PERSPECTIVES Viewpoint Equity

Korea: From "discount" to re-rating

April 16, 2026

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Key takeaways

- KOSPI's surge is being led by the AI-driven memory super-cycle and a sharp earnings upgrade cycle.
- Near-term volatility is being driven by Middle East energy/supply risks, but Korea's core fundamentals remain resilient.
- Valuations are still screening cheap versus peers; governance/value-up reforms may further narrow the "Korea discount" and broaden the rally.

KOSPI blasts off

Korean stocks staged a spectacular rally in 2025. The Korea Composite Stock Price Index (KOSPI index) rose 80% in USD terms. This marked its third highest performance since inception, a dramatic reversal after being the Asia's worst performer in 2024. By the end of 2025 the KOSPI had climbed above 4,200 points, buoyed by earnings upgrades, AI-related demand for memory chips and policy catalysts aimed at boosting shareholder returns and eliminating the "Korea discount" – the tendency for Korean equities to trade at lower valuations than global peers despite strong industrial competitiveness. The strong momentum carried into 2026 and the KOSPI breached the 6,300 points threshold for the first time ever in late February. Tech large caps led the charge, propelled by euphoria around memory chip demand, and the index logged a 48% gain in just two months. Most of the KOSPI's 2025–2026 gains came from semiconductor and capital goods companies.

After peaking in late February, the KOSPI experienced a correction in March. Profit-taking followed the increased global volatility due to the Iran conflict, prompting investors to move out of risk assets. Since the beginning of the Iran conflict on February 28 the KOSPI dropped by 7%. The sudden external shock triggered a drop of 12.7% in a single day – KOSPI's steepest one-day decline on record. Year to date, the KOSPI is still up around 38% and volatility is also highly elevated.

Energy lifeline under threat

Among the reasons for the March setback in Korean stocks were the spike in energy prices and the absence of energy deliveries from the Middle East.

Korea's economy remains highly sensitive to global oil price volatility because roughly 70% of crude imports come from the Middle East, and almost all of them normally pass through the Strait of Hormuz. About 20% of LNG imports are sourced from the region. According to the International Energy Agency (IEA), oil represented close to 37% of total energy supply in 2024 and natural gas almost 20%. These two sources combined generate roughly one-quarter of the country's electricity, further underlining Korea's vulnerability.

That said, the likelihood of facing outright energy shortages in the short to medium term still appears relatively low as Korea holds about 200+ days of oil inventories. In addition, the country has already secured 50mn barrels of oil for April and 60mn for May from 17 countries. Korea has LNG inventories for about two weeks as well as alternative sourcing options to avert a gas shortage.

There is also significant capacity to boost output at Korea's extensive nuclear power facilities, which currently produce roughly one-third of the nation's electricity. Near-term risk is more a story of higher prices and lower margins than one of blackouts.

Chipmakers' hold on the KOSPI

Oil and gas are, however, not the only imports currently affected by the Middle East turmoil. Ongoing disruptions to the supply of helium is a significant vulnerability for the tech sector because it is used in various chip manufacturing processes. About two-thirds of helium imports are sourced from the Middle East. This helium risk matters for the Korean equity market because of its high concentration of technology companies, involved mainly in chipmaking.

During the 2025–2026 rally, market concentration in the KOSPI became exceptionally high, with 35% to 40% of the index accounted for by just two companies that are amongst the largest memory chip producers worldwide. Without the 30%-cap on a single stock within the KOSPI, these companies would be even more dominant – for instance, they make up more than 50% of the MSCI Korea index. These companies are sensitive to helium supply, electricity costs, freight costs, and global capex demand. A prolonged Hormuz disruption could therefore hit their earnings not only via reduced inputs, but also through slower global macro activity and postponed global capital expenditure.

If the Iran shock fades and energy prices stabilise at lower levels, the KOSPI has a credible path to resume its uptrend because the core drivers of the 2025–2026 rally are still intact. We see the drawdown as a correction following exceptional gains and consider it unlikely to be the start of a structural bear market. The core fundamentals of the Korean equity market remain strong and resilient.

