

South Korea insights and first quarter market review

Emerging Markets Insights

Outlook

Two of our Asia equity portfolio managers visited South Korea in March 2026. Investor engagement in the country has clearly broadened this year, with notably higher participation from new investors across conferences and company meetings. A conference that the portfolio managers participated in saw a new record attendance of more than 250 overseas investors.

We list a few observations below that the portfolio managers gleaned on their trip below.

Policy is no longer a backdrop, but forms part of the investment thesis.

What stood out from discussions is that companies are actively positioning themselves around policy frameworks, rather than reacting to them. Part of this reason is because some policies provide funding to companies which could be helpful in shaping these companies' competitive moats and boost competitiveness. Regulatory clarity also reduces uncertainty and enables capital planning. An example is in the financials sector, where progressive dividend policies are becoming standard. An estimated 60% to 80% of South Korean-listed insurers have adopted or signaled progressive dividend frameworks post IFRS-17, the international account standard for insurance contracts.

A strong cycle, but what next?

Across sectors, demand visibility is high, but investor conversations have shifted toward incremental catalysts and the sustainability of demand. With semiconductor memory margins already near peak levels, management tone suggests that there are limited incremental catalysts amid high investor positioning. On the ground, the key nuance is that commentary is now shifting from selling upside (focusing on an asset's potential for future appreciation or capturing the projected upside) to defending durability of the upcycle.

Supply bottlenecks will differentiate winners from losers

While top-down narratives emphasize strong end-demand, discussions repeatedly pointed to supply-side constraints as the true differentiators. In semiconductor memory, shortages in key components such as low-power memory and advanced substrates are restricting the ability to scale production. Hence, even with strong demand, component shortages may result in failure of converting orders into revenue.

Another supply constraint is customer concentration. Pricing and margins are dependent on a small number of very large-scale customers. This may increase earnings sensitivity to customer behavior and limit potential upside.

Insights from the South Korea trip indicate that while demand conditions remain supportive across sectors, management focus has shifted toward policy alignment, execution and capital discipline.

Overall, the opportunity set appears increasingly shaped by sector-specific dynamics in execution, regulation and capital allocation, rather than focusing on the durability of demand alone.

Market review: First quarter 2026

Emerging market (EM) equities fell marginally in the first quarter of 2026, as the asset class succumbed to geopolitical tensions.

Artificial intelligence (AI) featured heavily in the first two months of 2026 following strong semiconductor revenue data that drove a rally. The last day of February saw some negative sentiment creep in as geopolitical conflict in the Middle East increased, contributing to higher volatility. For the quarter, the MSCI EM Index returned -0.10%, while the MSCI World Index delivered -3.48%.

The emerging Asia region declined collectively, as global pressures from a burgeoning conflict in the Middle East proved to be too strong to be diluted by domestic strength in several countries. Chinese and Indian equities bore some losses. China's internet companies saw sentiment hit a low point as concerns over valuations and growing competition squeeze profits. Chinese AI stocks experienced a brief rally on the adoption of an open-source AI agent OpenClaw, which is capable of autonomously executing tasks. This exuberance spilled over

to internet companies as they integrated the AI agent into their user platforms. Indian equities fell on rising oil prices, spurring concerns that a prolonged environment on higher oil prices could lead to higher inflation, a fiscal deficit and a squeeze on corporate margins.

South Korean and Taiwanese equities were strong performers as the AI theme continued to gain traction. South Korea's equity market had additional drivers via the president's order to implement a financial market stabilization plan and a ban of duplicate listings on the local stock exchanges.

Equities in the emerging Europe, Middle East and Africa region were flat as unrest was rife within the Middle East. The United States and Israel launched "Operation Epic Fury," a series of coordinated air strikes inside Iran. The unrest spread to the Middle East region and caused disruptions to shipping routes, sending the prices of oil higher. This caused widespread losses in equities in Kuwait, Qatar and the United Arab Emirates (UAE). UAE equities, in particular, were among the weakest performers in the region. Our Middle East equity portfolio managers expect a strong policy response from UAE policymakers to this situation, drawing references from the government's historical actions during both the global financial crisis and COVID-19 periods. Government officials have already initiated a nationwide engagement with business leaders to gather feedback and better understand the main pressure points. As a result, we expect further policy actions to be announced following these consultations.

Equities in the emerging Latin America (LatAm) region ended higher, with most countries registering gains. Brazil's central bank finally kickstarted its benchmark interest-rate easing cycle. Brazil's majority state-owned company, and one of the country's largest listed companies by market capitalization, saw its share price rise steadily on record oil and gas output in 2025, nearly tripling profits for the year. Domestic inflation in Mexico saw a resurgence in early 2026, breaking the central bank's upper threshold of 4%. This led to diminished expectations for rate cuts.

Index Definitions

Past performance is not an indicator or a guarantee of future performance. Indexes are unmanaged and one cannot invest directly in an index.

The **MSCI All Country World Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global developed and emerging markets (EM).

The **MSCI Brazil Index** is designed to measure the performance of the large- and mid-cap segments of the Brazilian market.

The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs).

The **MSCI EM Asia ex Japan Index** captures large- and mid-cap representation across two of three developed markets (DM) countries (excluding Japan) and eight EM countries.

The **MSCI EM Latin America Index** captures large- and mid-cap representation across five EM countries in Latin America.

The **MSCI EM EMEA Index** captures large- and mid-cap representation across 11 EM countries in Europe, the Middle East and Africa (EMEA).

The **MSCI EM Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global EMs.

The **MSCI India Index** is designed to measure the performance of the large- and mid-cap segments of the Indian market.

The **MSCI Mexico Index** is designed to measure the performance of the large- and mid-cap segments of the Mexican market.

The **MSCI South Korea Index** is designed to measure the performance of the large- and mid-cap segments of the South Korean market.

The **MSCI Turkey Index** is designed to measure the performance of the large- and mid-cap segments of the Turkish market.

The **MSCI World Index** captures large- and mid-cap representation across 23 DM countries.

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