

OPINIONCapital Markets
Division**Key Issues in the Capital Markets for 2026**

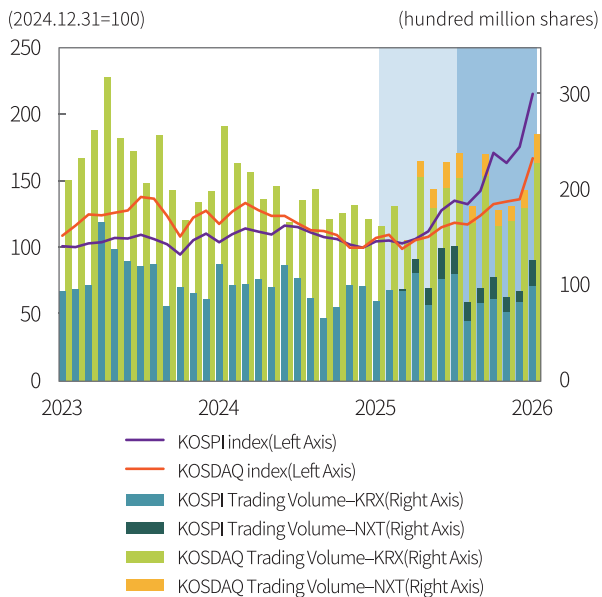
In 2025, the Korean capital market entered a phase of structural re-rating, delivering markedly strong performance relative to major global markets, supported by expectations of institutional reforms and an earnings recovery led by the semiconductor and AI sectors. In 2026, as corporate earnings improvement and valuation re-rating are expected to continue, a key policy challenge will be to mitigate the concentration of index gains in a handful of large-cap stocks and to facilitate broader performance spillovers to small- and mid-cap growth companies. At the same time, in the bond market, the expansion of foreign demand following Korea's inclusion in the WGBI, combined with a rise in corporate bond maturities, is expected to heighten the importance of liquidity management and credit risk monitoring. Under these conditions, if firms sustain earnings improvements, investors provide long-term capital grounded in trust, and market trust infrastructure is further strengthened through enhanced disclosure and corporate governance reforms, the Korean capital market could move beyond narrowing the "Korea discount" and advance toward establishing a structural premium.

In 2025, the Korean equity market delivered markedly outstanding performance relative to both the domestic market's prior trends and major global markets, suggesting that it had entered a phase of structural transition. This momentum continued into January 2026: as of end-January 2026, the KOSPI surpassed the 5,000 level and the KOSDAQ broke above 1,000. Accordingly, as of January 28, 2026, relative to end-2024, the KOSPI rose by approximately 115.5% and the KOSDAQ by approximately 67.1%(Figure 1).

* 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.

In the initial phase of the market rally, following the launch of a new administration, discussions on amendments to the Commercial Act and improvements to corporate governance gained full traction, fostering confidence that the Korean market could be structurally re-rated through policy shifts and policy reforms. This contributed to an easing of the long-standing so-called “Korea discount” and supported the rise in equity indices. Subsequently, entering the fourth quarter of 2025, the key driver of the rally gradually shifted toward fundamentals. A recovery in the semiconductor cycle and improved demand driven by expanded investment in AI infrastructure, together with upward revisions to earnings forecasts for major domestic companies on this basis, served as the core factors sustaining the rise in share prices (Figure 2).

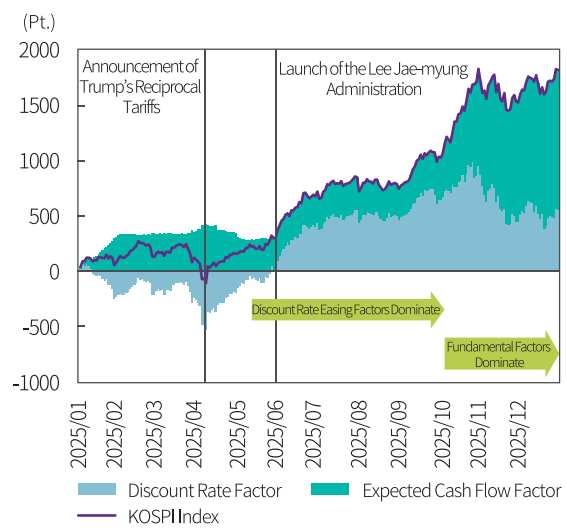
<Figure 1> Trends in Major Domestic Indices and Trading Volume



Note: Index series are normalized by setting the end-2024 closing index level to 100.