Earnings rocket

The fundamental driver of the KOSPI surge has been a remarkable turnaround in corporate earnings. After a profit recession in 2022 and into early 2023, Korean companies' earnings have been resurgent: aggregate KOSPI earnings jumped by almost 40% in 2025, reflecting a recovery from depressed levels. Notably, memory chip makers quickly accelerated earnings, leading to their outsized contribution to index-level earnings.

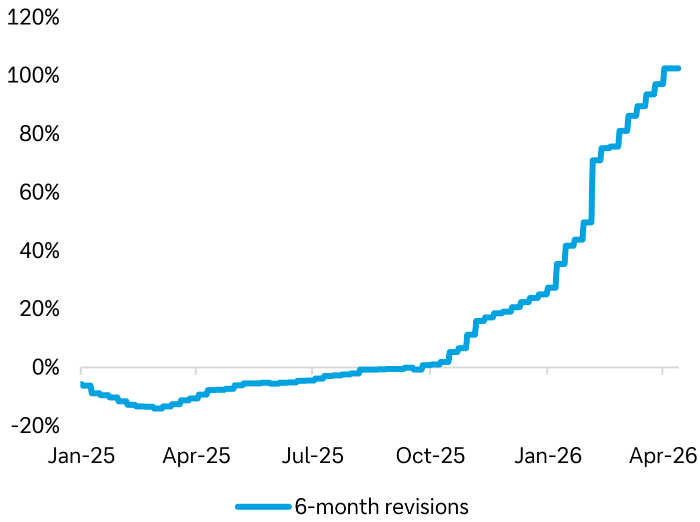
Looking ahead, analysts generally remain optimistic on Korea's earnings trajectory. For 2026, the consensus expects a triple-digit earnings expansion (of above 130%). Such growth would be well above global averages. This is underpinned by expectations of an extended memory chip upcycle, sustained AI-related tech demand, and from corporate governance reform initiatives leading to higher shareholder returns.

Analysts have been consistently upgrading their earnings projections for Korea. Over the past six months, KOSPI's forward 2026 earnings forecast has been revised upwards by 102% – the strongest revision trend worldwide (Figure 1).This upward momentum was especially pronounced in Q4 2025 and Q1 2026 when a wave of earnings beats and improved guidance prompted steep upgrades. This sustained upgrade cycle has provided fundamental support to the market's valuation, dampening the rise in P/E ratios.

The memory chip industry is known for its cycles, so the remarkable growth seen now appears unlikely to continue beyond 2026. However, forecasts are also becoming more optimistic for the following years: Analysts anticipate earnings will rise by 19% in 2027 and by 6% in 2028. These projections have been steadily revised upwards – just a few weeks ago, experts were predicting a 7% drop in earnings for 2028. The current AI boom could keep extending the current memory upcycle that is driving KOSPI earnings growth.

Figure 1: Earnings expectations have more than doubled over the last six months

KOSPI NTM earnings revisions



Source: LSEG Datastream, Deutsche Bank AG. Data as of April 14, 2026.

Riding the AI memory super-cycle surge

Korea's IT sector is in an AI-driven memory "super-cycle", underpinned by surging demand for advanced memory products (see Table 1) such as High Bandwidth Memory (HBM) used in AI accelerators. Years of underinvestment after a period of conservative capex and production cuts have led to supply shortages and sharply increased prices, granting Korean manufacturers rare pricing power. Memory chip prices have multiplied several-fold since 2025 and key Korean manufacturers report that their 2026 memory chip output is fully sold out underscoring how tight supply has become. It is also indicating that tight supply could continue into 2027. This memory super-cycle has significantly boosted Korean stocks, especially the semiconductor giants which form a large part of the market.

