

OPINION

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Korea's Achievement of KOSPI 4,000 and Its Implications

In the second half of 2025, the Korean stock market surged at an exceptionally rapid pace, with the KOSPI breaking through the 4,000 mark. This development is being viewed as both a symbolic and substantive milestone, suggesting that the domestic market—long burdened by the so-called “Korea discount”—has entered a phase of structural transformation. However, it is also evident that the rally has been excessively concentrated in a handful of mega-cap stocks, with the polarization of winners by sector and market capitalization becoming more pronounced. In particular, retail investors struggled to generate excess returns, as they tended to exhibit contrarian behavior—selling winners and buying losers—during the upswing. For the KOSPI 4,000 level to become a new normal rather than a temporary peak, systematic support for R&D and financing is essential, along with the identification of next-generation core companies in fields such as AI and semiconductors. In addition, for small- and mid-cap stocks, the disclosure system should be modernized to reflect market realities, corporate quality should be strengthened, and the criteria for restructuring marginal firms should be refined. From the perspective of retail investors, sustained efforts will be required—such as encouraging long-term, diversified investment through tax incentives for extended holdings—while simultaneously advancing policy and institutional reforms to foster step-by-step market growth and reinforce the infrastructure of market trust.

In the second half of 2025, the Korean stock market rose at an exceptionally rapid pace, breaking through the KOSPI 4,000 level and reaching as high as 4,222 points in early November, thereby setting a new all-time high in nominal index terms. While there was a precedent in March 2020 when the index surged 2.2 times—from 1,458 points to 3,153 points—within just six months following the pandemic, that rally largely reflected a technical rebound after a

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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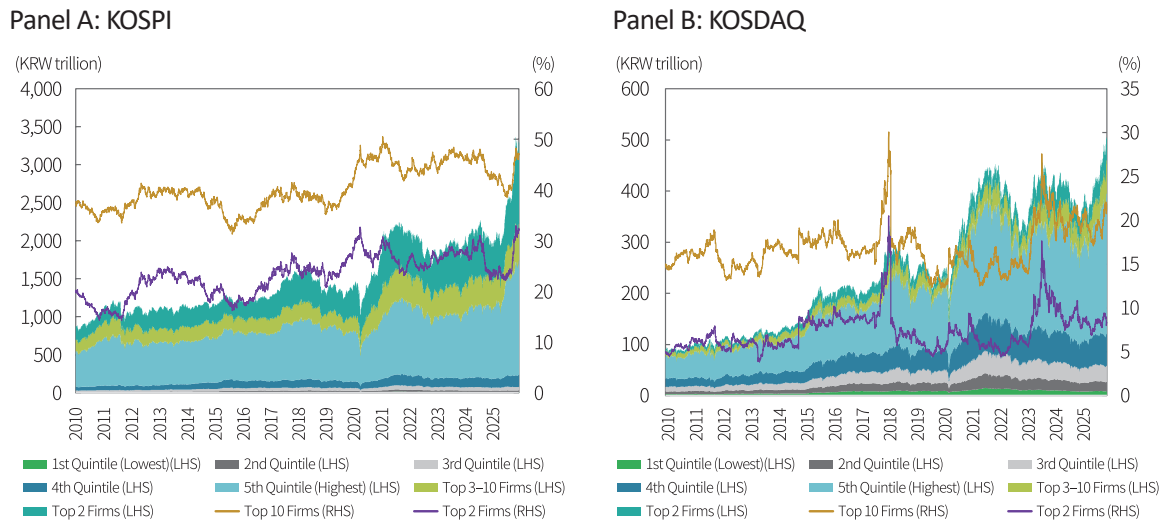
sharp short-term plunge. In contrast, the 2025 rally was fundamentally different in nature: it was driven primarily by fundamentals-based momentum, including improved earnings at key semiconductor companies such as Samsung Electronics and SK hynix, as well as expanding demand for AI infrastructure. Starting from the 2,500–2,600 point range in mid-2025, the index crossed the 4,000 level at a record-breaking speed. This development can be regarded as both a symbolic and substantive milestone, suggesting that the Korean stock market—long subject to the so-called “Korea discount”—has entered a structural turning point. However, the rapid rise in the index level does not necessarily imply an immediate qualitative leap for the broader market. Structural issues still coexist, including concentrated contributions to the rally, performance disparities across sectors and between large- and small-cap stocks, and asymmetric trading behaviors among different investor groups. Accordingly, this paper seeks to provide an objective assessment of the nature of the second-half 2025 performance and to propose key tasks necessary for the KOSPI 4,000 era to take root as sustainable momentum rather than a temporary phase.

