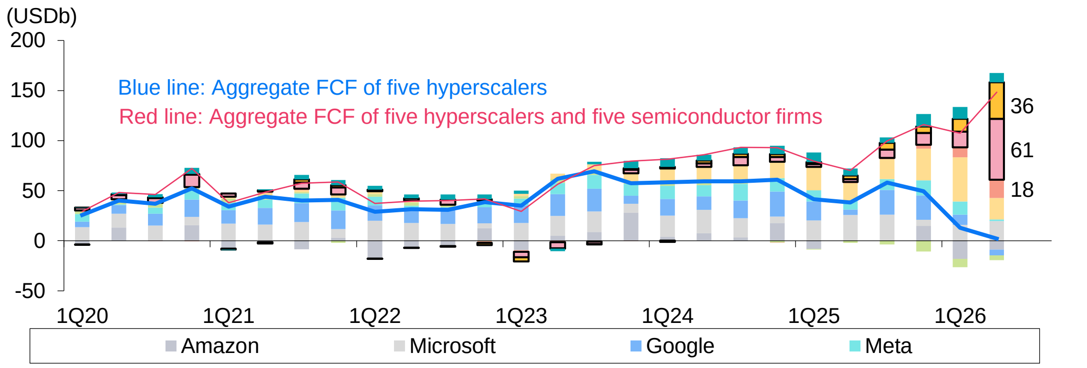
Kospi unlikely to stagnate during buyback periods: The Korean equity market is highly sensitive to supply-demand dynamics. From a purely financial perspective, excluding tax effects, share buybacks and dividends should have broadly equivalent effects on enterprise value. Buybacks, however, tend to be favored by investors with shorter investment horizons. Evidence from the banking sector supports this view: when one of Korea's four major banks (KB, Shinhan, Hana, or Woori) initiated a buyback while the other three did not, a repurchase equivalent to just 1% of market cap was historically associated with roughly 7-8% outperformance versus the banking index. This occurred even though the index itself includes the repurchasing bank, implying an even stronger effect on relative momentum. If foreign investor flows remain neutral, semiconductor companies' buybacks should generate similar upward pressure on the sector.

Korean equity market: Corporate earnings and fundamentals analysis

AI value chain FCF growth remains robust: The combined FCF of five hyperscalers (Alphabet, Microsoft, Amazon, Meta, and Oracle) and five semiconductor companies (Nvidia, SEC, Hynix, Micron, and TSMC) reached USD148.3b in 2Q, up 111% y-y and 38% q-q (Bloomberg, adjusted for reporting-period alignment). This reflects sustained capital allocation across the AI ecosystem. However, concentration risk remains significant: the five semiconductor companies accounted for USD146.1b, or 98.6%, of total FCF, while the three memory companies—SEC, Hynix, and Micron—represented USD115.3b, or 77.8%. This imbalance has fueled investor concerns over the sustainability of hyperscaler capex.

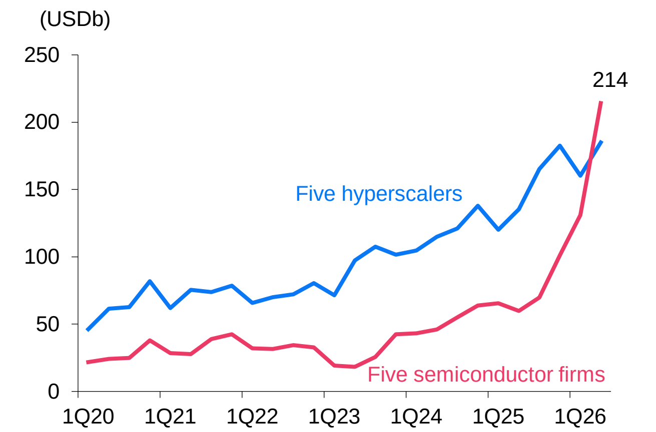
Optimal strategy—own semiconductor companies and hyperscalers as a basket: Investors assign vastly different valuations to similar cash flows: hyperscalers are trading at 18-20x P/E, vs just 4-5x for memory semiconductor names. Yet absent a severe credit crunch or sustained surge in global inflation, FCF generated in financial markets does not simply disappear. If semiconductor companies continue expanding long-term contracts with hyperscalers, thereby locking in more-durable cash flows, their earnings outlook should remain robust. While the timing and magnitude of gains may vary across segments, share-price upside across the AI value chain remains substantial.

Major technology companies: Quarterly and aggregate FCF



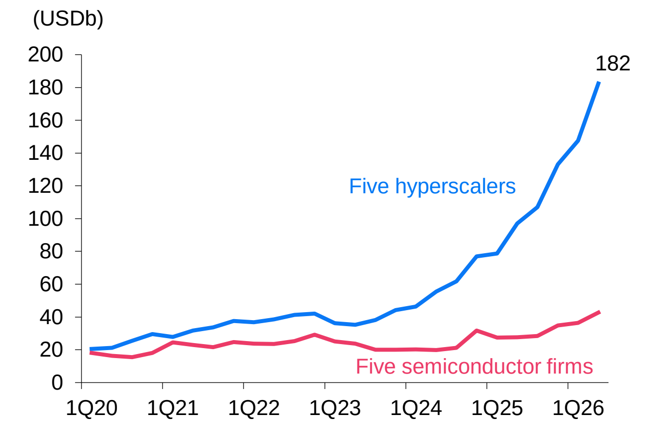
Source: Bloomberg, Samsung Securities

Major tech companies: Operating free cash flow



Source: Bloomberg, Samsung Securities

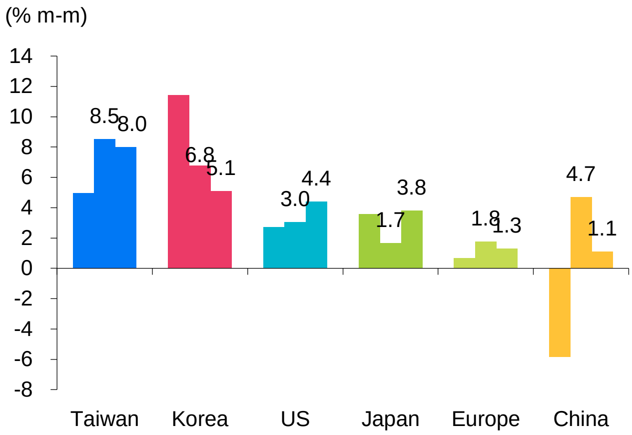
Major tech companies: Combined capex



Source: Bloomberg, Samsung Securities

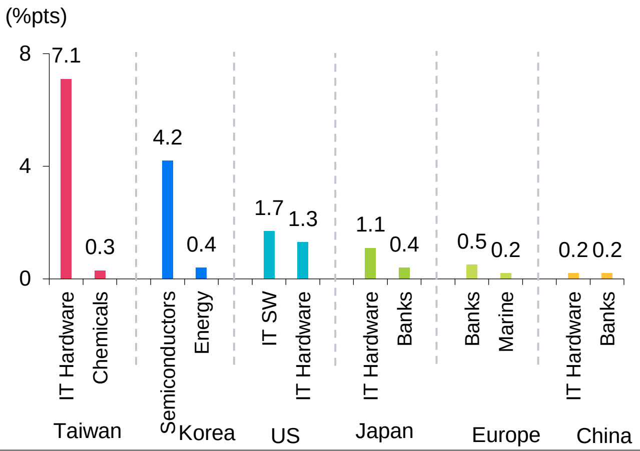
Strong global earnings momentum: US mega-caps—including Nvidia, Alphabet, Amazon, Micron, and Microsoft—drove earnings growth in August, with the S&P 500's 12-month forward earnings forecast likely revised up by more than 4% m-m. TSMC similarly propelled Taiwan's equity market, which remains the strongest performer among major global indices. In Japan, earnings estimates were revised up across multiple sectors. Historically, a 2% m-m upward revision to 12-month EPS forecasts signals robust momentum. The fact that several major markets recorded revisions approaching or exceeding 4% suggests that global corporate fundamentals remain resilient.

Major markets: Revisions to 12-month forward EPS forecasts (Jun-Aug 2026)



Note: As of Aug 21;
Based on profitable constituents of the Kospi 200 (Korea), S&P 500 (US) MSCI Europe (Europe), Nikkei 225 (Japan), Taiwan Weighted Index (Taiwan), and CSI 300 Index (China)
Source: LSEG Workspace, QuantiWise, Samsung Securities

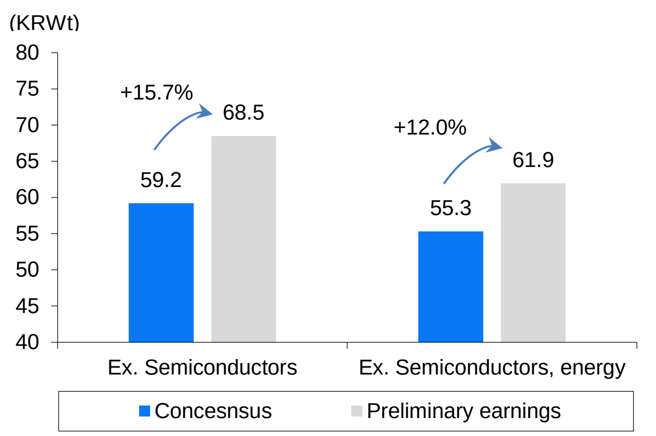
Sector contributions to 12-month forward EPS forecast revisions, by country (Aug 2026)



Note: Selected-sector contributions shown above explain most of the August revisions in the left-hand chart;
Residual differences reflect contributions from other sectors
Source: LSEG Workspace, QuantiWise, Samsung Securities

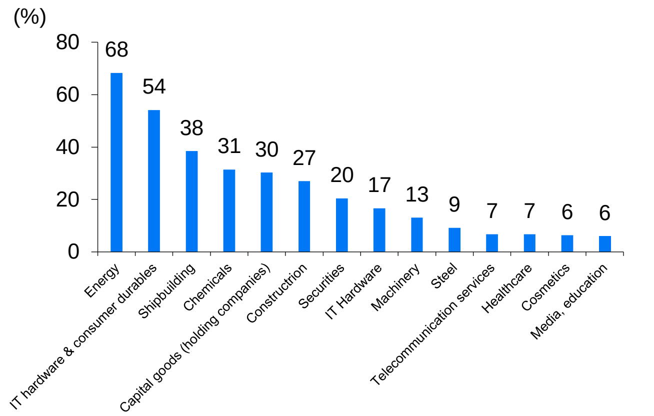
2Q results beat consensus across a broad range of sectors: Semiconductor operating profit reached KRW170t in 2Q, beating consensus of KRW160t by 6.1%. While solid, the result fell short of elevated market expectations. More notably, non-semiconductor operating profit came in at KRW77t, 18.5% above the KRW65t consensus. Even excluding one-off inventory revaluation gains in the energy sector, non-semiconductor earnings beat consensus by 12.5%. A broad range of industries delivered earnings surprises, although sectors reliant on domestic consumption—such as retail, autos, banking, and consumer staples—put in relatively sluggish performances.

