STUDY NOTES · BASIC CONCEPT

What factors led to the collapse of South Korean Stock Markets in July 2026?

Indian Economy

26 Aug 2001

What?

The recent severe decline in the South Korean stock market—where the benchmark KOSPI dropped roughly 40–44% from its mid-June peak—was caused by a "perfect storm" of extreme concentration in semiconductor stocks, a unwinding of high retail leverage, and a shift in sentiment around global AI spending.

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1. High Concentration in the AI/Semiconductor Boom

The South Korean market experienced a massive rally, soaring over 120% into June. However, this gain was heavily driven by a few semiconductor and tech giants—specifically Samsung Electronics and SK Hynix, which make up over half of the entire KOSPI index weight.

When global markets began questioning whether massive corporate expenditures on AI infrastructure (data centers, high-bandwidth memory, hardware) would yield adequate short-term returns, tech stocks took a hit. Because the KOSPI is so heavily weighted toward chipmakers, a pull-back in AI momentum hit South Korea far harder than broader, more diversified global markets.

2. The Single-Stock Leveraged ETF "Feedback Loop"

The crash was dramatically amplified by financial products introduced earlier in the year: single-stock leveraged ETFs tied to major stocks like Samsung and SK Hynix.

These ETFs allowed retail investors to take 2x or 3x leveraged bets on individual stocks.
As chip prices began to slide, these leveraged products suffered massive forced sell-offs (deleveraging) to maintain their collateral ratios.
This created a cascading margin call effect: as prices fell, forced liquidations dumped millions of shares onto the market, driving prices down further and triggering yet more liquidations.

South Korea’s Finance Minister officially apologized in parliament for introducing single-stock leveraged ETFs without adequate risk controls.

3. Record Retail Margin Debt and Panic Selling

Driven by economic pressures and a high-yield culture, South Korean retail investors ("ants") borrowed heavily to participate in the rally. South Korea’s low margin requirements (allowing up to 2.5x leverage) left accounts particularly vulnerable to volatility. Once initial declines triggered margin calls, billions in retail positions were forcibly liquidated, turning an orderly correction into a panic-driven market rout.

4. Foreign Capital Outflows & Regional Competition

Foreign Investor Selling: Foreign institutional funds hit portfolio weight limits during the peak of the rally. Once the decline started, automated institutional rebalancing led to heavy foreign net selling, removing institutional support when the market needed liquidity most.

Emerging Competition from China: Concerns grew over increasing competition from domestic Chinese memory chip producers and supply-chain developments, leading investors to re-evaluate long-term profit margins for Korean memory manufacturers.

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Key Takeaway

While South Korean tech fundamentals and corporate earnings remained relatively strong, the market structure—heavily concentrated in two memory chipmakers and flooded with retail margin debt and single-stock leveraged ETFs—turned a typical market correction into a severe structural sell-off.