

2026 OUTLOOK REPORT

Fixed Income

Brighter days ahead

Mirae Asset Securities Co., Ltd.

Jihee Min
jihee.min.a@miraeasset.com

Fixed income outlook for 2026

Brighter days ahead

Korea: Still expecting supportive KTB market conditions

- While solid IT exports should support the economy in 1H26, growth is likely to lose steam in 2H26 on slowing semiconductor exports and persistent job market weakness.
- Exporters to the US are responding to tariffs by lowering prices, eroding margins. Non-IT exports should remain stagnant.
- We expect the BOK to deliver two rate cuts in 2026. While the USD/KRW rate is likely to remain elevated, stable oil prices and declining real wages should keep inflation pressures contained.
- Although a supplementary budget is possible ahead of the June local elections, tax revenue conditions are improving. Also, inclusion in the World Government Bond Index (WGBI) from April is expected to attract around W9tr in new monthly inflows.
- Rate cut expectations should remain intact, causing the three-year KTB yield to fall to the 2.3% level. We expect the 10-year/three-year yield curve to steepen in 1H26 and then gradually flatten toward year-end.

US: Policy side effects to play out

- Economy: With the government shutdown resolved, we expect the US economy to improve in 1H26. However, in 2H26, accumulated inventories from earlier capex expansions should begin to weigh on growth.
- Inflation: Goods inflation and resilient wage growth should continue, while the disinflationary impact from shelter costs should diminish. As a result, we expect core PCE inflation to move back into the 3% range in 1H26.
- Employment: Immigration-related labor supply pressures should ease somewhat, and with job openings remaining at a decent level, total job creation in 2026 is likely to exceed that in 2025.
- Monetary policy: We expect the Fed to keep the fed funds rate unchanged throughout 2026 to address 3%-range inflation.
- Increased supply together with higher inflation should push the 10-year UST yield into the 3.9-4.4% range.

Shifting UST market conditions

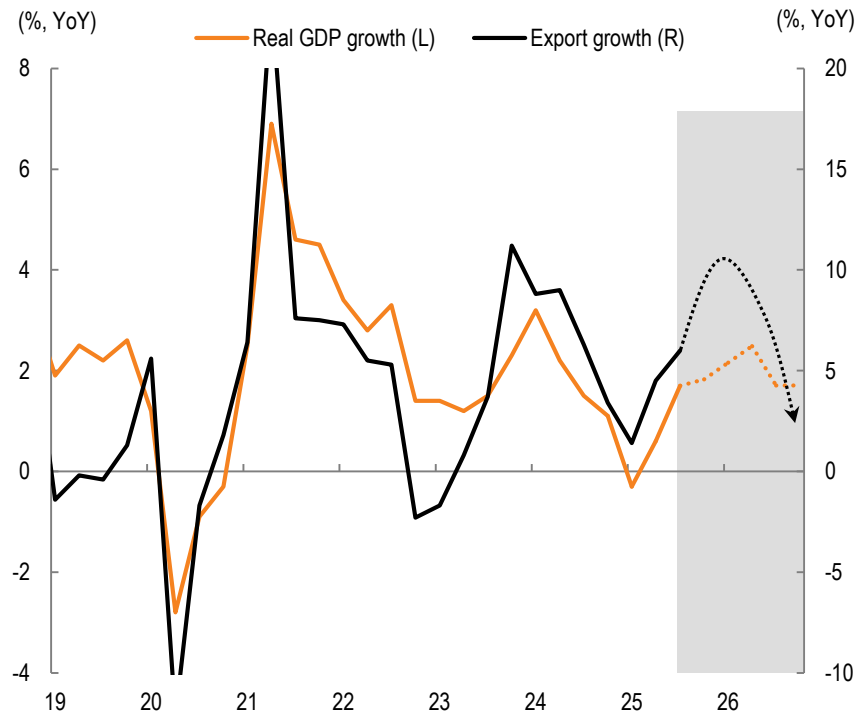
- We project the US's fiscal deficit at US\$2tr in 2026 (+US\$300bn YoY), factoring in the impact of OBBBA and tariff revenues.
- The gap between the Fed's balance sheet duration (9.6 years) and the remaining maturity of outstanding USTs (6.5 years) has widened compared with pre-pandemic levels.
- The Fed plans to reinvest maturing MBS proceeds into T-bills, thereby reducing its balance sheet duration. As such, long-dated USTs should gradually come under increased supply/demand pressure.
- Tariff revenues are likely to decline YoY amid lower global trade volumes, and the monetary policy environment is not favorable for long-term UST investments. Together, these factors should limit the extent of any decline in long-term yields.