1. Stock Market Upswing Drivers and Concentration

Breaking above the 4,000 mark in the KOSPI is a positive signal, indicating that the strength of the Korean market and the competitiveness of its core industries are being re-evaluated based on actual performance. However, it is concerning that the contribution to this rise is excessively concentrated in a handful of top stocks. As shown in <Figure 1>, trends by market-cap tier since 2010 reveal that the share of top stocks in the KOSPI has risen sharply in recent years. As of early November, the combined weight of the top two companies had expanded to about one-third of the total market capitalization—an increase of roughly 10 percentage points in just a few months and the highest level since 2010 (“Top 2 companies (RHS)” in Panel A of <Figure 1>). In contrast, the combined weight of the remaining companies among the top 10, excluding those two, stood at around 15%, continuing a gradual downward trend. In other words, the KOSPI market has generally exhibited a high concentration in its leading stocks, and this bias toward the top two companies has intensified markedly in recent times. The KOSDAQ market also shows an upward trend in the weight of its top 10 companies, reaching 21.7%, though not to the same extent as the KOSPI (“Top 10 companies (RHS)” in Panel B of <Figure 1>). This suggests that the recent rally has been driven not by broad-based gains across

sectors but by a very small number of mega-cap stocks, implying a concentration risk that could heighten the index’s sensitivity to volatility and widen the gap in returns perceived by investors.

Figure 1. Trends in Market Capitalization by Quintile and Portion of Top-Ranked Firms

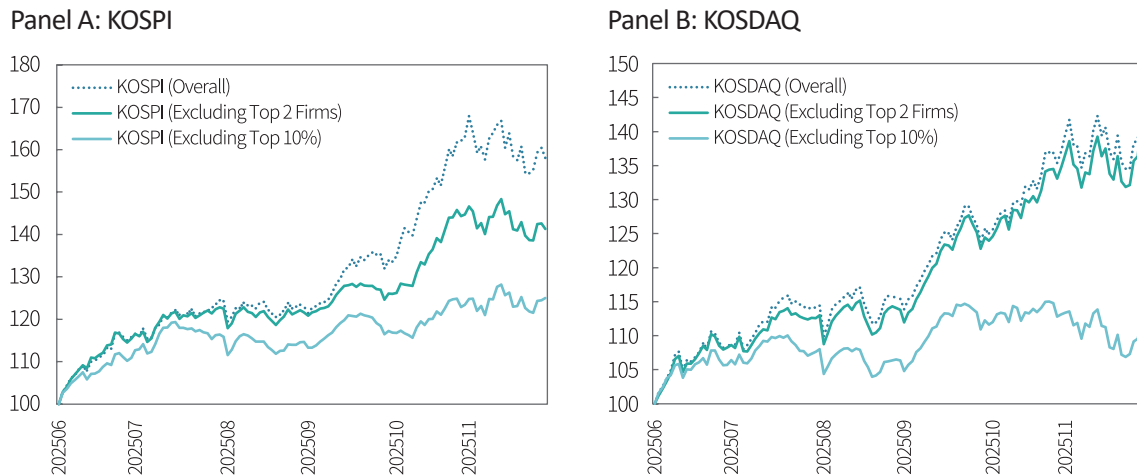


Notes: 1) Stocks are classified into five quintiles based on daily market capitalization, and the top quintile (5th quintile) is further subdivided into “Top 1–2,” “Top 3–10,” and “Others.”

