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Beyond the Headlines

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**Korea's Crash: Is the AI
Boom Coming to an End?**

Korea's Crash: Is the AI Boom Coming to an End?

The world's best-performing market of the first half has lost almost two-fifths of its value, and the headline reads it as the AI boom's obituary. The more useful question is which part of AI Korea actually is. The answer, a leveraged and concentrated bet on memory chips, says the price of the AI trade is breaking, not the demand behind it.

On 22 June the KOSPI closed at a record 9,114.55, having more than doubled in under six months on the back of two memory-chip makers, Samsung Electronics and SK Hynix. By 22 October it had closed at 5,533.77, 39.3% lower. On 15 October it fell 7.57% in a single session, enough to trigger a twenty-minute circuit breaker, and the week ended 16 October was its worst since the Lehman collapse of October 2008. By mid-October SK Hynix was 57% below its June high. Wall Street has felt the tremor: the Nasdaq lost 4.5% that week and the Philadelphia Semiconductor Index logged its longest losing streak since 2008.

A note on the number first. The fall that matters, roughly 40%, is measured from the June peak over four months, over exactly 90 days the index is down 17.3%, because the damage came in two waves with a sharp rebound in between. The distinction matters, because a single collapse and a crash-rebound-crash tell different stories.

Our reading is that Korea's crash is the end of the easy AI trade, not the end of AI spending: a leverage-and-valuation bust in the most cyclical corner of the boom. This note works through what happened, why Korea broke first, what the real fault lines in AI are, and what it means for Indian investors.

Situation Snapshot (as of 22 October 2026)

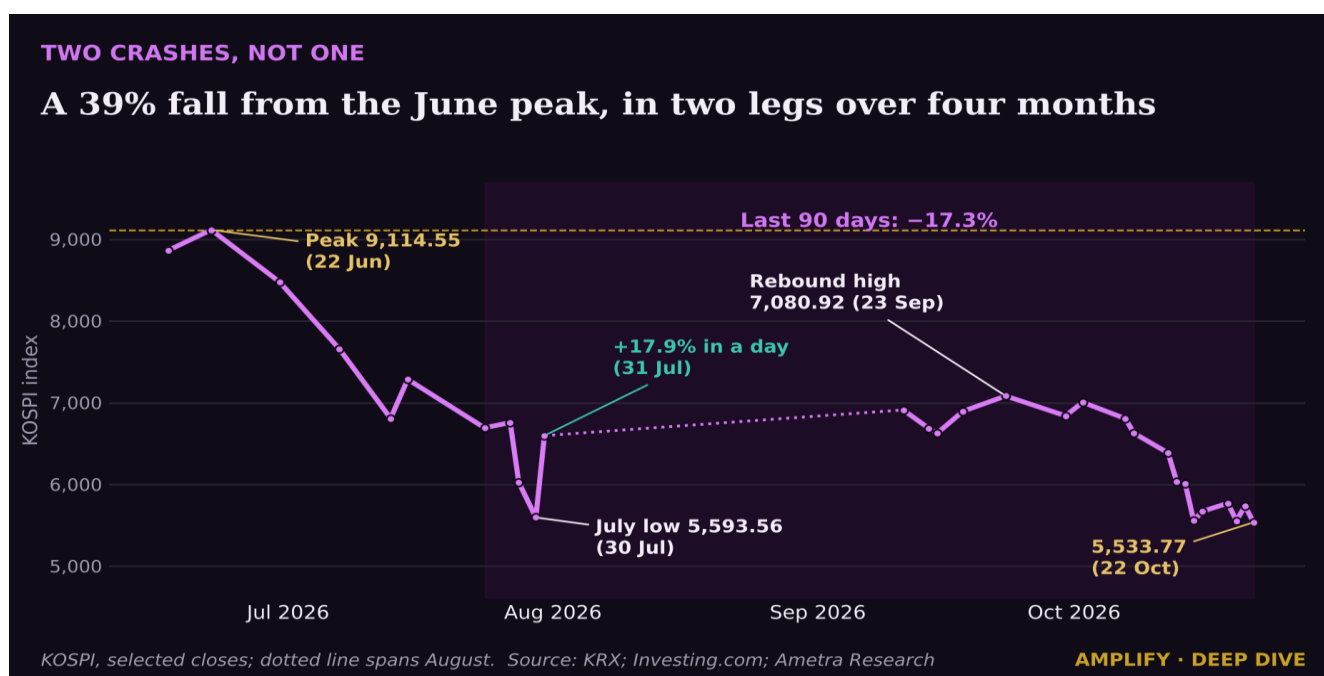
Indicator	Reading	Read-through
KOSPI	5,533.77 (22 Oct)	39.3% below the 9,114.55 close of 22 June
KOSPI, last 90 days	−17.3% (from 6,690.62, 24 Jul)	Two crashes, one rebound: the '40%' spans four months
Samsung + SK Hynix weight	~50% of KOSPI market cap	An index that is really a memory-chip fund
SK Hynix share price	−57% from June peak	~2.7x 2027 earnings (BofA); prior upcycles 4–7x
Samsung Q3 operating profit	₩107.4tn (+782% YoY)	A record quarter, delivered into a falling share price
Korea chip exports, 1–20 Oct	US\$27.5bn (+222.5% YoY)	The physical demand has not cracked
Margin loans (13 Oct)	₩34.25tn	Forced selling of ₩286bn in four sessions, 13–16 Oct