Kospi 200 constituents: 2Q operating profit



Note: Kospi 200 constituents with consensus estimates (WI26 sector classification)
Source: QuantiWise, Samsung Securities

Kospi 200 sectors: 2Q operating profit vs consensus



Note: Kospi 200 constituents with consensus estimates (WI26 sector classification)
Source: QuantiWise, Samsung Securities

Low 2027 earnings expectations offer an entry point: Despite strong 2Q results, expectations for 2027 remain subdued. Analysts forecast non-semiconductor earnings growth of just 11.7% in 2027, following a 46% surge in 2026. We see scope for upward revisions to forecasts in sectors such as banking and telecom services. Even securities brokers—where expectations are likely to be slashed—may still beat consensus.

Top-10 sectors contributing to operating profit growth in 2026E

(KRWt)	2025	2026E	Chg	(%)
Semiconductors	100.3	705.9	605.6	603.6
Capital goods	4.0	31.2	27.3	688.6
Energy	40.2	65.9	25.7	64.1
Securities	11.4	19.1	7.6	66.8
Materials	3.5	10.7	7.2	207.3
Banks	(0.3)	5.8	6.1	(2113.6)
Electronics & Electrical Appliances	31.3	35.0	3.7	11.7
Autos	28.5	30.9	2.5	8.6
Media & Entertainment	1.3	3.2	1.9	143.0
Insurers	5.0	6.5	1.5	29.7
Total	282.5	972.1	689.6	244.1
Total ex semiconductors	182.1	266.2	84.0	46.1
Total ex semiconductors and capital goods	178.2	235.0	56.8	31.9

Note: For Kospi 200 companies
Source: QuantiWise, Samsung Securities

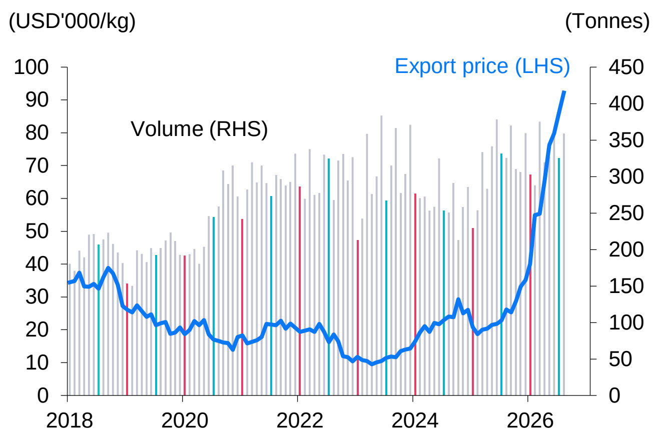
Top-10 sectors contributing to operating profit growth in 2027E

(KRWt)	2026E	2027E	Chg	(%)
Semiconductors	705.9	995.1	289.1	41.0
Capital goods	65.9	76.6	10.7	16.2
Electronics & Electrical Appliances	5.8	10.3	4.5	78.2
Materials	10.7	15.1	4.4	41.3
Autos	11.3	15.5	4.3	37.7
Utilities	30.9	34.9	4.0	12.9
Insurers	11.2	14.5	3.3	29.7
Banks	3.2	5.2	2.0	61.5
Technology Hardware & Equipment	35.0	36.9	1.9	5.4
Pharmaceuticals & Biotechnology	5.6	6.8	1.1	20.1
Total	972.1	1,292.3	320.2	32.9
Total ex semiconductors	266.2	297.2	31.0	11.7
Total ex semiconductors and capital goods	200.3	220.6	20.3	10.1

Note: For Kospi 200 companies
Source: QuantiWise, Samsung Securities

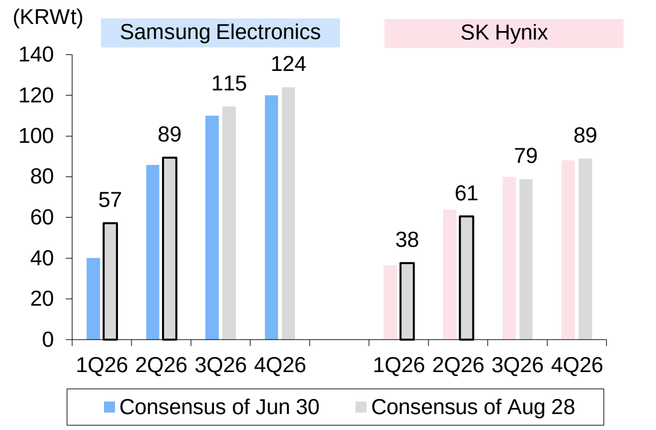
Slowing semiconductor price growth? Not a major concern: Many investors are concerned about decelerating semiconductor price growth. However, this reflects Korea's tendency to focus on momentum-based pricing metrics rather than absolute profit levels or valuations. Even if export prices continue to rise at a constant rate, the growth rate will naturally slow as the base rises. That does not imply diminishing value; maintaining the same growth rate would, in fact, require accelerating price increases. Given current supply constraints and global liquidity conditions, we expect q-q semiconductor price growth in 3Q to exceed market expectations.

Korea: Memory semiconductor exports



Note: Aug 2026 estimated by multiplying first 20 days by 1.5
Source: KIA, Samsung Securities

Operating profit consensus forecasts: SEC and Hynix



Note: Actual numbers for 1Q26 and 2Q26
Source: QuantiWise, Samsung Securities

Key risk—market mispricing of long-term contract dynamics: Earnings divergence among semiconductor companies in 3Q is likely to reflect differences in the pace and terms of long-term contract expansion rather than underlying fundamentals. In an oligopolistic market, a single company that locks in volumes at below-market prices for extended periods creates a structural advantage for peers that retain greater spot-market exposure, allowing them to benefit disproportionately during price upturns. However, if the market begins to reward the earnings visibility provided by long-term contracts with higher valuations, even companies with weaker near-term earnings momentum may avoid sharp corrections. To mitigate this uncertainty, we recommend owning the semiconductor sector as a basket rather than concentrating on a single name.

Global economy and commodities

Global markets in August—rising US long-term rates weigh on sentiment: In August (Aug 1-25), the S&P 500 and Kospi rose 3% and 2.9%, respectively. While positive, the Kospi's performance was underwhelming given its 22% plunge in July, with the recovery modest relative to the preceding drawdown. The most frequently cited drag on performance was the yield on 30-year USTs, which climbed above 5%. Elevated long-term rates constrain valuation expansion, particularly for technology stocks.

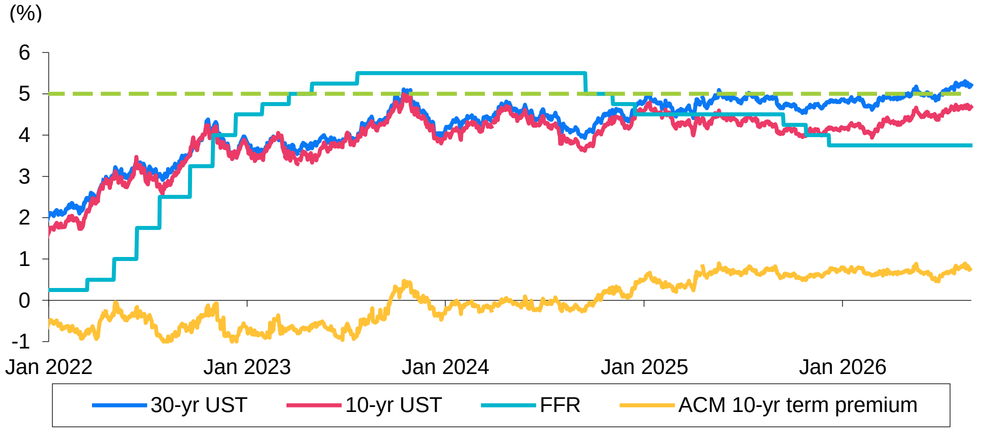
Rising yields—inflation fears meet structural supply pressures: The expiration of the 60-day Islamabad ceasefire talks in mid-August revived geopolitical risk premiums, adding to oil-price volatility and concerns over renewed inflationary pressure. However, it is difficult to attribute the rise in yields primarily to inflation: inflation expectations have not risen correspondingly, and geopolitical tensions are unlikely to persist at their current intensity for more than five years. More consequential has been the surge in corporate bond issuance, particularly by large-cap US tech firms, adding substantial supply to an already strained fixed-income market. Against this supply-driven backdrop, the upcoming US Treasury buyback program (Sep 9-Nov 4) warrants close attention.

