

Korea's Value-Up 2.0: Only Half the Story



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Since President Lee Jae-Myung took office earlier this year, the MSCI Korea Index has climbed 48% year-to-date (through September 30)—the strongest performance among major Asian indices. Investor enthusiasm has been fueled by the administration's reform agenda and the bold pledge to deliver "KOSPI 5000." The government's early actions, such as reviving the Value-Up initiative and tightening governance rules, have clearly restored confidence after a turbulent 2024. Yet history cautions against taking political index targets at face value. The country's trump card remains its structural strengths in technology, artificial intelligence and new energy supply chains that anchor its long-term growth story. While Value-Up laid the foundation, and AI (artificial intelligence) has driven the rally, optimism that policy alone will erase the so-called "Korea discount" may be running ahead of actual progress. In our view, the direction of reform is encouraging and long overdue, but the rally is more than mere political rhetoric, rooted in the strength of strategically resilient sectors and companies.

Value-Up 2.0

2024 opened with the launch of the Value-Up program, but then descended into chaos as former President Yoon Suk Yeol's failed attempt to declare martial law ultimately led to his impeachment. The MSCI Korea Index finished the year down 24%, battered by political risk and doubts over reform continuity.

With a 57% National Assembly majority, President Lee's Democratic Party moved quickly to restore confidence by continuing select policies and passing a long-delayed amendment to the Commercial Code amendment, which expanded independent directors' fiduciary duty from "Company" to

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¹ KOSPI is the Korea Composite Stock Price Index and represents all common stocks traded on the Stock Market Division of the Korea Exchange.

“Company and Shareholders.” The minority investors now have the right to challenge board decisions that undermine shareholder value.

The harder task remains aligning the interests of *chaebols*² with those of minority shareholders, as we noted in our report from April 2024 titled “The Value-Up Recipe for Re-Rating Korea.” Such a move will require deeper reforms, including tax restructuring and the cancellation of treasury shares.

Tax Reform: The Stubborn Hurdle

With South Korea’s inheritance tax rates as high as 60%, controlling families have every reason to minimize tax burdens by suppressing valuations during generational transfers. Simply raising dividend payout is no easy fix either as dividends are taxed at 45%. This dynamic entrenches the “Korea discount,” creating a structural bias toward undervaluation.

The administration has introduced a series of measures, such as proposing to lower taxes on dividends from companies with payout ratios above 35%. While the government reduced the capital gains threshold for “major shareholders,” the politically sensitive inheritance tax reform was left untouched.

This highlights the government’s central dilemma: how to improve returns for pensioners and retail investors without being seen as rewarding chaebols. Korea’s tax policy remains notoriously difficult to predict, like reading tea leaves in a storm. But without deeper reform, Value-Up will not reach its full potential.

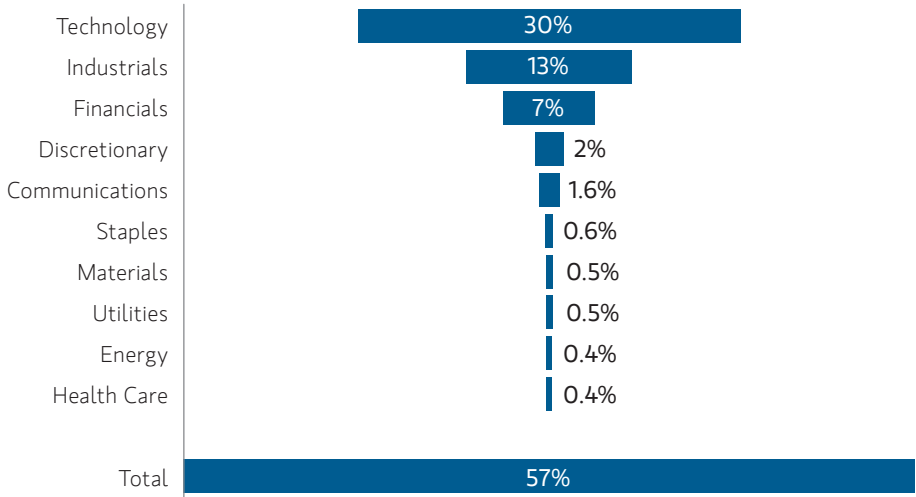
What Actually Drove the Rally

Governance reform helped restore confidence, but Korea’s market performance this year has been

DISPLAY 1

Technology and Industrials Are Big Drivers of Korea’s Story

MSCI Korea: YTD total return contribution by sector (%)



Source: Bloomberg, MSCI. As of 9/30/2025

driven chiefly by AI and security-linked industries (*Display 1*). Korea’s two semiconductor giants, Samsung Electronics and SK Hynix, hold over 80% of global market share in high-bandwidth memory (HBM), a key component in servers powering the global AI boom. Together, the companies contributed approximately 40% of this year’s index gains. Beyond semiconductors, industrials tied to defense, nuclear energy and infrastructure also benefited from geopolitical conflicts and energy-security themes. Tech and industrial sectors combined accounted for nearly 70% of the MSCI Korea Index total return. By contrast, Value-Up baskets, such as financials and others, contributed around 30% to the overall return. The current rally reflects strong thematic tailwinds, not purely reform-driven revaluations.