Foreign net selling of Korea	>₩200tn in 2026	Foreigners sold the rally to leveraged locals
Hyperscaler capex (FY26)	>US\$690bn (FactSet)	Still rising; debt now funds ~32% of increments
India FPI equity flows, 2026	-₹3.12 lakh crore (to ~10 Oct)	Money that left India partly chased North Asian AI

1. The Facts – Two Crashes, One Rebound

Start with the shape of the move, because it carries the argument. The first leg came in July. The KOSPI fell 22.2% in the month, its worst since the 2008 crisis, and constituents were halted four times, a record. The trigger was a mix of disappointments at the top of the AI chain: doubts about how long hyper-scaler spending can last, worries about China's push into memory, and an SK Hynix second quarter in which operating profit rose 557% to ₩60.54tn yet still missed the ₩63.15tn consensus. On 28 July the index dropped 10.84% in a day as foreigners dumped ₩4.97tn of shares; by 30 July it had closed at 5,593.56, 39% below the June peak.

Then came the whiplash. On 31 July, after Microsoft's stronger-than-expected results revived confidence in AI spending, the KOSPI rose 17.91% in a single day, the largest gain in its history, and recovered to 7,080.92 by 23 September. The second leg began in October: seven straight down sessions from 6 to 15 October, a 17.1% fall in the first sixteen days of the month, and a close of 5,533.77 on 22 October, just below the July low. A market that crashes, rebounds 27% and crashes again to the same level is not discovering new information about AI; it is being forced to sell the same position twice.



2. Why Korea Broke First – Concentration, Leverage, Memory

Korea did not fall furthest because it is the most exposed to AI. It fell furthest because of how it was exposed. Three features were stacked on top of one another.

1. Concentration: Samsung and SK Hynix made up about half of the KOSPI's market value in July, and semiconductors accounted for 80% of the index points lost that month, according to Herald Business. Buying 'Korea' in 2026 meant buying two memory makers.

2. Leverage: Retail investors poured about ₩78tn into KOSPI shares in May and June alone. Margin loans still stood at ₩34.25tn on 13 October, the Korea Financial Investment Association reports, and brokers forcibly sold ₩286bn of under-margined positions in four sessions. Each leg down triggered the next.

3. A cyclical product: memory is the most commodity-like part of the AI supply chain. Its prices swing with the balance of supply and demand, and its makers' profits rise and fall far more than those of chip designers or foundries.

Foreigners were on the other side throughout. They have sold more than ₩200tn of Korean shares in 2026, per Seoul Economic Daily, distributing the rally to local retail investors who bought it with borrowed money. That is a familiar shape: professional money exits into a crowded domestic bid, and the crowd's leverage turns an ordinary correction into a crash. The July and October sell-offs were rooted in AI doubts, but their size was set by the plumbing.

3. The Paradox – Record Profits, Collapsing Prices

If the AI boom were ending, it would show in Korea's order books first. It does not. Samsung guided on 8 October to third-quarter operating profit of ₩107.4tn, up 782% on a year earlier, on revenue of ₩195tn and a 55% operating margin; profit has risen every quarter for a year. Korea's chip exports in the first 20 days of October were US\$27.5bn, up 222.5% and a record for the period, now 44.7% of all exports.

Herald business data show DDR5 chip prices rising every month from US\$37.50 in May to US\$48 in September, and TrendForce expects conventional DRAM contract prices to rise another 10–15% in the October–December quarter as AI servers stay undersupplied. The won, at 1,325 per dollar on 21 October, is at its strongest since October 2024, hardly the currency of an economy in crisis.