Korea's 2026 economic outlook

Export momentum likely to slow in 2H26; domestic demand recovery faces structural limitations

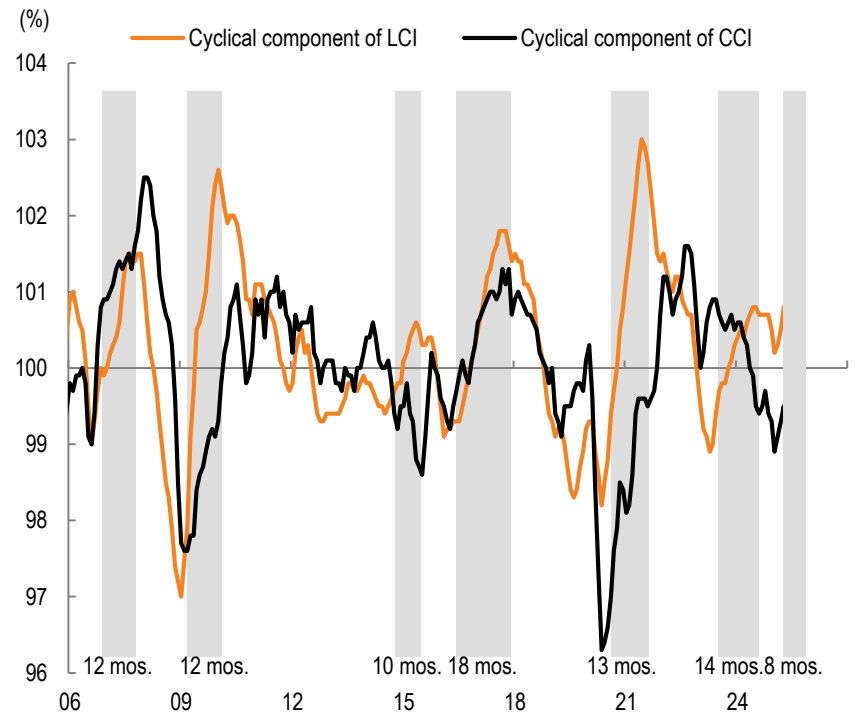
- We forecast Korea's GDP to grow 1.9% in 2026 (vs. the BOK's August forecast of +1.6% YoY). Leading indicators weakened temporarily earlier this year (largely due to the political turmoil at end-2024) but have since shown steady improvement, supported by the stock market rally and a rebound in economic sentiment.
- In 1H26, IT exports (led by semiconductors) and modest improvement in construction investment activity should support the economy. However, in 2H26, the GDP contribution of net exports is likely to decline due to prolonged tariff pressures and the weakening competitiveness of Korean exporters. A structural slowdown in consumption should also weigh on the economy.
- A potential supplementary budget ahead of the June general elections remains a variable. Given the slowdown in the job market, however, the boost to consumption from additional cash vouchers would likely be modest.

2026 GDP growth projected to be in the high-1% range; exports to be solid in 1H26 but weaken in 2H26



Source: CEIC, Mirae Asset Securities Research

Uptrend in leading indicators signals economic recovery



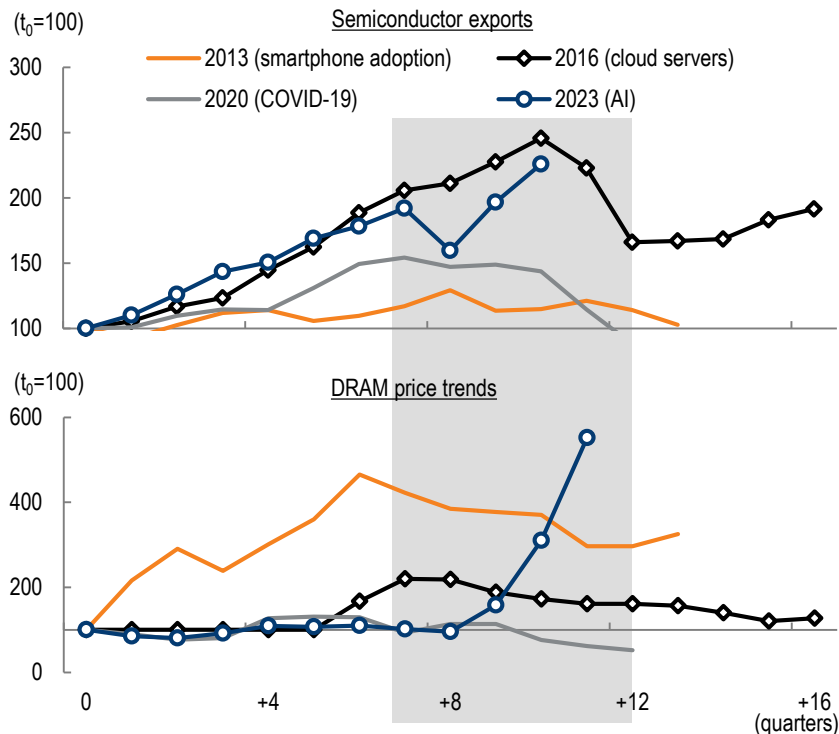
Source: CEIC, KOSIS, Mirae Asset Securities Research