2) The market capitalization of each segment is calculated as the sum of the market capitalizations of the stocks included in that segment.

Source: FnGuide, KRX, authors’ calculations

To evaluate how much the recent rise in stock prices was driven by top constituents, we compared index performance excluding those stocks (<Figure 2>). The results confirm that index returns have been highly dependent on a small number of stocks. In the KOSPI market, the cumulative market-capitalization-weighted return from June to early November was about 66%; however, excluding the top two companies, the increase over the same period falls to 40.6%. Accordingly, the contribution of the top two companies is estimated at approximately 38.5% of the total gain (=25.4%p/66%). Furthermore, when excluding the top 10% of stocks by market capitalization, the cumulative increase for the remaining group is only about 25%, suggesting that the rally did not spread broadly across sectors or stocks. The KOSDAQ market shows a similar pattern: excluding the top 10%, the cumulative increase is only 12%, indicating that the revaluation of large-cap stocks largely drove overall index performance.

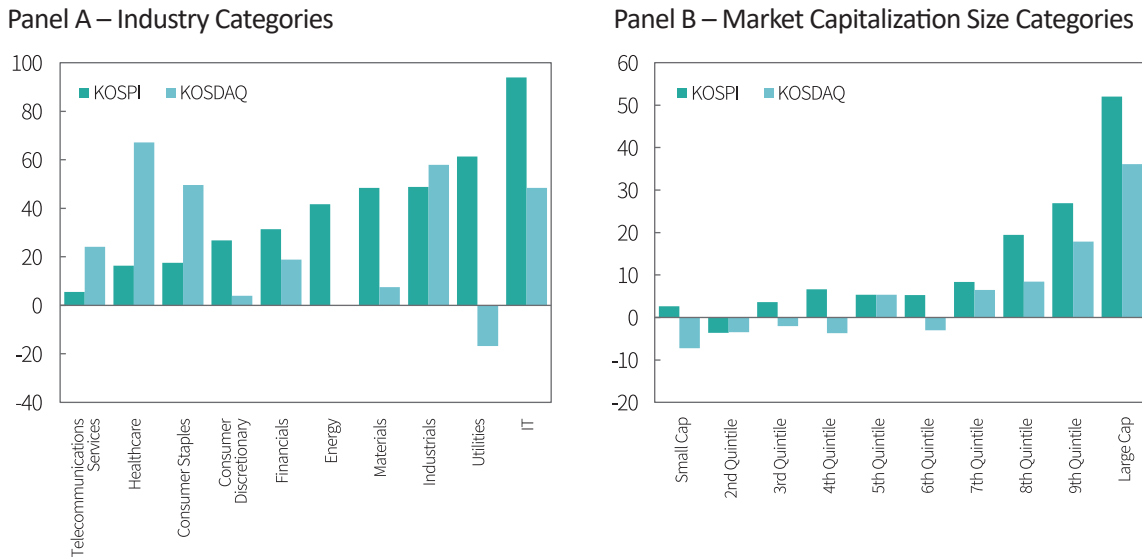
Figure 2. Analysis of the Contribution of Top Stocks to Index Performance

Notes: Daily portfolio returns are calculated by taking the market-capitalization-weighted average of individual stock returns on a daily basis. These portfolio returns are then cumulatively summed from June 2025 onward, and a hypothetical index is constructed by setting June 2, 2025, equal to 100.

Source: FnGuide, KRX, author's calculations

Sector performance in the second half of 2025 was characterized by a structure in which a small number of sectors led the rally. By market, the KOSPI showed overwhelming strength in IT, while the KOSDAQ recorded relatively higher returns in healthcare and industrials (Figure 3, Panel A). By market capitalization, both markets exhibited a monotonic upward pattern, with returns increasing alongside market cap size (Figure 3, Panel B). The lowest bucket remained in negative or low-return territory, while the highest bucket delivered strong gains of approximately 52% in the KOSPI and around 36% in the KOSDAQ. In the KOSPI, the index contribution of mega- and large-cap stocks strengthened, while in the KOSDAQ, gains were particularly pronounced among top-tier large-cap biotech names. As a result, performance became concentrated in the upper market-cap group, with a clear gap compared to the lower groups.