Source: DataGuide, KCM I

<Figure 2> Analysis of Contributions to Index Performance



Note: 1) Decomposes the cumulative change in the KOSPI index(unit: pt.) relative to January 2, 2025 into two factors.

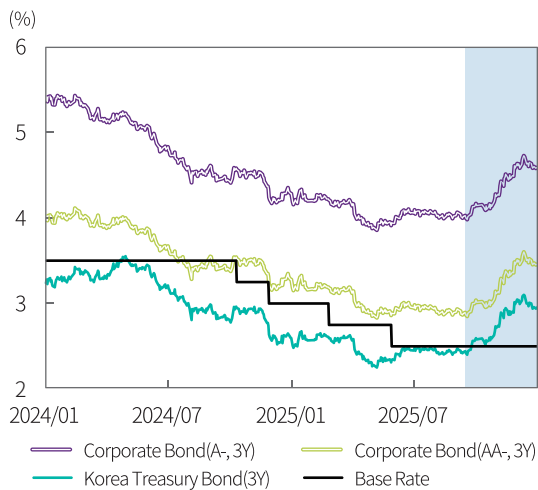
2) To explain daily index returns, a regression analysis is conducted using changes in the discount rate and expected EPS, BPS, and DPS as explanatory variables, and the discount-rate factor is extracted.

Source: Refinitiv, KRX, KCM I

Meanwhile, in the bond market in 2025, market interest rates rose sharply after mid-September as expectations regarding monetary policy shifted rapidly. Until August, a favorable environment for bond investment had persisted, supported by expectations of additional policy

rate cuts. However, as prospects for economic improvement strengthened and concerns over financial stability emerged, expectations for further rate cuts weakened significantly, leading to a steep increase in bond yields(see Figure 3). In this process, the expansion of mark-to-market losses resulting from declining bond prices weighed on investor sentiment.¹⁾ However, as of 2025, both the government and the private sector expanded their funding through bond issuance. Outstanding government bond issuance increased substantially, reflecting two supplementary budget allocations and the resumption of foreign exchange stabilization bond issuance in KRW. In addition, outstanding private credit bonds also rose significantly, supported by robust issuance through September when funding conditions remained favorable(see Table 1).

<Figure 3> Trends in the Base Rate and Bond Yields



Note: Shaded areas indicate the period after September 15, 2025.

Source: Bank of Korea, Korea Financial Investment Association

<Table 1> Changes in Outstanding Amounts by Major Bond Type

(Unit: trillion won)

	2021	2022	2023	2024	2025
Government bonds	+120	+94	+59	+49	+124
Treasury bonds	+117	+94	+60	+49	+112
FESBs	-	-	-	-	+14
Others	+3	-	-2	-1	-2
MSBs	-19	-28	+9	-6	-8
Special bonds	+18	+32	+47	+8	-8
Financial debentures	+39	+20	+7	+44	+50
Bank debentures	+25	+11	-1	+26	+26
Credit finance company debentures	+14	+9	+7	+18	+23
General corporate bonds	+16	-8	+3	+5	+18

Notes: FESB(Korean won-denominated Foreign Exchange Stabilization Bond)
MSB(Monetary Stabilization Bond)

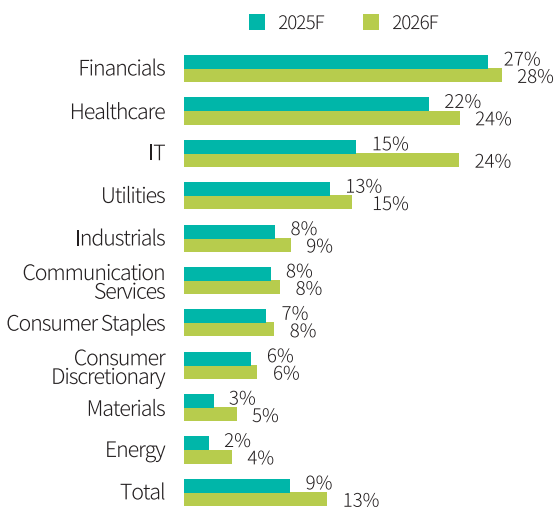
Source: Yonhap Infomax

1) Average monthly net flows into domestically invested public bond funds in 2025 were as follows: +KRW 4.3 trillion from January to August, +KRW 0.9 trillion from September to October, and -KRW 6.7 trillion from November to December(based on the Korea Financial Investment Association's statistics on net flows by public fund type).