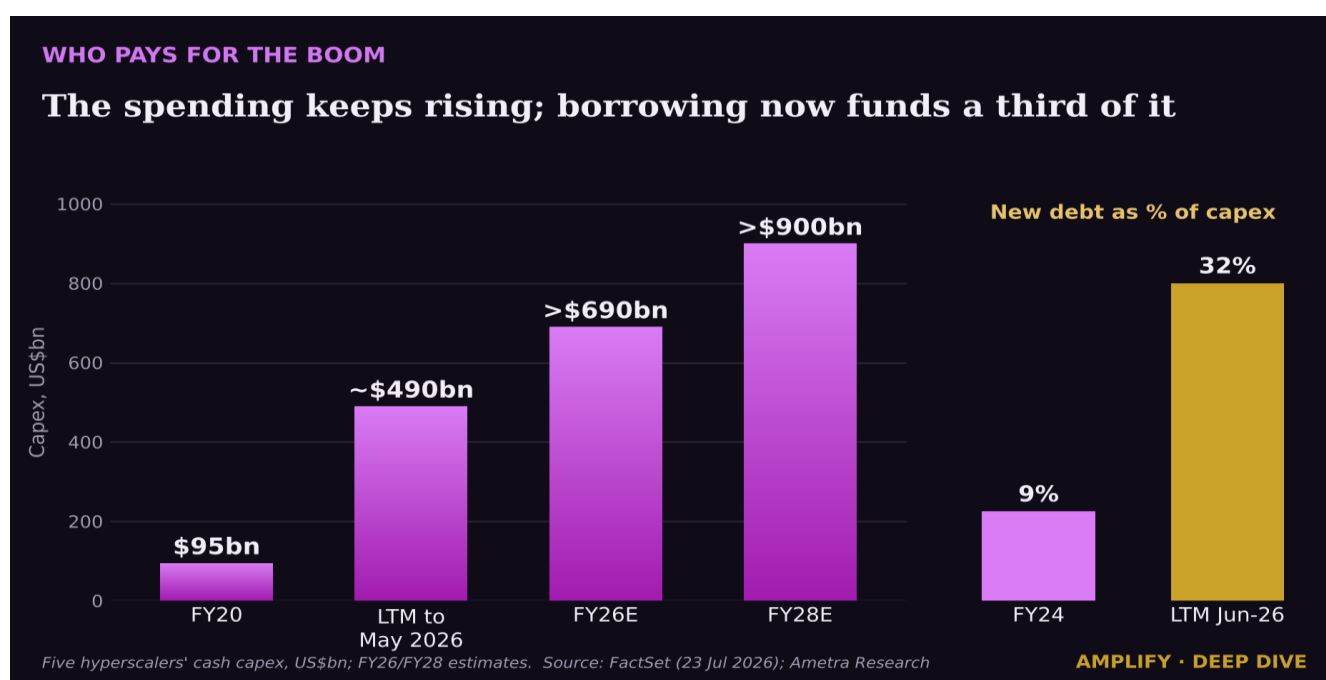
So why have the shares collapsed? Because memory stocks have always traded on where profits will be in eighteen months, not where they are today. In 2021, SK Hynix shares fell more than 36% from their February peak by October even as analysts expected its quarterly profit to more than triple; Bank of America counts an average fall of 51% in past memory-stock corrections.

Today the bank puts Samsung on 3.0x and SK Hynix on 2.7x 2027 earnings, below the 4–7x of past upcycles. Those multiples are the market's way of saying it believes current earnings are a peak. The debate is not whether AI demand exists. It is whether memory profits this high can last.

4. The Real Fault Line – Who Pays for the Boom

Korea is the symptom; the question behind it is about financing. As we argued in our July AI ROI note, the risk in AI was never that the chips would go unsold, but that the spending would outrun the revenue it earns. That gap is now being funded with debt.

FactSet estimates the five largest hyper-scalers will spend more than US\$690bn of cash capex in their 2026 fiscal years, close to US\$800bn including leases, and more than US\$900bn by 2028. New borrowings funded 9% of that capex in 2024 and 32% in the year to June 2026. S&P cut Oracle to BBB- in July. CoreWeave, a specialist AI cloud with a backlog above US\$100bn, has unsecured bonds yielding more than 16%.



Debt-funded spending is far more sensitive to the price of money, and money has become dearer. The 10-year US Treasury yield was ~5.3% at the start of October, as we described in our Global Yields note; September US CPI came in at 3.7%, and futures markets put the odds of a Fed hike on 28 October at about 35% in mid-October, up from 17% a week earlier.

Meanwhile the physical bottlenecks are biting: at least 47 major data-centre projects have been delayed or cancelled this year, and Microsoft reportedly withdrew from a UK project where grid power might not arrive until the next decade. That is the combination that matters: the boom's fuel is shifting from cash flow to credit just as credit has become more expensive.