Disciplined supply, explosive demand

The super-cycle is fundamentally driven by demand, especially from AI's need for enormous memory capacity. AI workloads are driving a rapid increase in memory intensity, with data-centre power demand and AI-related hardware requirements accelerating sharply. Demand recovery across all segments from servers to smartphones, notebooks, and PCs is drawing down inventories. Producers are focusing on HBMs over commodity chips to avoid oversupply of older products. This disciplined supply management alongside booming AI demand is underpinning a strong profit cycle for Korea's memory sector.

Table 1: AI-driven memory segments and demand drivers

Memory products	End market / product	Primary drivers of demand and pricing
HBM	AI chips, top-end data centre GPUs	AI accelerators require extremely high memory bandwidth, making HBM the most direct beneficiary of AI server growth. Demand remains strong as leading GPU and AI chip vendors continue to increase memory content per accelerator.
Conventional DRAM / DDR5	Server memory, PC memory	Strong cloud and AI server demand is increasing memory content per server and supporting higher server DRAM and DDR5 prices. Pricing is also being reinforced by industry capacity allocation decisions, as suppliers balance output between HBM and conventional DRAM products.
NAND Flash	SSDs, large-scale data storage	AI data centre expansion is driving demand for enterprise SSDs, which is supporting NAND pricing. Higher storage requirements for cloud and AI infrastructure are contributing to tighter market conditions, particularly in enterprise applications.
Mobile DRAM / LPDDR	Smartphones, thin laptops, AI PCs	LPDDR demand is being supported by premium mobile devices, AI PCs, and broader DRAM market tightness. Additional upside is coming from emerging server-related demand for low-power memory in certain AI system designs.
Graphics DRAM / GDDR	Graphics cards, selected AI accelerators	Demand for newer GDDR generations, especially GDDR7, is being supported by next-generation GPUs and some AI inference accelerators. Growth is tied to both graphics performance requirements and expanding use in selected AI workloads.

Source: LSEG Datastream, Deutsche Bank AG. Data as of April 14, 2026.

Great upside, greater vigilance

The ongoing memory super-cycle presents investors with potential gains as well as risks. With its memory-driven equities, the KOSPI is poised to gain from the surge in memory demand. However, the memory market typically experiences cycles. Although the upward trend could persist in 2026 or even beyond, it is important to remember that every cycle eventually comes to an end, once demand is satisfied. Korea's memory super-cycle has revitalised the KOSPI and offers further upside if supply/demand imbalances persist. Korean chip giants are expected to deliver strong profits amid the AI revolution, potentially lifting share prices and the broader index. However, vigilance is necessary. Pricing trends, earnings revisions, export momentum, and tech export policies that may signal cycle shifts should be closely monitored. The cycle's fundamentals remain robust due to the secular AI adoption trend and disciplined supply management, but the natural ups and downs of the memory chip industry should be kept in mind.