Tariffs and Geopolitical Openings

Korea’s trade geography is evolving amid global realignment. Exports account for nearly 44% of Korea’s GDP, leaving the economy deeply

exposed to the shifting tides of U.S.-China relations, its two largest trading partners. The trade balance has already undergone a structural pivot: exports to China have declined from 26% to 18% of total exports, while U.S.-bound exports have risen from 14% to 18% in the past five years.

This transition is reshaping the country’s industrial opportunity set. As the U.S.-China tariff war and a wave of geopolitical conflicts reshape global supply chains, Korea is emerging as one of the few economies positioned to benefit from this supply chain diversification. Korea’s core strengths, high-end technology, advanced manufacturing and reliability as a strategic partner, have made it a natural substitute for Chinese products in areas where trust and capability both matter. Although Chinese companies are intensifying price competition, Korea Inc. retains clear advantages in two broad areas: advanced technologies with high barriers to entry, and industries tied to national security.

² A chaebol is a large industrial South Korean conglomerate run and controlled by an individual or family.

The high-end tech sector exemplifies the first category. With technology powerhouses like Samsung and SK Hynix, Korea occupies a pivotal position in the AI hardware value chain, supplying components that underpin the global AI infrastructure. This technological depth extends beyond memory chips to other areas anchored in intellectual property and engineering expertise.

The second area, national security and strategic industries, now extends beyond traditional defense. It increasingly encompasses information security, data infrastructure and connected technologies, sectors once viewed as purely commercial. Policymakers are growing more cautious about technologies capable of collecting or transmitting sensitive information, such as connected vehicles, navigation systems and digital platforms. The concern is that data generated through these networks could be accessed or leveraged by foreign entities, turning commercial technology into a potential channel for surveillance or influence. Industries that manage or interact with large-scale data flows can now be considered as part of the national security framework across major economies.

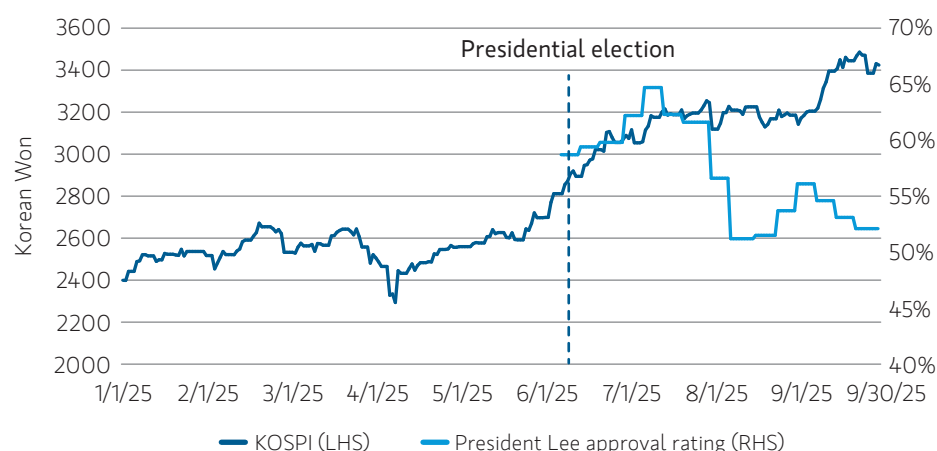
Against this backdrop, Korea faces a delicate balancing act. China remains its largest trading partner, closely followed by the U.S., making neutrality both an economic necessity and

DISPLAY 2

Korean Stocks Remain Strong Despite a Falling Presidential Approval Rating

KOSPI performance (LHS; in Korean Won) versus President Lee Jae-Myung's approval rating (RHS)

Past performance is no guarantee of future results



Source: Real Meter. As of September 15, 2025.

strategic challenge. The ability to balance these relationships will be critical to sustaining export growth and long-term competitiveness.

Korea's Moment of Reset

It's tempting to credit the Value-Up initiative and the new administration for the market rally. The KOSPI 5000 vision captures reform optimism, but the substance of the rally also lies in technology leadership, supply chain realignment and policy sustainability, with governance reforms acting as the catalyst for rerating. The near-term challenge is execution, ensuring reform follow-through, providing tax clarity and maintaining industrial competitiveness.

Korea is still only in the second inning of its Value-Up journey. President Lee has a mandate for reforms, but his approval ratings have slipped, ultimately hurt by policy ambiguity around tax reform (*Display 2*).

For investors, the lesson is not to chase the rally blindly, but to approach Korea with patience, discipline and a bottom-up focus. The Commercial Code changes help, but more reforms involving taxes and encouraging corporate growth are needed. We believe Korea's positioning in high-tech and security-linked industries offers pockets of durable growth that extend beyond short-term swings.

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INDEX DEFINITIONS

The **MSCI Korea Index** is designed to measure the performance of the large and mid cap segments of the South Korean market. With 107 constituents, the index covers about 85% of the Korean equity universe.

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