Key Issues in the Equity Market in 2026

Korea’s equity market in 2026 is assessed to be entering a phase of broadly improving fundamentals, driven by the combination of a recovery in corporate earnings and normalization of valuations. By sector, operating profit margins are projected to rise from around 15% to approximately 24%, led by the IT sector in particular, with expanding demand for semiconductors and AI infrastructure likely to serve as the key engine behind earnings improvement(Figure 4). If this trend persists, there appears to be further upside potential for the KOSPI index. In addition, based on forward price-to-earnings ratios(forward PER), the share prices of core semiconductor companies such as Samsung Electronics and SK hynix are also assessed not to be at an excessively overvalued level relative to global peers, suggesting scope for further re-rating if accompanied by earnings improvement(Figure 5).

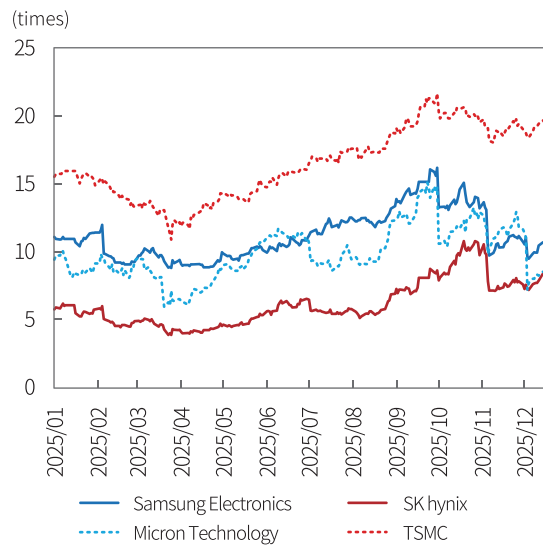
<Figure 4> Outlook for Operating Profit Relative to Sales by Industry



Note: Analysis is conducted for companies for which forecast data are available for the preceding four fiscal years.

Source: DataGuide, KCMI

<Figure 5> Trend in Forward P/E Ratios of Major Semiconductor Companies



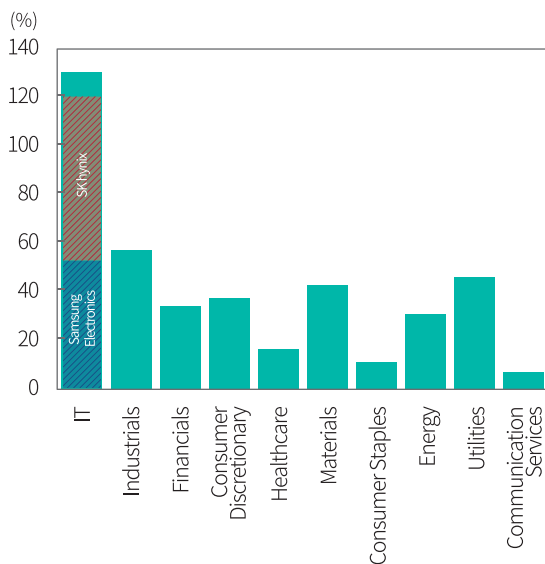
Note: Based on FY2026 consensus EPS.

Source: Refinitiv

However, the fact that the index rally remains concentrated in a small number of large-cap IT and semiconductor stocks is cited as a structural limitation. As the market-capitalization-weighted return of the IT sector(130%) surged in the second half of 2025, Samsung Electronics(52%) and SK hynix(67%) accounted for a substantial share of the upward

contribution, whereas among the lower market-cap cohort a bifurcation was observed in which decliners outnumbered gainers(Figures 6 and 7). If this structure persists, the investor participation base may weaken, and financing conditions for small and growing companies may become constrained. Accordingly, to promote balanced market development, policy enhancements need to be pursued in parallel—such as providing policy support for innovative growth companies, strengthening disclosure and investor relations(IR) to share companies’ long-term growth strategies with the market, expanding market access for small and growing companies, and improving market soundness through a “Dynamic entry–exit” market structure in which underperforming companies are delisted in a timely manner.