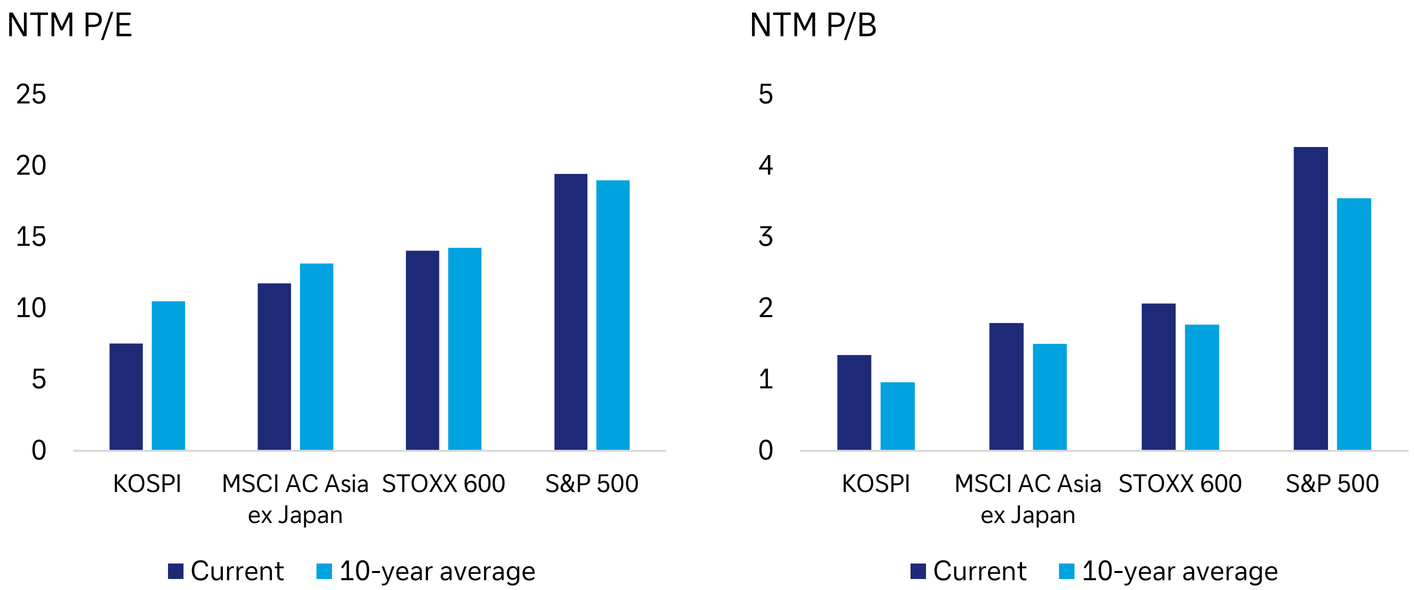
Market remains on discount

Despite the huge run-up in prices, the KOSPI's valuation metrics have not blown out. In fact, they are roughly in line with long-run norms thanks to the parallel surge in earnings. The index's 12-month forward P/E ratio (NTM P/E) hovers around 8x – below its 10-year historical average of 10.5x and well below the peak multiples seen during past bull cycles.

It is notable that even at the late-February high of above 6,300, the forward P/E only reached its 10-year historical average – which, considering the strong earnings momentum, was not excessive. But one should keep in mind that the inherent cyclicality of the memory chip industry is a fundamental factor that contributes to lower valuations in Korea.

Price-to-book value multiples tell a similar story. At present, the KOSPI's 12-month forward P/B ratio is around 1.3x – higher than its 10-year historical average of 1.0x but significantly lower than the averages observed in developed and emerging markets.

Figure 2: Moderately valued KOSPI trading at a discount



Source: LSEG Datastream, Deutsche Bank AG. Data as of April 14, 2026.

Korean equities have consistently traded at lower valuations than those of their global counterparts, largely due to ongoing concerns regarding corporate governance and the structure of *chaebol* conglomerates. This issue is being addressed via ongoing governance reforms.

As of mid-April the KOSPI is trading at a 36% discount to the MSCI AC Asia ex Japan index, which has a P/E ratio of 11.8x. This gap is even wider when compared with the STOXX Europe 600 and S&P 500, with their ratios of 14.0x and 19.4x – KOSPI's discount then comes to 46% and 61%. In terms of P/B ratios, the KOSPI sits at 1.3x, which is a lot lower than the MSCI AC Asia ex Japan and STOXX 600, both at around 2.0x, and significantly below the S&P 500's 4.3x.

Markets with a high return on equity (RoE) typically warrant higher valuations. However, Korea has made significant progress in this regard. Over the past decade, KOSPI's RoE remained within the 7-11% range. In late 2025, the KOSPI exceeded this range due to strong memory chipmaker earnings, reaching about 16% by March 2026. This development highlights that Korean equities remain relatively undervalued. Korean equities continue to trade at a significant discount relative to their own history and relative to other markets, which suggests that investors are still sceptical about the sustainability of high earnings growth and the success of the ongoing governance reforms. This is also due to the fact that the rise in average RoE can be attributed to the high contributions by AI boom-driven memory chipmakers.