Figure 3. Stock Performance by Industry Group and Market Capitalization in the Second Half of 2025



Notes: 1) Returns represent the market-capitalization-weighted average stock returns for each group, measured as the percentage change in stock prices from June to October 2025.

2) Market capitalization quintiles are defined based on market capitalization as of the end of May 2025.

Source: FnGuide, KRX, author’s calculations

In summary, the market rally in the second half has been marked by a concentration in semiconductors and AI infrastructure from an industry perspective, and a tilt toward mega-cap stocks from a size perspective. As earnings differentiation and supply-demand dynamics intensify, concentration at the top and dependence on a handful of leading names may increase, potentially amplifying the index’s sensitivity to volatility and widening the gap between the index’s performance and investors’ perceived returns.

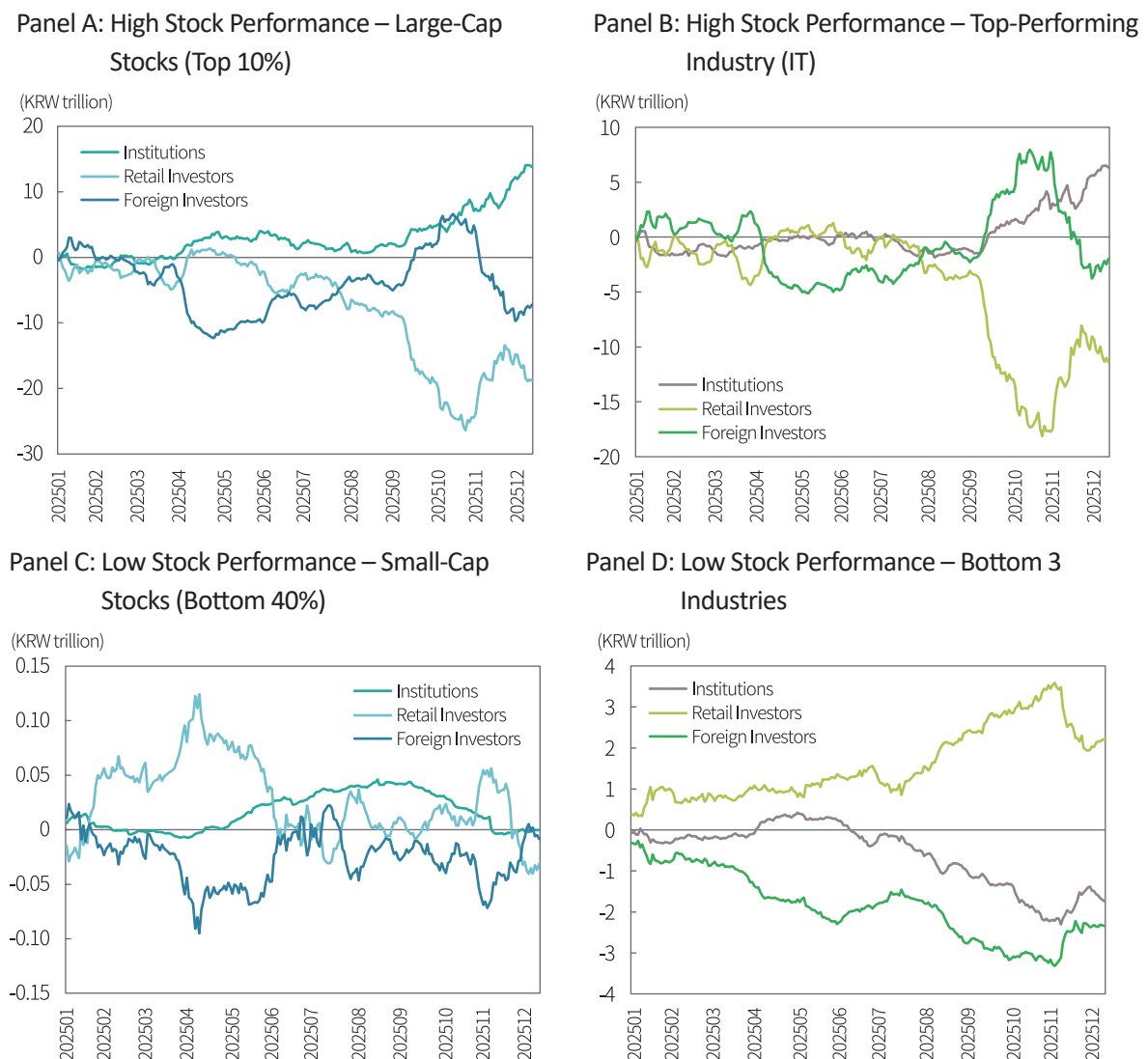
2. Investor Behavior During the Uptrend

An analysis of cumulative net buying flows by investor group during the recent rally from June to November shows that retail investors exhibited a distinct contrarian tendency—net selling winners and net buying losers. In large-cap KOSPI stocks (top 10%) and the top-performing