Case comparison: Long-term interest rate surges in 2023 and 2026

	Oct 2023 surge in interest rates	Aug 2026 surge in interest rates
Date	• Oct 19, 2023	• Aug 17, 2026
UST yields	• 30-yr UST: 5.11%; 10-yr UST: 4.99%	• 30-yr UST: 5.31%; 10-yr UST: 4.72%
US public finances	• US credit rating downgraded (AAA→AA+) in Aug 2023	• US national debt rising due to tariff refunds, Iran conflict
Monetary policy	• Concern of "higher for longer" • Quantitative tightening (QT)	• Concern of QT due to high oil prices and inflation uncertainty • Chair Warsh's reduction of forward guidance
Nominal growth	High nominal growth	• Robust growth
UST flows	• Long-term Treasury issuance increases • BOJ YCC Operational Emulsification (Jul 2023) • Japan's life insurers and banks lower exposure to US bonds	• Big Tech issuing long-term bonds • UST demand decreases due fall in Japanese interest rates
Treasury's response	• Adjusting pace of long-term bond issuance growth • Allocation of issuance burden due to expansion of short- and medium-term procurement	• Increasing buybacks of 10- and 30-yr USTs

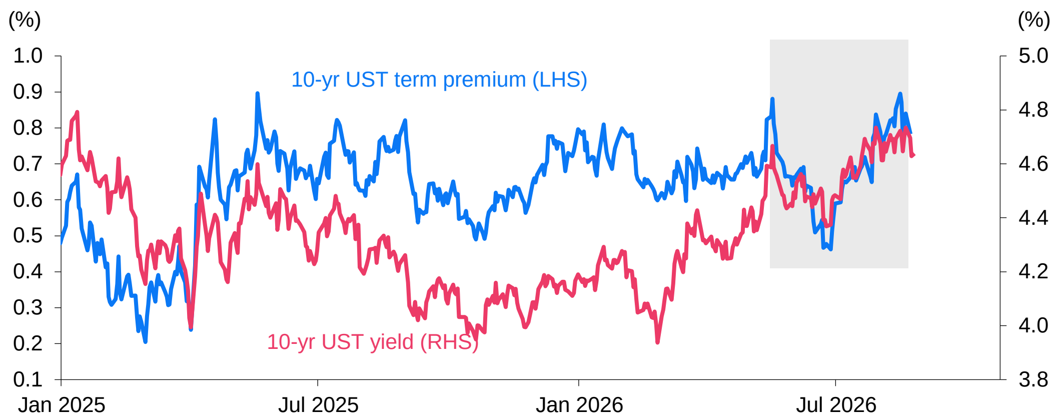
Source: Samsung Securities

30-yr and 10-yr UST yields vs FFR vs ACM* 10-yr term premium



Note: *Based on Adrian, Crump, and Moench (ACM) term premium model
Source: Bloomberg, Samsung Securities

10-yr UST yields vs WTI vs ACM term premium*

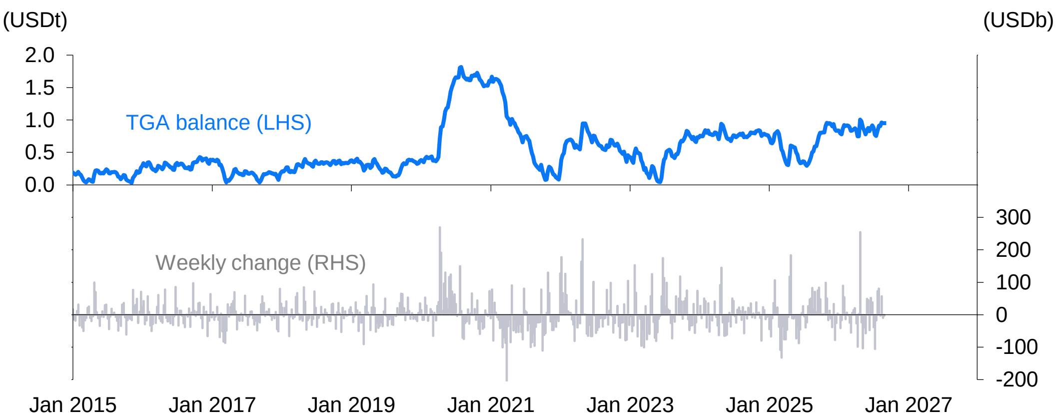


Note: Based on Adrian, Crump, and Moench (ACM) term premium model
Source: Federal Reserve Bank of New York, Bloomberg, Samsung Securities

US Treasury Department to begin long-term bond buybacks on Sep 9: Since July, yields on 10-year USTs have risen above 4.7%, driven by a higher term premium, while the 30-year yield has reached a post-2007 high. To stabilize Treasury yields, Treasury Secretary Scott Bessent increased the size of long-term bond buybacks from a maximum of USD2b to at least USD4b per operation. The first expanded purchases will target the 10- to 20-year maturity segment, beginning on Sep 9 and continuing through Nov 4. Unlike the Federal Reserve, the Treasury Department cannot create money. Therefore, its ability to inject liquidity into markets is inherently limited. It can finance these purchases only by issuing short-term debt or drawing down cash held in the Treasury General Account (TGA).

Market impact of buybacks likely to be modest: If the Treasury Department funds buybacks by issuing short-term debt, it effectively swaps long-term liabilities for short-term ones (known as Treasury Twist), with no change in total debt or net liquidity. Alternatively, if it draws on its USD1t TGA balance, bank reserves could rise temporarily, producing an effect similar to quantitative easing (QE). However, the TGA is managed as a liquidity buffer, has been maintained above a one-week cash requirement since 2015, and must subsequently be replenished. The scale of any deployment is therefore uncertain, limiting the program's near-term market impact.

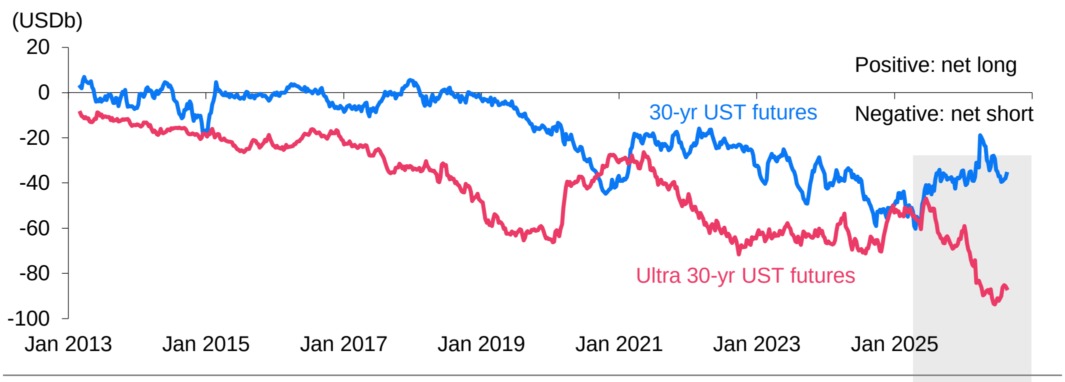
US Treasury General Account (TGA): Balance and weekly change



Source: Fed, Bloomberg, Samsung Securities

Risk of sharp rise in long-term yields appears contained: Treasury purchases of relatively illiquid off-the-run securities should modestly improve liquidity in the Treasury market. More importantly, although the buybacks are modest in scale, the government's willingness to intervene when long-term yields spike constitutes a signaling effect, implicitly indicating discomfort with yields above certain levels. Wall Street has expressed skepticism over the effectiveness of these measures, but there are growing concerns that heavy short positioning in long-dated Treasuries could leave the market vulnerable to a short squeeze if the current equilibrium breaks. This is encouraging investors to scale back aggressive bearish positions in long-term bonds. Structural factors make a pronounced decline in long-term yields unlikely, but even stabilization within a narrow range could provide relief for equity markets.

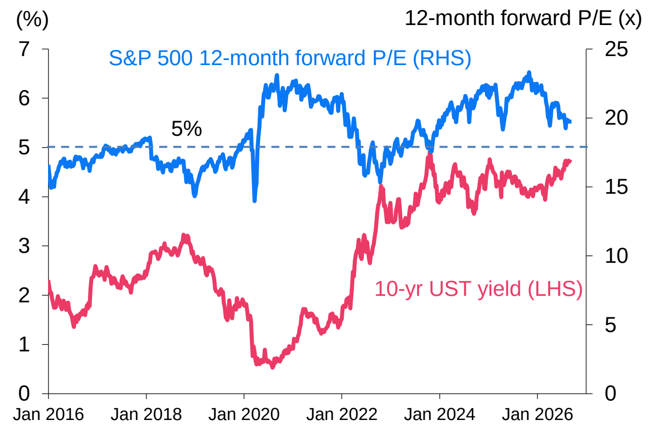
Leveraged funds' net notional positions in UST futures: Shorts concentrated in ultra-long bonds



Note: Leveraged-fund positions in Treasury futures;
Category includes CTAs and hedge funds
Source: CFTC Traders in Financial Futures (TTF), Bloomberg, Samsung Securities

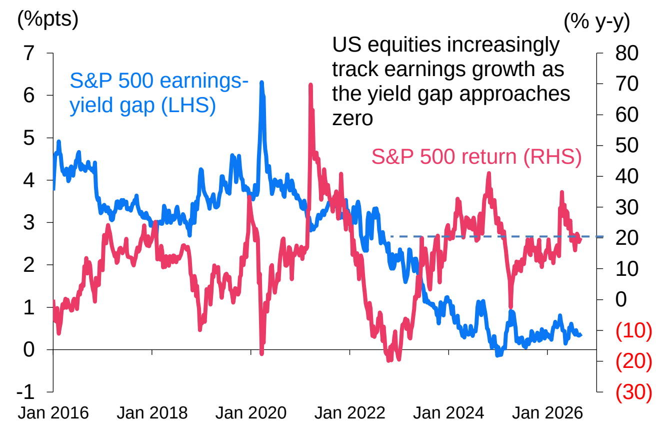
High long-term yields do not necessarily imply weak long-term equity returns: Since yields on 10-year USTs peaked at 4.99% in late Oct 2023—less than three years ago—the MSCI AC World Index has risen 80%, while the S&P 500 and Kospi have gained 83% and 186%, respectively. This demonstrates that equities can perform strongly even amid elevated long-term rates. That said, the recent disproportionate rise in the 30-year yield relative to the 10-year yield signals growing concerns over structural fiscal pressures, particularly widening US fiscal deficits and increased Treasury issuance, which warrant continued monitoring.