Unlocking Korea's equity value

Korea's multi-year reform agenda aimed at improving corporate governance, strengthening shareholder rights and reducing the long-standing Korea discount – the tendency for Korean equities to trade at lower valuations than global peers despite strong industrial competitiveness – offers the potential to broaden out the rally. The reform effort spans legislation, regulation, tax policy and market incentives, and is intended to improve capital allocation, raise transparency and make shareholder returns more predictable.

The reform push began with the launch of the Corporate Value-Up Program in 2024 and has since broadened under the current administration into a wider effort covering governance, payout policy and market structure. Key targets include long-standing structural issues such as cross-shareholdings, weak dividend discipline, retained treasury shares and limited protection for minority shareholders – features that have historically weighed on valuations in Korea's conglomerate-dominated corporate sector.

A combination of top-down political support and bottom-up investor pressure has helped sustain reform momentum. Domestic and international investors have pushed for stronger alignment with global governance standards, while policymakers have increasingly treated capital-market reform as part of a broader strategy to improve the attractiveness and efficiency of Korea's equity market.

Korea's path to re-rating

Against this backdrop, the reforms are best understood in three buckets: (1) governance and minority shareholder protection, (2) capital efficiency and value-up measures, and (3) market-confidence and liquidity support.

1) Governance and minority shareholder protection

- The most important governance reforms are the Commercial Act 1.0 and 2.0 amendments, enacted in July and September 2025. These expanded directors' fiduciary duties to all shareholders, tightened rules around auditor and audit-committee elections, and introduced mandatory cumulative voting for large listed companies. In practical terms, they make it harder for controlling shareholders to dominate governance decisions and raise the legal and reputational costs of shareholder-unfriendly actions.
- The next important layer is the still-evolving M&A and tender-offer reform agenda under the Capital Markets Act. The focus is on fair-value reviews, stronger disclosure and better protection for minority shareholders in mergers, spin-offs, asset sales and other restructuring transactions, with mandatory tender-offer proposals also under discussion. A further high-impact reform is the new stance on dual listings, especially for large conglomerates, because these have long been seen as dilutive to parent-company shareholders and a structural source of the Korea discount.

2) Capital efficiency and Value-Up

- This bucket is the most directly relevant for equity valuations, because it concerns payout policy, capital allocation and valuation discipline. The broad framework is the Corporate Value-Up Program, launched in 2024, which encourages companies to publish medium-term plans on capital efficiency, shareholder returns and investor communication. By March 2026, 181 companies had disclosed Value-Up Plans, showing that the reform is becoming embedded in corporate practice.

- A strong legal reform in this group is treasury-share cancellation. Commercial Act 3.0, promulgated in March 2026, requires treasury shares to be cancelled within defined time limits, with only limited exceptions subject to shareholder approval. This matters because retained treasury shares had often weakened capital discipline and could be used in ways not aligned with minority-shareholder interests.
- The other major reform is dividend tax reform, promulgated in December 2025 and effective from 2026 for FY2025 dividends. Qualifying dividends are now taxed separately at 14%, 20%, 25% and 30%, reducing the tax burden for many investors and encouraging a more stable and shareholder-friendly payout culture. Authorities have also started applying visible pressure to companies that trade persistently below book value, linking the value-up agenda more directly to valuation discipline.

3) Market confidence and liquidity support

- These measures are supportive rather than the main re-rating driver. The most important step was the resumption of short selling on March 31, 2025, backed by real-time monitoring and tighter institutional controls, which improves market integrity, hedging capacity and foreign-investor confidence. On the domestic side, the National Pension Service has raised its 2026 target allocation to Korean equities from 14.4% to 14.9%, while policymakers have also discussed stronger long-term household investment incentives through ISAs and IRPs. In parallel, a broader KOSDAQ exchange clean-up agenda is aimed at improving listing quality, accelerating delistings of weak issuers and strengthening investor protection.