sector (IT), net purchases by foreign and institutional investors drove the rally, while retail investors consistently accumulated net sales (Figure 4, Panels A and B). In contrast, in underperforming sectors, retail investors intensified their bottom-fishing, with net purchases totaling about KRW 3.3 trillion from June to October alone (Figure 4, Panel D). Over the same period, institutions and foreign investors continuously reduced their exposure to these lower-

tier sectors.

This flow structure has likely constrained retail investors' realized returns. First, net selling of winners results in forfeiting excess returns during the rally, with opportunity costs increasing as the trend extends. Second, net buying of laggards can easily lead to valuation losses amid delayed value recovery and fragile liquidity. Third, if retail investors' contrarian trading persists in contrast to the momentum-following behavior of foreign and institutional investors, their perceived returns are likely to remain low even as the index rises. Consequently, despite the strong rally since June, retail investors likely failed to fully capture the gains.

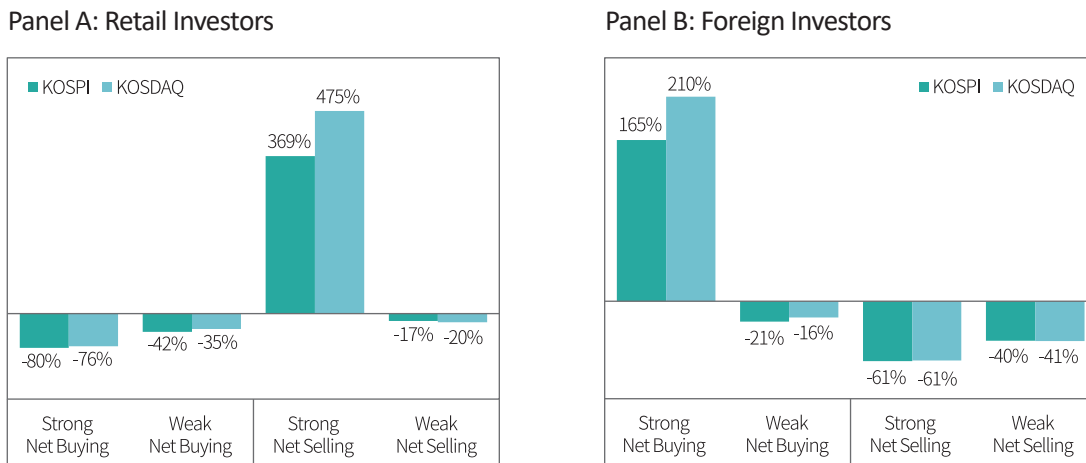
Figure 4. Cumulative Net Buying by Investor Type by High- and Low-Performing Stocks in the KOSPI Market