10-yr UST yield vs S&P 500 forward P/E



Source: LSEG, Samsung Securities

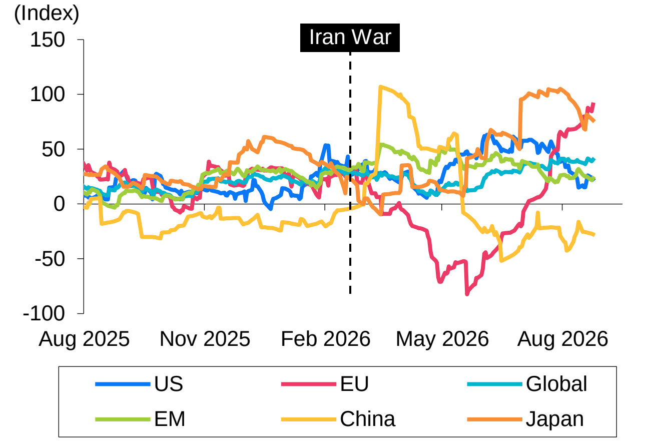
S&P 500 earnings-yield gap vs index return



Source: LSEG, Samsung Securities

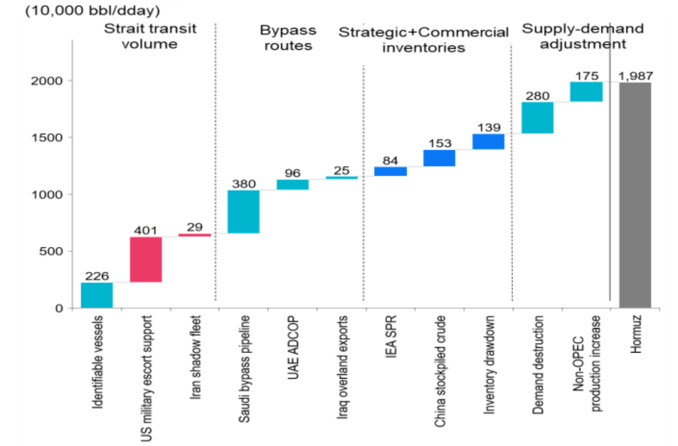
Global economic growth momentum robust despite major oil supply shock: Even as the Strait of Hormuz enters its sixth month of closure—a major headline risk—the impact of Middle East energy supply disruptions on global growth has so far been contained. Greater adoption of alternative energy sources has reduced oil dependence among major economies, while resilient oil markets have softened the impact of supply shocks. Buffer measures during the conflict—including rerouting shipments around the Strait, the IEA's release of 400m barrels from strategic reserves, and drawdowns of floating inventories—have also helped cushion the blow. Both advanced and emerging economies have remained resilient. Notably, the EU, which was particularly vulnerable to energy-price spikes during the Russia-Ukraine war in 2022, has posted economic indicators above market expectations since the June ceasefire MOU. The recovery has also been supported by emergency fiscal stimulus across several countries. These factors suggest that current economic fundamentals are too robust to support the recurring stagflation narrative that often follows supply shocks. Korea's export growth, a leading indicator of global manufacturing activity, also suggests that the manufacturing upswing has further to run.

Economic surprise index, by country: EU clearly rebounding



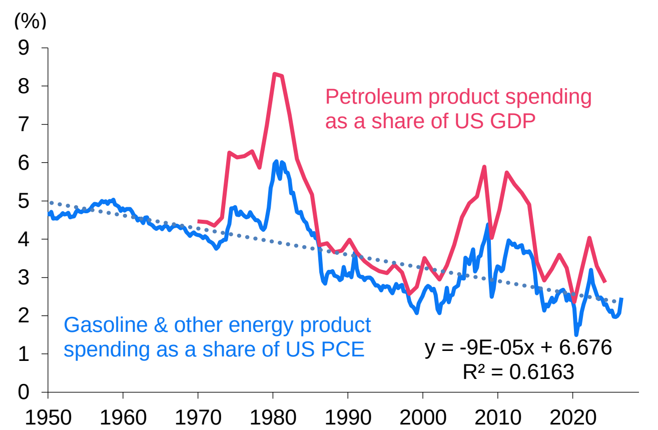
Note: Based on Citi Economic Surprise Index
Source: Bloomberg, Samsung Securities

Strait of Hormuz: Oil-market buffers offset supply disruption



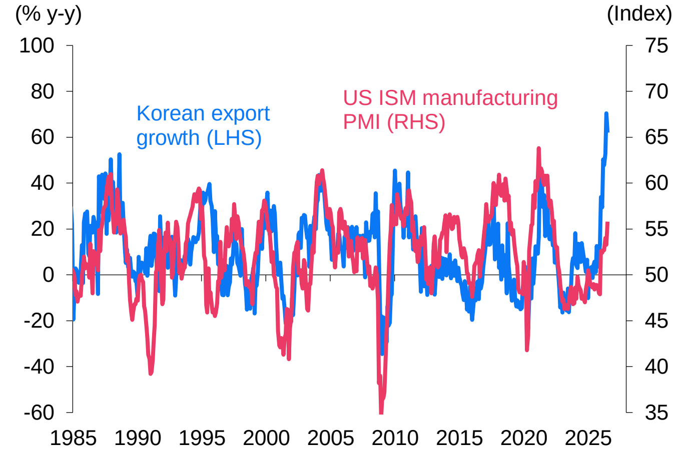
Source: Samsung Securities estimates based on Centcom, Bloomberg, Kpler, Vortexa, IEA, and EIA

US economy's reliance on oil: Long-term downturn



Source: EIA, Bloomberg, Samsung Securities

Korean exports vs US ISM manufacturing PMI: Sustained manufacturing boom



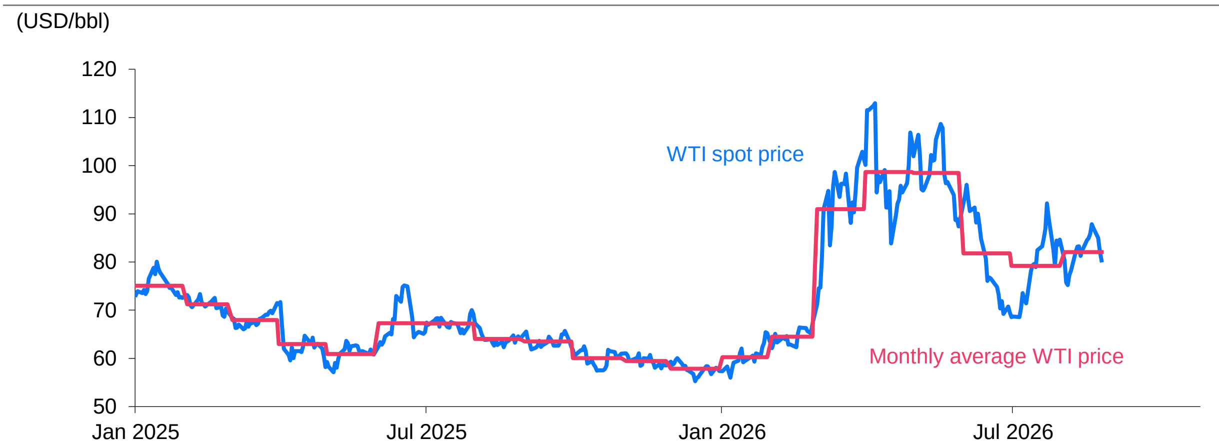
Source: Bloomberg, Samsung Securities

Underlying inflationary pressures remain modest despite oil-price volatility: Although oil prices swung sharply in 1H, the monthly average fell from USD99/bbl over March-April to USD79/bbl in July. Given that crude prices stood at USD75/bbl at the start of 2025, the case for urgent near-term monetary tightening is not particularly strong. Oil prices attempted another rebound in August, but inflationary pressures have not spread to other goods and remain largely confined to energy-related items. The Cleveland Fed's trimmed-mean CPI (excluding the top and bottom 8% of volatile price components), median CPI, and sticky CPI remained stable through July. Unlike headline inflation, which is sensitive to oil-price swings, these indicators suggest that underlying inflationary pressures remain modest.

Oil-price rebound risks remain, but any spike is likely to prove transitory: A renewed rise in oil prices remains one of the key risks for the rest of the year. Iran and Oman announced an agreement on Aug 26 to establish a joint shipping lane and clear mines in the Strait of Hormuz, but the outcome will depend on Israel's response, hardliners in Iran, and whether the US and Iran can reach mutual concessions. Nevertheless, following the June peak and subsequent correction, Korean equities have become less sensitive to WTI prices below USD90/bbl. Oil-price volatility has also eased as tensions have shifted from military confrontation toward economic sanctions. Iran faces severe domestic economic pressures, including fuel shortages and rapid currency depreciation, limiting its capacity to sustain escalation. Both the US and Iran are likely incentivized to reach at least a preliminary agreement by September-October, ahead of the November US midterm elections, particularly as China's mediation efforts gain traction.

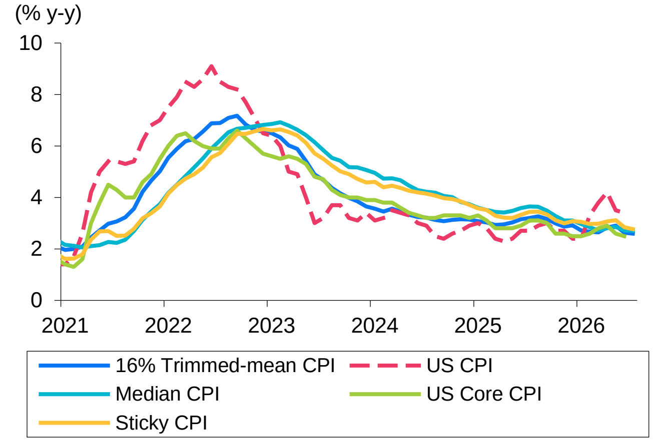
Caution ahead of September FOMC to persist, but disinflation through year-end should support risk appetite: The Fed's shift away from forward guidance means market anxiety over tightening is likely to remain elevated ahead of the September FOMC meeting. However, we expect the inflationary impact of tariffs and energy prices to fade by 4Q26-1Q27, creating scope for a rate cut no later than Mar 2028. Futures markets currently price in only one rate hike in 2026, vs late-July expectations of two, when fears of Iranian military escalation were more pronounced. This retreat in hawkish expectations is supportive of equities. Even if the Fed delivers a surprise rate hike in September, markets have already priced in much of that risk, limiting the potential shock.