The government's reform approach combines legal requirements with targeted incentives, using both "sticks" and "carrots" to improve corporate governance, strengthen minority shareholder protection, and encourage better capital allocation without undermining corporate investment activity. The broader aim is to shift corporate behaviour toward more shareholder-friendly practices while also making long-term equity ownership more attractive via selective tax and market incentives. This reform agenda remains ongoing, with policymakers signalling that additional measures are likely as they seek to sustain momentum and embed these changes more firmly in corporate and investor behaviour.

Table 2: Already implemented reforms and measures

Date	Reform
27 May 2024	Launch of a formal disclosure framework for Value-up Plans
24 Sep 2024	Introduction of the KRX Value-up Index
4 Nov 2024	Launch of ETP's linked to the Value-up Index
31 Dec 2024	Treasury-share disclosure reform
31 Mar 2025	Removal of the short-selling ban
15 Jul 2025	Commercial Act / Code 1.0 – Strengthening minority shareholders
9 Sep 2025	Commercial Act / Code 2.0 – Strengthening minority shareholders
23 Dec 2025	Dividend tax reform implementing tax incentives for higher payouts
26 Jan 2026	National Pension Service raising domestic equity target allocation
6 Mar 2026	Commercial Act / Code 3.0 – Mandatory treasury-share cancellation

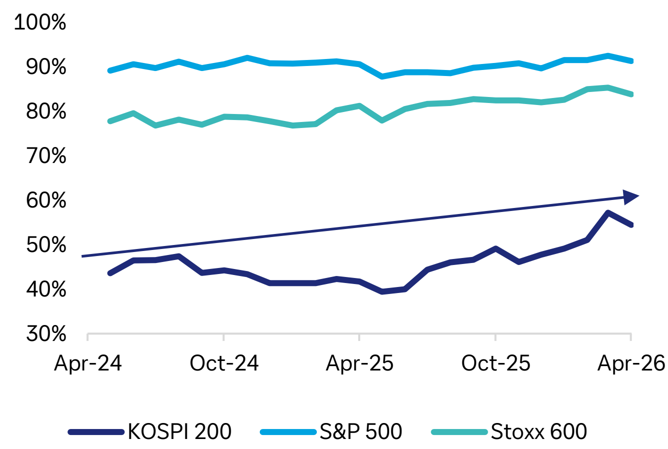
Source: LSEG Datastream, Deutsche Bank AG. Data as of April 14, 2026.

Korea discount starting to narrow

A more shareholder-friendly policy framework has been an important contributor to the re-rating of Korean equities. The reforms have boosted investor confidence that a larger share of corporate cash flow will be returned to shareholders rather than be retained on inefficient balance sheets or embedded in opaque group structures. This has helped narrow the Korea discount and boosted valuation multiples, even though stronger earnings in key sectors have also been important.

Figure 3: Rising share of companies traded above book value since launch of Value-up

Share of companies trading above book value



Source: LSEG Datastream, Deutsche Bank AG. Data as of April 14, 2026.

The reforms are beginning to address some of the structural features that have historically depressed valuations, including weak payout discipline, long-term treasury-share retention and limited accountability to minority shareholders. The clearest evidence of narrowing the Korea discount can be seen in the rising number of companies trading above their book value. Furthermore, the Korea Value-up Index – tracking companies seen as more committed to better capital allocation and shareholder returns – outperformed the KOSPI. As of end-February 2026, the index had risen 186% from its September 2024 base date, outperforming the KOSPI's 143% gain over the same period. By then, the number of companies filing formal Value-up Plans had increased to 181, suggesting that investors are increasingly favouring companies seen as more credible reform adopters.

Conclusion: Korean stocks could keep rising

The KOSPI's recent performance has been driven by a rare combination of cyclical recovery and structural growth themes such as AI and governance reform initiatives. Fundamentals remain strong with fast-growing earnings and ongoing positive revisions. Valuations are rather low and offer a discount to global peers, presenting a value proposition if growth continues. For the rally to continue, oil and LNG markets will need to normalise, reducing the inflation and margin pressure now weighing on Korea's import-dependent economy. Also, chipmakers will have to continue delivering on the memory upcycle, because they remain the dominant source of index earnings momentum. And lastly, the rally needs to broaden beyond the chipmakers, supported by corporate governance reforms that further narrow the Korea discount.