Semiconductor export momentum likely to slow from mid-2026

Semiconductor demand remains solid for now due to inventory dynamics

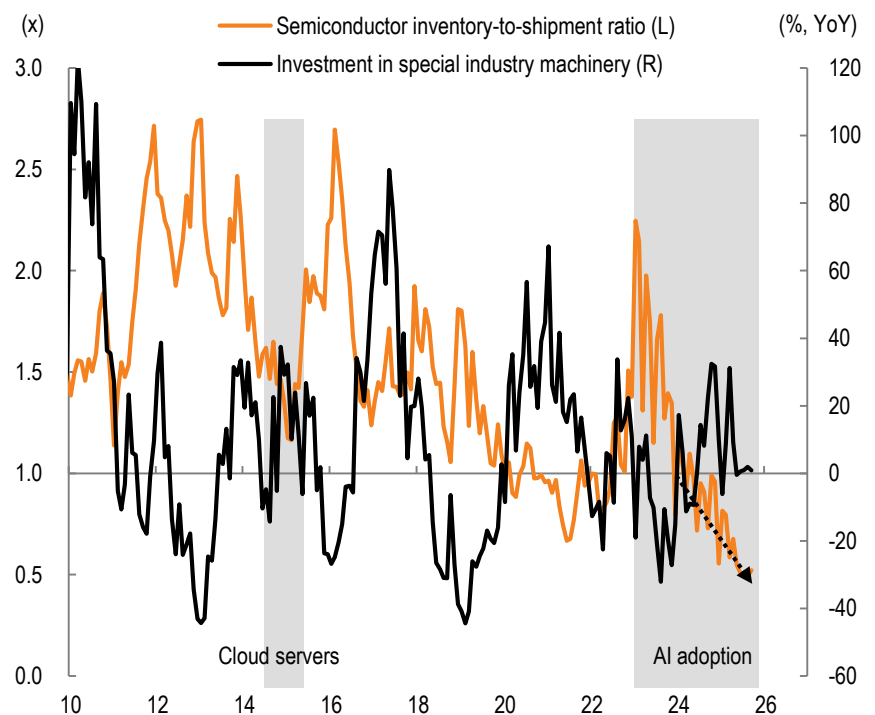
- AI-driven demand should sustain solid semiconductor export growth in 1H26. In 3Q25, semiconductors accounted for over 85% of Korea's total export growth.
- The downtrend in the inventory-to-shipment ratio suggests that inventories remain insufficient relative to demand. Tight semiconductor market conditions should support solid IT exports in early 2026.
- Historically, during previous semiconductor up-cycles, DRAM exports tended to slow two to three quarters after prices peaked. With DRAM prices now around five times higher than early-2023 levels, we expect semiconductor export momentum to gradually weaken from mid-2026.