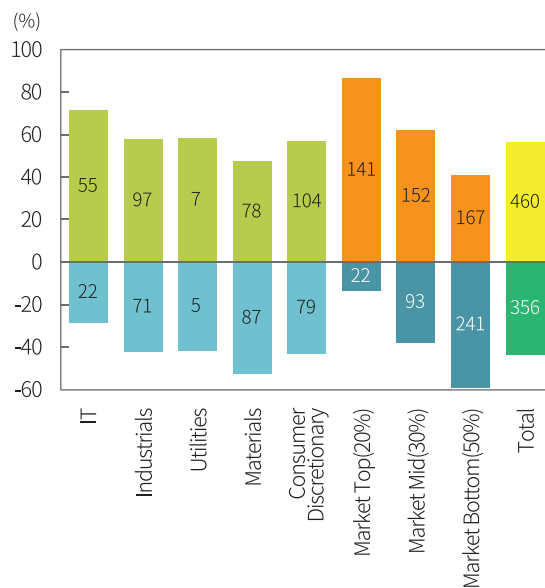
<Figure 6> Market Capitalization-Weighted Returns by Industry in the KOSPI Market



Notes: 1) The stock price return from end-June 2025 to end-December 2025 is calculated as a weighted average using market capitalization as of end-December 2025.
 2) Sorted by market capitalization as of end-December 2025.

Source: FnGuide, KRX, KCMi

<Figure 7> Share of Advancing/Declining Stocks in the KOSPI Market



Notes: 1) The figures in the chart indicate the number of companies.
 2) Sorted by market capitalization as of end-December 2025.

Source: FnGuide, KRX, KCMi

Meanwhile, as the separate taxation regime for dividend income from high-dividend listed companies is implemented and interest in treasury share cancellations continues to grow, expectations for shareholder returns are likely to persist in 2026. That said, during phases when corporate earnings improve rapidly, the pace of profit growth may outstrip the pace

of dividend increases, naturally leading to an adjustment in the dividend payout ratio; this need not be interpreted negatively. In assessing shareholder returns going forward, it will be important to take a comprehensive approach that focuses less on short-term dividend yields or tax benefits and more on how consistently a company can sustain dividends and treasury share cancellations on the back of persistent profit generation and stable cash flows.

Key Issues in the Bond Market in 2026

Among the key issues expected to affect the bond market in 2026, foreign investors' purchases of Korean Treasury Bonds(KTBs) are projected to increase further following Korea's inclusion in the World Government Bond Index(WGBI). KTBs are scheduled to see their index weight increased monthly over an eight-month period starting in April 2026. Accordingly, expanded foreign investment is assessed to be a positive factor for the bond market in that it should improve foreign-exchange supply-and-demand conditions and broaden the demand base for KTBs. However, a review of the securities eligible for WGBI inclusion shows that a substantial portion of the inclusion weight is allocated to off-the-run long-dated issues with low market liquidity(Table 2). Therefore, it will be necessary to support smooth trading through close monitoring of market conditions.

Next, as the volume of maturing corporate bonds expands significantly, corporate financing activity to refinance these maturities is expected to increase. In 2026, the amount of corporate bond maturities is projected to total KRW 73.2 trillion, up 15.2% from the previous year, and corporate bond issuance is therefore expected to continue to be driven mainly by refinancing demand. In particular, maturities of corporate bonds rated A+ or below—considered non-investment-grade—are set to rise by 20.2%, exceeding the increase rate for bonds rated AA-and above(13.6%)(Figure 8). Given domestic financial conditions in which the rate-cut cycle has effectively ended, this could weigh on the corporate bond market. Accordingly, there is a need to manage refinancing risks at the policy level to prevent the credit risk of individual vulnerable firms from developing into systemic risk.