Appendix

Glossary

Basis points (bps) are a unit of measurement for interest rates or yields where 1 basis point equals 0.01 percentage points.

Capital expenditure (Capex) refers to money a company spends to buy, maintain, or improve long-term assets such as factories, equipment, or technology.

Korean conglomerate groups (Chaebol) are large, family-controlled corporate groups in Korea that often have complex ownership and cross-holdings.

Exchange-traded product (ETP) is an exchange-listed vehicle (such as an ETF or ETN) that tracks an index, sector, commodity, or strategy.

Forward earnings are projected company or index profits used to assess valuation based on forecasts rather than past results.

Forward P/E is a valuation metric that compares today's price to expected earnings over the next 12 months.

Graphics processing unit (GPU)is a specialised processor used for high-speed computing tasks, widely used in AI model training and inference.

High Bandwidth Memory (HBM) is an advanced memory technology designed to deliver very fast data transfer, commonly used in AI accelerators and high-end computing.

Hedging is the use of financial instruments or positions to reduce the impact of adverse market moves.

The **International Energy Agency (IEA)** is an intergovernmental agency studying energy-related issues.

Individual Retirement Pension accounts (IRPs) are long-term retirement savings vehicles that offer tax incentives to encourage individuals to accumulate pension assets through regular contributions and investment growth.

Individual Savings Account (ISA) is a tax-advantaged savings and investment account structure used to encourage long-term household investing.

KOSDAQ is a South Korean stock market index that tracks technology-, growth-, and innovation-focused companies listed on the Korea Exchange's KOSDAQ market.

KOSPI is a benchmark South Korean equity index.

KOSPI 200 is a benchmark equity index that tracks the performance of 200 leading large-capitalisation companies listed on the Korea Exchange.

Liquefied natural gas (LNG) is natural gas cooled into liquid form to make transport and storage more efficient.

Mergers and acquisitions (M&A) describes transactions in which companies are combined (merger) or one company purchases another (acquisition).

The **MSCI Asia ex Japan** Index captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

MSCI Korea tracks the performance of large- and mid-capitalisation companies listed in South Korea.

Next twelve months (NTM) is a time horizon used in valuation metrics that refers to expected results over the coming 12 months.

Price-to-book ratio (P/B) is a valuation metric that compares a company's market value to its accounting book value.

Price/earnings (P/E) ratios measure a company's current share price relative to its per-share earnings.

Return on equity (ROE) measures company's financial performance by dividing net income by shareholders' equity.

The **STOXX Europe 600** Index includes 600 companies across 17 European Union countries.

The **S&P 500** Index includes 500 leading US companies capturing approximately 80% coverage of available US market capitalization.

USD is the currency code for the US Dollar.

Appendix

Historical performance

	14.4.2021 – 14.4.2022	14.4.2022 – 14.4.2023	14.4.2023 – 14.4.2024	14.4.2024 – 14.4.2025	14.4.2025 – 14.4.2026
S&P 500	6.5%	-5.8%	23.8%	5.5%	28.9%
STOXX Europe 600	5.3%	1.5%	8.2%	-1.1%	24.0%
KOSPI	-14.6%	-5.3%	4.3%	-8.4%	143.0%
KOSPI 200	-17.0%	-6.6%	10.1%	-11.4%	175.7%
MSCI Asia ex. Japan	-16.2%	-8.8%	1.2%	3.1%	45.1%
Gold (oz)	13.5%	1.5%	20.7%	33.0%	49.4%
Crude Oil (Brent Spot. bbl)	67.8%	-22.7%	4.8%	-28.3%	46.1%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream. Data as of April 14, 2026.

Appendix

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