WTI: Prices remain volatile but are trending lower



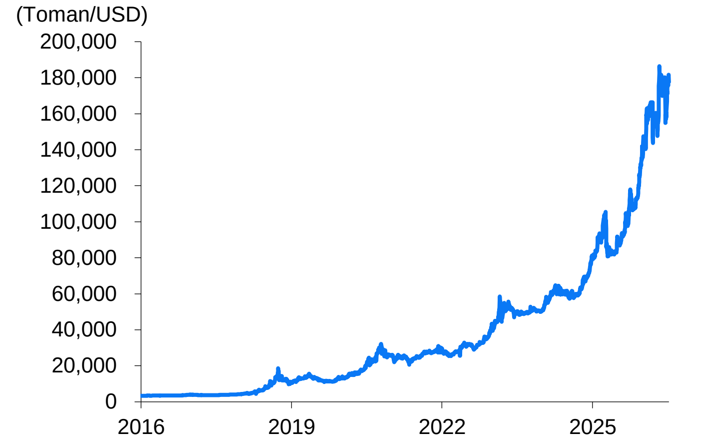
Source: Bloomberg, Samsung Securities

Headline CPI vs underlying inflation: Stable



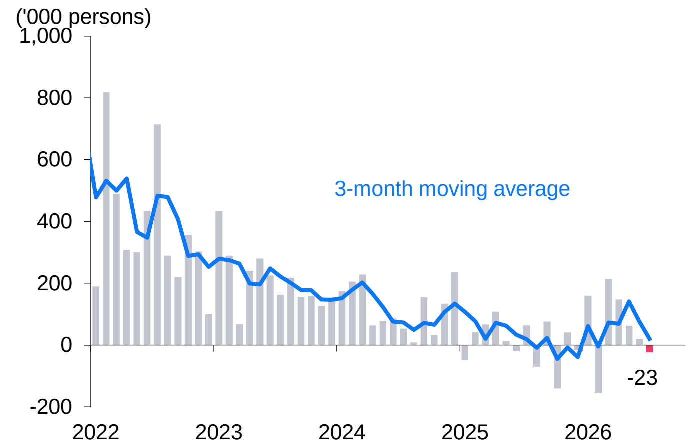
Source: Federal Reserve Bank of Cleveland, Federal Reserve Bank of Atlanta, Bloomberg, Samsung Securities

Iranian Rial free-market exchange rate



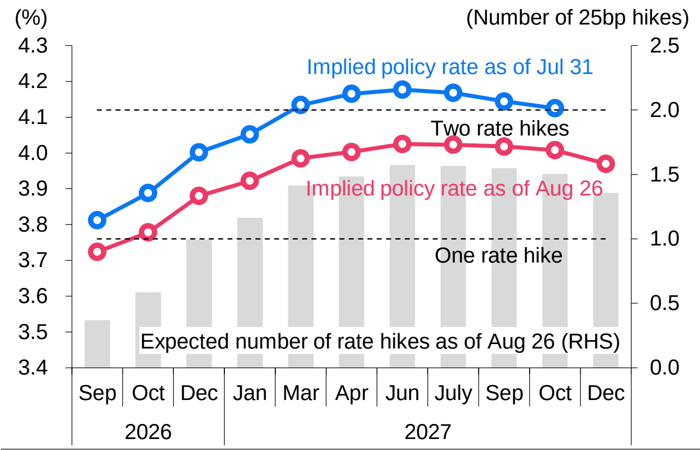
Note: 1 toman = 10 rials
Source: TGJU, Samsung Securities

US nonfarm payrolls (monthly change): Gradual cooling



Note: As of Jul 2026
Source: Bloomberg, Samsung Securities

US Fed rate expectations implied by futures: Tightening concerns ease



Source: Bloomberg, Samsung Securities

Top picks

Still favoring the AI value chain: While 3Q earnings divergence among semiconductor companies could increase equity-market volatility, we do not expect the sector to underperform, supported by healthy earnings at global tech giants, robust semiconductor pricing, and favorable supply-demand dynamics driven by share buybacks. Beyond semiconductors, we see growing opportunities in industrials, where global earnings momentum is broadly strengthening. Our top picks are Samsung Electronics, SK Hynix, Samsung Electro-Mechanics, HD Hyundai Heavy Industries, Doosan Enerbility, SK Telecom, NH Investment & Securities, Samsung E&A, HD Construction Equipment, and Shinsegae.

Top-10 picks*: Target price and share-price returns

Company	Sector**	Market cap	Price (KRW)		Share-price return	
		(KRWt)	Now	Target	Mtd	Ytd
Samsung Electronics	Semiconductors	1,502.5	257,000	400,000	-2.1	114.3
SK Hynix	Semiconductors	1,207.5	1,653,000	3,000,000	-3.8	153.9
Samsung Electromechanics	IT Hardware	106.1	1,421,000	1,400,000	24.4	457.3
HD Hyundai Heavy Industries	Shipbuilding	48.0	457,000	806,000	-5.0	-10.2
Doosan Enerbility	Machinery	56.5	88,200	112,000	31.4	17.1
SK Telecom	Telecommunication Services	21.2	98,600	115,000	21.1	84.3
NH I&S	Securities	9.8	26,650	41,000	-6.5	26.3
Samsung E&A	Construction, Building Products	9.6	48,750	64,000	11.3	102.7
HD Hyundai Construction Equipment	Machinery	6.5	136,600	192,000	9.4	38.8
Shinsegae	Retailing	3.8	405,500	970,000	-4.1	64.2

Note: As of Aug 28;
*From the “Sector outlook and top picks” chapter of this report
**Based on WI26 criteria;
Source: QuantiWise, Samsung Securities

Valuation and dividend yield (Top 10 picks)

Company	P/E (x)		P/B (x)		ROE (%)		Div yield (%)	
	2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E
Samsung Electronics	5.3	3.9	2.4	1.5	56.4	48.5	3.0	2.3
SK Hynix	4.7	3.8	3.2	1.7	101.7	60.0	0.6	1.3
Samsung Electromechanics	71.7	37.8	9.7	7.7	14.9	23.3	0.2	0.2
HD Hyundai Heavy Industries	14.8	12.9	4.2	3.4	31.0	29.1	2.3	2.5
Doosan Enerbility	176.9	99.5	6.8	6.3	4.0	6.6	n/a	n/a
SK Telecom	15.8	15.1	1.5	1.4	10.0	9.9	3.3	3.6
NH I&S	5.9	6.9	0.9	0.9	16.9	13.2	7.6	7.2
Samsung E&A	12.9	10.4	1.8	1.6	14.7	16.0	1.7	2.0
HD Hyundai Construction Equipment	11.1	9.7	1.2	1.1	16.3	11.9	1.6	1.9
Shinsegae	9.2	8.2	0.7	0.7	9.0	9.3	1.4	1.4

Source: QuantiWise, Samsung Securities

Sector outlook and top picks

Sector / Analyst	Category	Key ideas
Semiconductors	**Sector issue**	**SEC's and SK Hynix's shareholder return policies; upward revisions to hyperscaler capex forecasts; potential widening of Oracle's CDS spread**
Jongwook Lee	**Sector outlook**	Memory semiconductor customers are securing more long-term agreements (LTAs) to secure their earnings stability. Major memory manufacturers plan to allocate over 50% of future capacity to LTAs, which should reduce their earnings volatility and enhance their long-term sales visibility. The announcement of shareholder return policies signals management's confidence in sustained earnings and should help lift valuations. SK Hynix has committed to a KRW40t share buyback and intends to return to shareholders over 50% of its 2025-2027 free cash flow (FCF). The remaining buyback and dividend program (through 2027) equates to more than 15% of its current market cap. Attention has turned to SEC's potential special dividend and its 2027-2029 shareholder return policy.
	Top picks	**SEC*:** Its DRAM earnings should stay strong through end-2028. The firm should benefit from its HBM market-share gap (with SK Hynix's) narrowing, leverage effects (in commodity DRAM pricing), and strong foundry and AI device demand. Further share-price rises are expected as shareholder return policies become more concrete.
	Investor pushback	**Q:** Can shareholder return policies further lift shares in memory companies? **A:** Yes. Shareholder returns are not merely about cash distribution—they reflect management's confidence in multi-year earnings durability. Pre-announcing long-term shareholder return targets signals that memory cycles have become more predictable and that high profit levels are likely to persist. Past price movements were driven by DRAM price spikes and quarterly earnings surprises, but future share-price upside should hinge on large, predictable shareholder returns (on stable earnings).
Tech/ IT components	**Sector issue**	**Capex revisions by PCB suppliers; potential price hikes for MLCCs and substrates; customer prepayments and LTAs**
Jongwook Lee	**Sector outlook**	Industry-wide MLCC utilization is expected to remain at 90-100% in 2026. Murata and Samsung Electro-Mechanics (Semco) announced price hikes in 1H. Demand for AI MLCCs is consuming capacity previously allocated to lower-margin IT MLCCs, driving industry-wide price increases. Rising demand for AI GPUs is strengthening demand for high-layer FCBGA substrates. Customers are securing long-term supply through LTAs, prepayments, and capex contributions, enhancing demand visibility. This FCBGA shortage is creating BT substrate supply constraints.
	Top picks	**Samsung Electro-Mechanics*:** After raising prices for IT/commodity products in May, the company marked up prices again in July. Demand for its 1005-size, 47μF AI MLCCs is projected to grow more than sevenfold in 2027 due to the adoption on new AI platforms. However, capacity constraints stemming from AI MLCC demand should limit volume growth this year despite a capacity expansion. With supply remaining tight, the company has signed LTAs with over ten major tech and semiconductor customers. Following price hikes for low-margin legacy substrates, the firm should continue to improve its sales mix (selling more higher-margin FCBGAs) and pursue strategic pricing to expand margins. Recent announcements related to Semco's investing in its packaging substrate business through 2040, coupled with visible capacity expansion plans, should support a valuation re-rating.
	Investor pushback	**Q:** Isn't there a risk of oversupply as PCB suppliers are aggressively lifting capex (as happened in 2023)? **A:** Unlikely. Different from prior cycles, suppliers are receiving advance payments and capex contributions from customers, effectively sharing the investment risk. This alignment: 1) ensures that capacity expansions are backed by real demand; and 2) reduces the risk of a structural supply glut.
Semiconductor materials, parts, and equipment	**Sector issue**	**Rise in semiconductors' capex to boost capacity and prolong industry cycle**
Richard Moon	**Sector outlook**	Both memory and non-memory segments are experiencing supply shortages, prompting manufacturers to accelerate their investments. This should brighten earnings visibility across the broader materials, component, and equipment supply chains. The capex cycle is in its early stage.
	Top picks	**HPSP:** Sales should expand across all key applications—DRAM, NAND, and foundry. In particular, its NAND penetration is set to grow meaningfully next year, becoming a primary driver of the firm's operating results. Earnings growth should be fueled by capacity expansions at: 1) both domestic and overseas semiconductor makers; and 2) their clients.
	Investor pushback	**Q:** With the market having priced in expectations of capex growth (after DRAM prices turned up), are there still are meaningful catalysts left that haven't been priced in?