<Table 2> Composition of Korean Treasury Bond issues eligible for inclusion in the WGBI

(Unit: trillion won,%)

	Benchmark issues	Off-the-run issues	Total
2-and 3-year	12 (1.2)	73 (7.1)	84 (8.2)
5-year	12 (1.2)	95 (9.3)	107 (10.4)
10-year	2 (0.2)	250 (24.4)	252 (24.6)
20-year	2 (0.2)	164 (15.9)	166 (16.1)
30-year	19 (1.8)	398 (38.8)	417 (40.7)
total	47 (4.5)	980 (95.5)	1,026 (100.0)

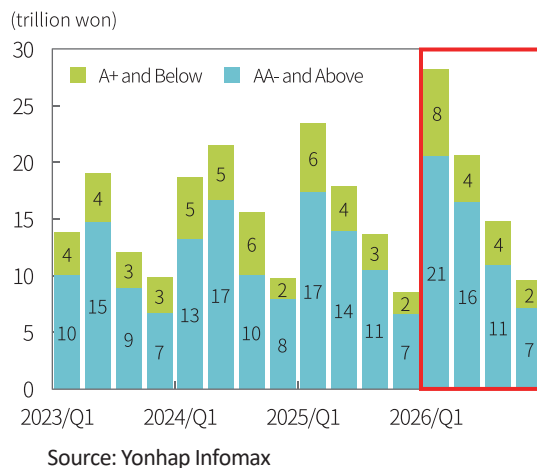
Note: 1) As of end-2025

2) Figures in parentheses indicate composition shares(%)

3) STRIPS(separated principal and interest securities) are excluded.

Source: KCFI

<Figure 8> Status of corporate bond maturities by credit rating



Key Regulatory Issues in 2026

Lastly, from an policy perspective, a major issue warranting attention is the change in the definition of operating profit or loss and in the disclosure framework resulting from the adoption of K-IFRS No. 1118, which will apply from 2027. In the short term, this may cause interpretive confusion among information users between the existing concept of operating profit and the new operating profit or loss, and in particular, insufficient understanding of the scope of non-recurring gains and losses and adjustment items included could undermine comparability of performance across companies. Accordingly, it will become important for both companies and investors to review the current and amended standards in parallel and to maintain the consistency and credibility of financial information by clearly sharing the details and rationale for adjustments made in the process of calculating operating profit or loss.

In addition, following 2025, capital market policy reforms aimed at enhancing shareholder value are expected to continue in 2026. In particular, mandating the cancellation of treasury shares is viewed as an policy turning point that goes beyond a simple shareholder-return

policy, strengthening shareholders' rights with respect to the disposal of treasury shares. With a high likelihood of passage by the National Assembly in the first half of this year, the key issues emerging are the scope of exceptions to the cancellation requirement and the establishment of a grace period for existing treasury shares. Alongside this, it is also noteworthy that the Stewardship Code is undergoing its first revision since its enactment in 2016, expanding the scope of application and explicitly incorporating ESG factors. As the revision goes beyond a mere statement of intent to include monitoring of implementation, institutional investors' fulfillment of fiduciary duties is expected to enter a more substantive phase.

At the same time, policy reforms to protect minority shareholders also foreshadow structural changes. Measures such as the issuance of guidelines on directors' duty of loyalty, enhancing the fairness of merger consideration, allocating new shares to shareholders of the parent company when a "split-off and listing" occurs after a spin-off, and introducing a mandatory tender offer regime are expected to change decision-making practices centered on controlling shareholders. In addition, expanding mandatory English-language disclosures, comprehensively expanding the scope of companies required to submit corporate governance reports, disclosing shareholder meeting voting results, and strengthening detailed disclosures on performance metrics and calculation standards—such as total shareholder return and operating profit—related to executive compensation will function as infrastructure to reduce information asymmetry in the market and to induce accountable management.

Summary

In 2025, Korea's capital market is assessed to have entered a phase of structural re-rating, supported by expectations for policy reforms and a recovery in earnings in key industries. In 2026, to ensure that this trend does not end as a temporary rally, it will be necessary to advance in tandem: sustained efforts by individual companies to improve performance; long-term capital provision grounded in investor trust; and the upgrading of market-trust infrastructure through policy improvements in areas such as disclosure and corporate governance. If this virtuous cycle becomes established, Korea's market is expected to be able to progress beyond resolving the Korea discount and advance to a stage of forming a structural premium.