5. The Counter-Case – Why This is Not 2000, Yet

Intellectual honesty requires the other side, and it is strong. The clearest evidence comes from Taiwan. In the first half of October, when the KOSPI fell 17.1%, Taiwan's TAIEX fell just 1.7% and remained up 62.7% for the year. On 15 October TSMC reported third-quarter revenue of US\$46.72bn, up 41%, guided fourth-quarter sales up ~58% year on year and said demand for AI accelerators still exceeds supply. ASML says customers want to place orders as far ahead as 2030. If the AI boom were ending, the foundry that makes nearly every AI chip would be the first to know.

Nor is this 2000. Cisco traded at more than 150 times forward earnings at its 2000 peak; Korea's memory makers trade at 2–3x. The 'China shock' that fed the October sell-off, CXMT's announcement of a denser DRAM design, comes without disclosed specifications or a production date, and Korean analysts do not expect meaningful volumes before late 2027.

Two honest caveats, though. First, a 3x multiple on peak earnings is not cheap if those earnings fall sharply in the next downturn. Second, TSMC's order book reflects spending already committed; the 2027 capex budgets the hyper-scalers set over the next few months will decide whether the next year looks like this one.

6. The India Angle – The 'Anti-AI' Market Gets a Second Look

For much of 2026 India was the market global investors sold to fund their AI exposure. Foreign portfolio investors pulled ₹3.12 lakh crore out of Indian equities by 16 October, nearly double 2025's full-year outflow, and the Nifty was down 13.2% for the year by 22 October. India's weight in the MSCI Emerging Markets index was 10.65% at the end of September, from nearly 21% in September 2024, as Taiwan and Korea swelled. Our August note on large-cap outflows described the domestic side of that pressure.

An unwinding AI trade loosens that grip. In the week to 16 October, when the KOSPI had its worst week since 2008, the Nifty rose 2.8% to 23,146 and the Nifty IT index jumped 11.7%. One week is not a trend, and foreigners still sold 52,100 crore of Indian shares in October to 16 October: while US yields stay above 5%, the outflows are likely to continue.

But India's relative position has improved. It has little direct AI-hardware exposure, its large caps have already de-rated, and its earnings do not depend on a memory cycle. The domestic AI-capex plays are a different matter: data centres, power equipment and cables are priced for the same capex cycle Korea is now repricing. There is also a lesson closer to home. Korea's crash was caused by retail leverage in a concentrated market; India's own F&O and small-cap froth carry the same ingredients.

Ametra's Read

This is the end of the easy AI trade, not the end of the AI boom. Korea's ~39% fall is a leverage-and-valuation bust in memory, the most cyclical part of the chain, not evidence that AI demand has broken: profits, exports and TSMC's order book all say otherwise. The real risk is slower and lies in financing: a capex cycle increasingly funded by debt, meeting 5% Treasury yields. Our stance:

— **Separate the AI economy from the AI trade:** Spending on chips and data centres can keep rising while the stocks that supply them fall. Judge AI exposure by balance sheets and valuations, not by the strength of the demand story.

— **Do not buy memory on its multiple alone:** Two to three times earnings looks cheap only if those earnings hold. Wait for 2027 capex guidance and for Korean margin debt to clear before treating the sell-off as a bargain, and keep leverage out of momentum trades: Korea shows how margin debt turns a correction into a crash.

— **Follow the credit, not the chips:** AI-linked bond spreads, Oracle and CoreWeave among them, and the 10-year Treasury will show the boom's stress before order books do. Rising spreads alongside falling equity is the combination that would change our view.

— **Use the rotation into India selectively:** Favour quality large caps and IT services on dips as flows rebalance away from North Asia; be selective on domestic AI-capex plays, which are priced for a cycle now under review.

— **Watch the five tripwires:** SK Hynix's results on 28 October; the Fed's 27–28 October meeting; the hyper-scalers' 2027 capex guidance over the coming results season; Korean margin loans above or below ₩30tn; and the Bank of Korea's November meeting, where 90% of economists polled by Seoul Economic Daily expect a hike.

The bottom line: Korea did not price the end of AI; it priced the end of borrowed conviction in the most cyclical part of it. Respect the crash, but do not mistake a margin call for a verdict.

Positioning Map

Stance	Where	Rationale
Favour	Indian quality large caps	Low AI-hardware exposure; best placed if flows rotate out of North Asia
Add on confirmation	Indian IT services	Rebounding as the AI trade unwinds; add on dips if flows turn
Selective	Domestic AI-capex plays (data centres, power, cables)	Priced for a capex cycle now being repriced
Watch	Korean memory makers	2–3x P/E only cheap if earnings hold; wait for 2027 capex guidance
Caution	Concentrated global AI and semiconductor funds	Valuation and financing risk, not demand risk
Underweight / trim	Leveraged and momentum positions	Korea shows how leverage turns a correction into a crash
Watch	AI credit spreads, US 10-year, Korean margin debt	The tripwires that would turn a bust into a downturn

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