		A: Yes. Intel's recent capex expansion announcement and associated funding initiatives in 2Q26 represent a new catalyst for the supply chain. From a medium- to long-term perspective, key things to watch include the transition to DRAM's 1d node and the resumption of new NAND investments.
Rechargeable Batteries	**Sector issue**	**Rising ESS demand in North America; intensifying competition to secure Korean LFP cathode materials (amid supply chain shifting away from China); potential rebound in lithium prices**
Junghoon Chang	**Sector outlook**	Rising utilization rates and new production lines at domestic battery cell makers' North American plants are expected to lift their AMPC income and boost their utilization. Additionally, domestic cell makers' efforts to secure Korean LFP cathode materials (to qualify for US tax credits) could fuel expectations for more LTAs and capacity expansions. Meanwhile, lithium prices, which have been range-bound since mid-May, could come to exhibit signs of recovery.
	Top picks	**Samsung SDI**: With its second North American ESS line set to come online, investor expectations for margin improvement are rising. The recent sale of its stake in Samsung Display in late August has strengthened its cash position, enabling accelerated capex for a second LFP production site in North America—a development that is likely to bolster investor sentiment.
	Investor pushback	**Q:** Could the commercialization of sodium-ion batteries trim lithium demand and prolong lithium price falls? **A:** Sodium-ion batteries may gain market share in the ESS market thanks to their lower raw-material costs and longer lifecycles, despite their lower energy density. However, their economies of scale remain far behind LFP's, and their low energy density means they need significantly more system-level components to achieve equivalent energy capacity—eroding their cost advantages. According to BNEF, sodium-ion batteries' share of the global ESS market will reach just 3% in 2030. Therefore, it is unrealistic to expect sodium-ion battery commercialization to meaningfully reduce LFP demand in the near term, let alone significantly dampen lithium demand.
Autos	**Sector issue**	**Strategies to recover from sales slump; renewed momentum in robotics**
Esther Yim	**Sector outlook**	Hyundai Motor Group's (HMG) rollout of Level 2+ autonomous driving technology should be delayed until early 2028, with the group likely to lag behind its competitors. As a result, its market-share recovery in Korea may prove limited in 2027. As its auto earnings remain under pressure, execution speed in the fields of physical AI and robotics is expected to accelerate. Key future catalysts include: 1) potential equity investments by US big tech companies in Boston Dynamics; and 2) supportive US government policies for robotics development.
	Top picks	**Hyundai Mobis:** Despite plunging more than 40% from its recent peak (amid heightened market volatility), the shares should rebound in 2H on earnings growth and clear momentum at its robotics business. In 2Q, the module business turned profitable despite rising chip costs and a fire at its Indian plant, supported by continued strength at the aftermarket parts business. The firm is scheduled to deliver a prototype actuator for use in Atlas in November.
	Investor pushback	**Q:** If Hyundai Motor's robotics business is spun off into a separate subsidiary, won't this dilute the valuation premium currently assigned to HMC for its robotics exposure? **A:** Hyundai Motor's articles of incorporation do not include robotics as a core business purpose, making a standalone subsidiary the most likely structure. While this may reduce direct valuation expansion for HMC, it also offers strategic advantages: External funding can be raised without diluting HMC's equity, and early-stage losses from the robotics venture need not be absorbed by HMC's financials. However, if the subsidiary lacks a clear IPO path or strategic sale direction, institutional investors may prove hesitant to assigning high valuations to the automaker.
Shipbuilding	**Sector issue**	**Potential peak in industry conditions; risks related to labor negotiations and strikes**
Youngsoo Han	**Sector outlook**	Industry fundamentals should remain robust, supported by strong demand for offshore structures and in the defense segment. 2Q operating results were broadly upbeat, but this positive is not fully priced in in our view. However, in the near term, order volume over August-September is likely to slow due to seasonal holidays and a high base (large-scale contracts were signed in 1H, which is when shipbuilders intensified their selective order taking to prioritize higher-margin vessels).
	Top picks	**HD Hyundai Heavy Industries*:** Attractive valuation and momentum stemming from the engine division's expansion into power generation businesses
	Investor pushback	**Q:** What are the risks related to labor negotiations and potential strikes? **A:** The impact on annual earnings estimates should be limited. Labor issues in the shipbuilding sector are a recurring, well-understood phenomenon, and market expectations already factor in periodic

		disruptions. Moreover, the strong profitability from the high-value vessels that are currently being built should offset the financial impact of any short-term labor disruptions.
Machinery/ Defense	**Sector issue**	**Recovery of North American construction equipment demand; defense export momentum**
Youngsoo Han	**Sector outlook**	The awarding of defense contracts continues to face delays—geopolitical uncertainty in the Middle East has slowed final approvals for key programs. An inflow of defense-related orders and strong earnings are expected at year-end. The recovery in industry conditions for construction equipment is gaining visibility: Key indicators in North America, the largest construction equipment market, are improving. Caterpillar's 2Q results showed strength at both its wholesale and retail businesses. Power equipment manufacturers also raised their 2026 new-order guidance after reporting strong 2Q results.
	Top picks	**HD Construction Equipment*:** It should: 1) benefit from the construction equipment industry's recovery; 2) enjoy additional upside thanks to its engine business's entry into the data center segment. Hanwha Aerospace: The company has been selected to supply prototypes for the US self-propelled howitzer modernization program. It stands out among major Korean defense firms as the only one to have secured multiple export contracts this year.
	Investor pushback	**Q:** Could US restrictions on data center constructions negatively impact power equipment companies? **A:** Korean power equipment manufacturers have already secured order backlogs exceeding their production capacity. The reason behind the proposed US data center power limits—chronic local grid constraints—underscores the strength of power infrastructure demand in the US. Notably, HD Hyundai Electric and Hyosung Heavy Industries have relatively low exposure to data center-specific equipment. Instead, they stand to benefit from rising demand for ultra-high-voltage transmission systems driven by large-scale power plant developments. Concerns that data centers may be forced to slow the pace of construction appear exaggerated.
Chemicals	**Sector issue**	**Impact of surging global oil prices; China demand trends**
Hyunryul Cho	**Sector outlook**	Overall chemical market conditions, particularly for commodity chemicals, are expected to remain weak. Recent positive inventory effects, triggered by the conflicts in the Middle East, should dissipate from 3Q, making downward revisions to earnings forecasts inevitable. We prefer the companies that were able to record profitability even before oil prices surged.
	Top picks	**LG Chem:** Commodity chemical earnings should soften. However, operating results at its cylindrical battery business should improve considerably in 2H (to move from the red into the black in 4Q) on increasing sales of cylindrical battery cathode materials.
	Investor pushback	**Q:** Could recent domestic chemical industry restructuring serve as a positive catalyst? **A:** Structural adjustments in Korea's chemical sector are necessary over the medium to long term. However, most of the measures taken so far involve temporary idling facilities rather than permanently shuttering them. As a result, the impact of this on the overall supply-demand balance should be limited.
Oil Refining	**Sector issue**	**Will refining margins remain elevated? Could geopolitical risks in the Middle East intensify?**
Hunryul Cho	**Sector outlook**	Even after the conflict in the Middle East ends, refining margins—particularly for diesel and kerosene—are likely to remain strong, supported by low inventories in Europe and the Middle East and damage to regional refining infrastructure. The recent resurgence in geopolitical tensions suggests that supply disruptions are unlikely to be resolved quickly.
	Top picks	**S-Oil:** Given its high refining exposure, S-Oil stands to benefit the most among domestic refiners from elevated diesel and kerosene margins, with the two products accounting for 53% of its product mix.
	Investor pushback	**Q:** Could further escalation in geopolitical risk in the Middle East disrupt raw-material supplies? **A:** Repeated crises in the region have tightened the refined product supply more than the crude supply. As a result, DMs (with a strong need for jet fuel and kerosene) would likely help secure alternative crude supplies, underscoring the increasing tightness in refined-product markets.
Retail	**Sector issue**	**Has department SSS growth peaked? Will the KRW/USD rate continue to decline (won strengthen)?**
Jaeseung Baek	**Sector outlook**	Following the corrections in the Korean equity market, department store valuations have adjusted on concerns over 2H same-store sales (SSS) growth, but further downside appears limited. However, a stock-price recovery is likely to follow only after SSS growth shows clear signs of stabilization, suggesting that patience is needed until 4Q earnings are released. While discount stores are likely to post the strongest sales in the sector in 3Q, E-Mart's consolidated results are likely to be weighed down by underperforming subsidiaries. In the near term, convenience stores (BGF Retail, GS Retail) are likely to stand out thanks to their stable earnings.