Source: FnGuide, KRX, author's calculations

Additionally, when performance was analyzed based on the degree of individual investors' net buying or net selling, it appeared highly likely that their contrarian tendencies contributed to underperformance. Individual investors' daily trades were classified into net buying and net selling, and each group was further divided into strong (upper range) and weak (lower range) categories to calculate cumulative abnormal returns. The abnormal returns of stocks that individuals net bought were consistently negative (-). Conversely, stocks that individuals strongly net sold recorded significantly positive (+) abnormal returns during rally periods (Figure 5, Panel A). In other words, this suggests a recurring pattern in which the stocks individuals sold tended to rise, while the stocks they bought rose less or declined. Applying the same method to foreign investors, positive abnormal returns were observed for strongly net bought stocks and negative abnormal returns for net sold stocks, confirming a contrasting pattern in which momentum (winner-chasing) trading translated into stronger performance (Figure 5, Panel B). During the bullish phase from June to November, individual investors likely failed to achieve returns relative to the index due to their tendency to act against the prevailing trend.

Figure 5. Cumulative Excess Returns by Net Buying Intensity across Investor Types



Notes: 1) Excess returns are calculated using daily stock price data for individual stocks from January 2020 to November 2025. Expected returns are estimated based on a market model, and excess returns are derived by controlling for expected returns relative to market returns.

2) Based on the daily excess returns of individual stocks, stocks are classified into two groups—strong and weak—according to the intensity of net buying or net selling by investor type during the period from June 2025 to November 2025.

3) For each group, excess returns of constituent stocks are averaged using market-capitalization weights to compute portfolio excess returns, which are then cumulatively summed over the sample period to obtain cumulative excess returns.

Source: FnGuide, KRX, author's calculations

Such behavior among retail investors is not unusual. Numerous studies have shown that, due to behavioral biases such as limited information, attention constraints, and the disposition effect, individuals often go against the prevailing trend during market upswings and consequently incur losses. Representative findings include evidence that the more frequently individuals trade, the significantly lower their returns tend to be relative to the market, with excessive turnover identified as a key factor behind performance deterioration,¹ as well as confirmation that a substantial portion of retail investors' losses arises from aggressive orders and inefficient timing.² Furthermore, it has been observed that individuals tend to be net buyers of attention-grabbing stocks—those featured in the news or experiencing surges in trading volume—while selling winners prematurely, suggesting that in bull markets, winner avoidance and loser preference can exacerbate underperformance.³ In sum, the net selling of winners and net buying of losers by retail investors observed during this phase is consistent with prior research; if these behavioral biases persist, it is highly likely that retail investors' realized performance will fall short of market returns despite the strong bull market.

3. Evaluation and Future Tasks

KOSPI 4,000 represents an achievement driven by the combination of Korea's market fundamentals and the revaluation of its key industries. However, it also reveals limitations, as index contributions are overly concentrated in a small number of mega-cap stocks, and the concentration of winners by sector and market-cap segment has intensified. In particular, it has been confirmed that retail investors exhibited contrarian behavior—net selling winners and net buying losers—during the upswing, making it difficult for them to achieve excess returns. To mitigate these concentration risks and ensure that KOSPI 4,000 becomes a new normal rather than a temporary peak, it is necessary to reduce dependence on top-ranked stocks through diversification across industries and individual names, identify next-generation core companies in areas such as AI and semiconductors, and provide systematic support for R&D and financing. In addition, the market structure should move away from reliance solely on large-cap performance; disclosure requirements for small- and mid-cap firms should be tailored to their characteristics while improving the substantive quality of disclosures; and criteria for restructuring marginal firms should be refined. Furthermore, for retail investors, policy and institutional reforms should be pursued in parallel to encourage long-term,

diversified investment—through measures such as tax incentives for long-term holdings—and to strengthen step-by-step growth pathways and the infrastructure of market trust.