	Top picks	**Shinsegae*:** The stock has recently declined on valuation compression concerns, yet: 1) its domestic sales to foreigners (as a portion of total sales) continue to rise; and 2) its P/E (below 10x) looks attractive given its underlying earnings strength. BGF Retail: In addition to steady SSS growth, the company has deliberately slowed the pace of new store openings since last year—profit growth ytd has exceeded expectations. Considering one-time costs from the 2Q logistics strike, its 3Q results are likely to benefit from a low base.
	Investor pushback	**Q:** Given the slowing SSS growth, when might re-entry be considered? **A:** SSS growth has been recovering since 4Q25, so a high base should persist in 4Q. That said, the stock appears to have priced in these concerns. With market expectations for 4Q26 SSS growth now subdued, we advise potential investors to carefully comb through its 4Q26 figures.
Bio/ Healthcare	**Sector issue**	**Hanmi Pharmaceutical's out-licensing of HM17321 (UCN2; obesity) to Genentech, alongside OliX's out-licensing of two siRNA sequences to Hansoh Pharma, has reignited excitement surrounding the out-licensing potential of Korea's biotech pipeline**
Keunhee Seo	**Sector outlook**	We advise staying focused on biotech companies with scalable pipelines/platforms, strong clinical momentum, or a high potential for out-licensing—prioritizing intrinsic enterprise value. With global M&A activity at record levels, select names (where cross-border deal momentum is becoming visible) are entering a potential revaluation phase.
	Top picks	**Alteogen, ST Pharm**
	Investor pushback	**Q:** The success of Merck-Moderna's Phase-III trial for an mRNA cancer vaccine has drawn significant attention to the pharma sector. Beyond mRNA, what other therapeutic platforms or new drug areas are worth watching? Are there other promising mechanisms or new drug areas beyond mRNA? **A:** The success of Merck & Moderna's Phase-III trial is significant as it demonstrates the potential of personalized cancer vaccines. This trial, conducted in combination with Keytruda, could also positively influence Alteogen. Beyond mRNA, other noteworthy areas remain obesity/metabolic diseases, ADCs, and bispecific antibodies. Attention should focus on companies with competitive pipelines.
Healthcare equipment Donghee Jeong	**Sector issue**	**Amid intensifying domestic competition, can medical device companies overcome the seasonal low (3Q) in procedure volumes?**
	Sector outlook	While q-q growth will inevitably slow in 3Q, the broadening of revenue streams—from domestic medical devices to exports and cosmetics—should smooth out seasonal fluctuations.
	Top picks	**PharmaResearch**
	Investor pushback	**Q:** Will the growth rate of exports and cosmetics more than offset rising competition in Korea? **A:** A bright spot in 2Q results was stronger sales not just in the Americas—boosted by promotions—but also in Asia. In regions where Rejuran medical devices were already selling well, the company is seeing smooth growth of related products, creating a more stable sales foundation. Rejuran medical devices in Western Europe (they were launched in 1H) are on track to see sales growth in the coming months.
Cosmetics Donghee Jeong	**Sector issue**	**Can quarterly growth be maintained beyond the temporary lift stemming the low base in 2Q?**
	Sector outlook	Expansion into higher-margin B2B channels and a low base (stemming from elevated 2Q marketing costs) have set the stage for continued growth in 3Q.
	Top picks	**APR, Silicon2**
	Investor pushback	**Q:** Can the current pace of growth continue in 2H? **A:** Cosmetics brands are expanding their offline channels overseas while concurrently growing their contribution margin ratios on B2B sales (estimated at 50%), which is lifting profitability. Also, with the seasonally strong 4Q approaching, earnings expectations are rising. Cosmetics distributors will likely achieve peak quarterly sales in 3Q as retailers build inventories ahead of the busy year-end holidays.
Banks	**Sector issue**	**Whether recurring ROE will rise to new heights and the transition to a rate hike cycle**
Jaewoo Kim	**Sector outlook**	Banks are likely to rerate on: 1) improving NIMs, loan growth, and credit costs; and 2) higher ROE, driven by stronger earnings at non-banking businesses (particularly securities-broker subsidiaries).
	Top picks	**KB Financial Group, Hana Financial Group**
	Investor pushback	**Q:** Banks posted solid ROE growth in 1H, but a significant portion stemmed from elevated contributions from securities brokers buoyed by a bullish stock market. Can banks' recurring ROE top 10%? **A:** While securities brokers' steep profit growth boosted banks' 2Q results, the banking sector's ROE improvement—driven by solid interest income growth and disciplined G&A cost management—has received less attention. In 1H, banks delivered solid interest income growth, and despite headwinds such as the education tax hike, their G&A cost ratios remained under control. This signals a

		strengthening foundation for structural ROE growth. Further loan growth is expected in 2H, and with the BOK now hiking rates, NIM is likely to recover, accelerating interest income growth and enhancing visibility of banks' structural ROE improvement. This is expected to ultimately dispel the entrenched belief that 'bank ROE is capped at 10%,' paving the way for a valuation re-rating for bank stocks.
Securities brokers	**Sector issue**	**Will the S&T segment record losses in 3Q due to equity market corrections (in 3Q) and an accelerated rise in interest rates?**
Jeong Mingi	**Sector outlook**	As of Aug 25, the equity market's trading value had fallen 21% m-m (42% lower than the 2Q level), driven by reduced: 1) turnover amid stricter regulations on single-stock leveraged ETFs; and 2) retail participation amid heightened volatility. Deeper equity corrections in 3Q and rising interest rates have also obscured the visibility of S&T profits. Yet even under our conservative forecast—a 50% earnings drop h-h in 2H—our covered securities brokers look attractive, trading at a 2026E P/E of 4-5x, with total shareholder yields (dividends + share buybacks) above 6%. While the lack of near-term momentum may prolong investor neglect, for those with longer investment horizons, the sector looks compelling.
	Top picks	**NH Investment & Securities***
	Investor pushback	**Q:** Is there any possibility of loss provisioning for securities brokers due to the reduction in margin loan balance (*eg*, forced liquidations)? **A:** Unlike past isolated cases, the credit exposure from margin lending is expected to carry limited counterparty or default risk. Maintenance margins for margin lending is around 140%. When this ratio falls below a threshold, securities brokers liquidate pledged stocks, thereby recovering their loans. While it is theoretically possible for uncollected receivables to develop in the rare event that a pledged stock hits its daily lower limit over multiple consecutive trading days, the current market environment—dominated by large caps (highly liquid stocks)—makes such a development highly improbable.
Insurance	**Sector issue**	**Tailwinds from rising interest rates and underwriting profit turnaround**
Mingi Jeong	**Sector outlook**	With long-term bond yields rising, the insurance sector—benefiting from higher rates and exhibiting defensive characteristics in the equity market—is likely to draw more attention. Additionally, insurers' underwriting results, particularly in long-term lines, should reach a turning point in 2H. The recovery should be driven by: 1) the full-scale implementation of measures to curb moral hazard in indemnity insurance (*eg*, managed benefits for manual therapy); and 2) an industry-wide shift toward profitability, reducing price competition and improving key metrics such as loss ratios and policy persistency rates.
	Top picks	**Hyundai Marine & Fire, DB Insurance**
	Investor pushback	**Q:** What is the measurable impact on insurers' profitability following the introduction of managed benefits for manual therapy? **A:** According to insurer comments during the 2Q earnings season, since the introduction of managed benefits, manual therapy-related claims dropped to around 30% of prior levels over a one-month period in July. This translates to an estimated monthly reduction of around KRW5b-6b for major non-life insurers. However, balloon effects may be seen, such as increased utilization of other medical services due to health insurance controls—close monitoring of trends remains necessary for the time being.
Holding companies	**Sector issue**	**Final versions of the proposed 'stock price suppression prevention act (low P/B law)' and the 'extension of tax deferral for in-kind contributions to holding companies' due to be unveiled in 2H**
Sewoong Park	**Sector outlook**	The key to narrowing holding company NAV discounts is improving cash-generating capacity. With recent share-price corrections widening NAV discounts beyond historical averages, investors should focus on companies poised to strengthen their cash-generating abilities. In addition, companies with robust shareholder return programs are likely to see their stock prices gain further traction in 2H.
	Top picks	**Hanwha Corp:** Following its demerger and relisting on Aug 25, Hanwha Corp's shares now trade at a 70% discount to NAV (vs a 60% discount prior to its trading suspension), suggesting undervaluation. Expecting increased dividends (thanks to earnings growth at its subsidiaries), we foresee upward share-price movements driven by a narrowing of its NAV discount. SK Inc: SK should benefit from rising dividends and brand royalty income driven by growth at its technology subsidiaries. Also positive is the planned start of cash dividends from SK Square this year. Future DPS growth remains a credible expectation—a positive from a shareholder return perspective.
	Investor pushback	**Q:** With the Commercial Act amendments and the ban on dual listings having already been enacted, are there still potential share-price catalysts in store for 2H26? **A:** Policy momentum remains active in 2H26, particularly surrounding measures targeting low P/B firms. Companies have responded with varying degrees of shareholder-friendly initiatives under the

		new regulatory framework. Holding companies with strong shareholder-friendly practices are likely to sustain their sector valuation premium (*eg*, smaller NAV discounts).
Construction	**Sector issue**	**Perceived as beneficiaries of three major megaprojects; Korean government may buy stake in Westinghouse; fears over earnings deterioration amid persistent inflation and elevated interest rates**
Jaejun Heo	**Sector outlook**	Construction stocks have corrected significantly from their ytd highs, rendering them sensitive to media-driven sentiment and prone to increased volatility. However, given: 1) ongoing concerns about earnings deterioration; and 2) widening valuation disparities across firms, we recommend adopting a selective investment approach based on company-specific fundamentals and valuation metrics.
	Top picks	**Samsung E&A*, GS E&C**
	Investor pushback	**Q:** The momentum stemming from GS Group's data center project wins appears positive—but related earnings are only expected to be reflected through 2029. What lies beyond that timeframe? **A:** With no Korean construction firms having built an AI data center at GW scale, even a captive project would represent a highly meaningful track record. This experience is expected to become a key foundation for sustainable long-term growth.
Media/ Entertainment	**Sector issue**	**The onset of debut cycles for new performers; portfolio diversification centered on rookie artists**
Minha Choi	**Sector outlook**	Major entertainment companies are accelerating the rollout of new male and female bands, creating next-generation lineups and diversifying their offerings. Building on the steep global rise in popularity of rookie artists, this trend is expected to strengthen industry-wide earnings momentum and profit.
	Top picks	**YG Entertainment:** YG Entertainment is set to benefit from the start of BigBang's world tour and launch of diverse merchandise collections. It anticipates significant growth in live performance revenue driven by expanding Babymonster fandoms. The debut of a new: 1) boy band is planned for this year; and 2) girl band is expected in 2027. **CJ ENM:** CJ ENM is seeing improved profitability (*eg*, Tving returned to quarterly profitability in 2Q) and strengthened growth prospects (through platform business enhancements), and it has a viable long-term growth strategy (driven by cost efficiency and structural business optimization).
	Investor pushback	**Q:** What were the factors behind Tving's (CJ ENM) return to quarterly profitability? Is this trend sustainable? **A:** The turnaround stemmed from: 1) subscriber growth and rising ad revenue driven by original content and KBO League broadcasts; and 2) profitability growth led by expanded international licensing of its original shows to overseas OTT platforms. While its short-term earnings may fluctuate (depending on the scale and timing of content sales), the stabilization of its user base and recurring ad revenue demonstrate that Tving's profitability has room to be improved.
Telecom	**Sector issue**	**Emerging as an AI infrastructure provider; fostering AI data center operations**
Minha Choi	**Sector outlook**	A fundamental transformation into an AI infrastructure provider is underway, starting with the launch of AI data centers. With major players launching hyperscale AI data center facilities, growth in related business segments is expected to continue.
	Top picks	**SK Telecom*:** SK Telecom aims to evolve into the nation's leading AI infrastructure provider, building longer-term growth drivers centered on AI data centers. The potential for a corporate valuation re-rating (driven by the rising value of its stake in Anthropic, which is preparing for an IPO) is also worth noting.
	Investor pushback	**Q:** What is the timeline for the new AI data center expansions and their commercialization? **A:** KT (KT Cloud) targets the launch of its Bucheon AI data center by end-2026. SK Telecom plans to commence Phase 1 operations of its Ulsan AI data center in 2H27. LG Uplus intends to begin operations of its first data center (Paju) in 2H27, followed by phased expansions.
Internet/Games	**Sector issue**	**Highlighting AI data center growth drivers; Kakao's corporate spin-off**
Donghwan Oh	**Sector outlook**	While market skepticism remains over Naver's AI Factory initiative, we forecast Naver's enterprise value will rise if customer contract announcements materialize in 3Q. In contrast, Kakao is likely to face continued downward pressure on its shares following its corporate spin-off, as investors increasingly discount the value of its assets (given its holding company structure).
	Top picks	**Naver:** Naver is expanding its growth portfolio in the fields of e-commerce, AI infrastructure, and financial services. While increased investments in 2H are expected to pressure near-term profitability, the public disclosure of AI Factory customer contracts should unlock valuation recognition for its new business initiatives in the stock price.
	Investor pushback	**Q:** While global neocloud firms remain in the red, can Naver's AI Factory achieve profitability?

		A: Since Naver's AI Factory operates on a back-to-back contract structure—leasing GPUs from an SPV in direct proportion to client contract sizes—the risk of profitability erosion due to the over-leasing of GPUs is limited.
Apparel	**Sector issue**	**Will domestic consumption growth continue? Will forex rates stabilize?**
Hyein Lee	**Sector outlook**	Domestic consumption growth should persist over 4Q26-1Q27, when major Korean firms distribute year-end bonuses and performance incentives. Due to the sharp won appreciation, export-oriented companies—such as OEMs—are likely to experience a moderate slowdown in sales growth in 2H.
	Top picks	**F&F:** 1) Domestic MLB sales should continue growing, as F&F is the only export-oriented apparel company benefiting meaningfully from inbound tourism growth; and 2) export revenue to China could recover in 2H, supported by robust MLB retail sales and the opening of more Discovery stores.
	Investor pushback	**Q:** Despite solid fundamentals, the stock remains undervalued. What could drive upward momentum? **A:** Potential catalysts: 1) accelerated new-store openings (Discovery) in China, driving earnings growth; and 2) the acquisition of TaylorMade—the transaction, which is expected to exceed KRW4t, would diversify F&F's portfolio by adding US exposure and a major golf brand, supporting its share price.
Leisure	**Sector issue**	**Discussions underway to raise casino tax rate from 10% to 15% by introducing new tax bracket**
Hyein Lee	**Sector outlook**	The potential decline in operating profit at casinos due to the new tax bracket may be less onerous than estimated. With the legislative proposal expected to be released soon, we recommend adopting a wait-and-see approach in the near term.
	Top picks	**Lotte Tour Development:** Sales per table should improve in 2H, supported by China-route additions at Jeju Airport, optimized table limits, and enhanced direct rolling-chip operations.
	Investor pushback	**Q:** Can growth be sustained given that its sales rose 50% in 2024 and 39% in 2025? Is the decline in average drop per table a concern? **A:** First, we believe sustained growth is achievable, given robust inbound demand and no signs of a slowdown in traffic growth to Jeju casinos or domestic integrated resorts. Second, the number of operating tables remains below total capacity, leaving room to add tables if demand grows. The company is currently offering VIP status to customers with lower drop amounts (than previously). Once capacity is fully utilized, it can be more selective about who it considers a VIP.
Transportation	**Sector issue**	**Airlines: Whether earnings will rebound on the normalization of oil prices and forex rates** **Shipping: Uncertainty over the trajectory of freight rates (which are near record highs) in 2H**
Youngho Kim	**Sector outlook**	**Airlines:** Key to airlines' earnings should be whether oil prices and forex rates normalize. With global seat demand growth still soft, Korean Air's pricing power (following its merger with Asiana Airlines) will be a key focus. **Shipping:** Strong freight rates in 1H were driven by external factors, and freight rates should fall h-h in 2H. Our longer-term outlook toward freight rates is neutral due to a structural supply glut.
	Top picks	**Hyundai Glovis**
	Investor pushback	**Q:** Is oversupply a concern in the car-carrier segment? **A:** Chinese auto exports have risen roughly 60% y-y in 2026, keeping the car-carrier supply tight. Moreover, virtually no car carriers were scrapped over 2022-2026, which points to an increase in scrapping in the near future. Thus, the risk of oversupply remains low.
Steel/Metals	**Sector issue**	**Will China's steel market recover? How will intensifying trade protectionism affect Korea?**
Jaeseung Baek	**Sector outlook**	Supply-demand dynamics for China's steel sector are unlikely to improve materially in the near term, implying that China's export volume will remain robust. Thus, it is difficult to justify an aggressive bet on a Korean steel-market recovery anytime soon. However, trade-protection measures introduced by Korea in 2025 should continue to support q-q earnings improvement at domestic steelmakers in 3Q26. Against this backdrop, a valuation-sensitive trading approach remains appropriate.
	Top picks	**Seah Besteel Holdings:** A decision on whether to impose tariffs on Chinese specialty steel bars is expected around September-October. If imposed, the tariffs could significantly improve profitability at Seah Besteel Holdings' core business, with a recovery likely in 2027. And, earnings from its US specialty-alloy plant should begin in 2027, lifting investor interest in the strategic value of the business. Hyundai Steel: Steel earnings, which bottomed in 1Q, should recover in 3Q, supported by Korea's trade-protection measures. The key focus will be whether price increases in 3Q are supported by actual demand growth. A hike in AI data-center constructions and semiconductor capacity expansions should also boost demand for long products.
	Investor	**Q:** What is needed to drive steel-sector earnings growth in 2H, and what is our view?

	pushback	**A:** A more compelling investment case for the domestic steel sector requires a recovery in China's steel market, which recovery could be triggered by increased demand (from real estate/infra investments) or reduced supply (more aggressive structural reforms/production cuts). At present, a meaningful improvement in China's steel supply-demand balance in 2H lacks visibility.
Payments	**Sector issue**	**Economic recovery-driven consumption growth and stablecoin legislation**
Jaewoo Kim	**Sector outlook**	With the domestic economic recovery (which is being driven by export-oriented sectors) leading to increased consumer spending, payment companies are expected to see earnings improvements. Meanwhile, uncertainty surrounding stablecoin legislation remains high, but related news flows are likely to continue driving stock-price volatility.
	Top picks	**Kakao Pay, NHN KCP**
	Investor pushback	**Q:** Expectations are high for: 1) an economic recovery (amid GDP growth); and 2) stablecoin legislation in 2H. Could these factors lead to tangible earnings improvement at payment companies? **A:** Given that improvements in consumer spending power are expected to lag the economic recovery, payment companies' earnings growth is likely to be more pronounced early next year than in 2H26. Generous bonus payments to workers, driven by corporate earnings growth, are also more likely to show up in domestic consumption early next year rather than at end-2026, and the full impact of government budget expansions is set to be seen in 1H27.
REITs	**Sector issue**	**Higher interest expenses due to rising rates; growth in infrastructure funds amid expansion of the data-center and renewable-energy markets and increased deployment of the National Growth Fund**
Kyungja Lee	**Sector outlook**	Higher interest rates are already reflected in market yields and REIT prices. REITs have maintained stable dividends through proactive measures such as asset disposals and the retention of distributable funds.
	Top picks	**SK REIT, KB Balhae Infrastructure**
	Investor pushback	**Q:** Does the rise in interest expenses (due to rate hikes) increase the risk of dividend cuts by REITs and infrastructure funds? **A:** Unlike in previous rate-hike cycles, the impact should be mitigated by the timing of lease renewals for underlying assets.

Note: Blue shade means 'positive' outlook, red shade means 'neutral' outlook of the sector
* means Top 10 picks
Source: Samsung Securities

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