DRAM exports tend to slow two to three quarters after prices peak



Source: CEIC, Mirae Asset Securities Research

Semiconductor inventory-to-shipment ratio has declined



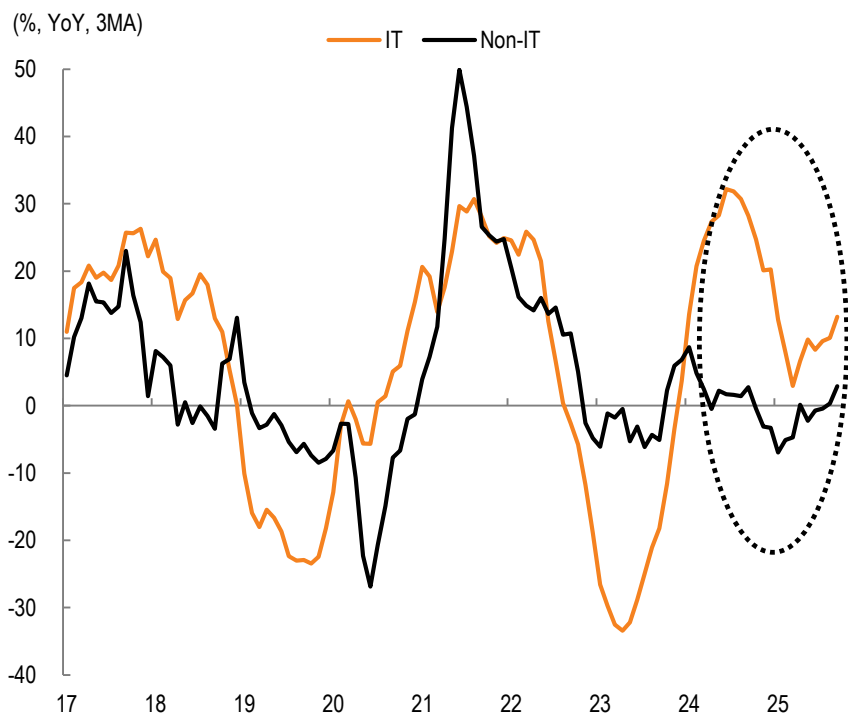
Source: CEIC, Mirae Asset Securities Research

Rising tariff burden on exporters

Margin compression and stagnation in non-IT exports

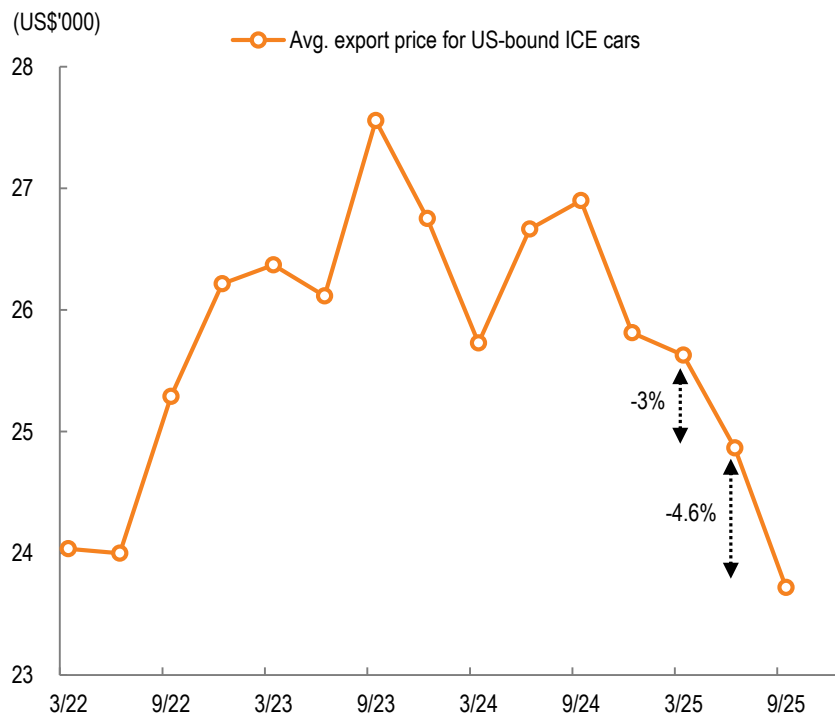
- With AI fueling global demand for semiconductors, IT exports are likely to remain solid for the time being. However, non-IT exports are likely to remain sluggish amid continued tariff pressures. As a result, the contribution of net exports to overall growth is likely to weaken.
- Export prices for US-bound autos (mostly internal combustion engine (ICE) vehicles) have steadily fallen, with the pace of decline accelerating from 2Q25 following the imposition of reciprocal and item-specific tariffs.
- It appears that automakers are absorbing the impact of tariffs by lowering export prices. While this strategy could help maintain shipment volumes in the near term, the burden on exporters will intensify if margins continue to be squeezed.

Non-IT exports stagnating



Source: CEIC, Mirae Asset Securities Research

Export prices for US-bound vehicles falling



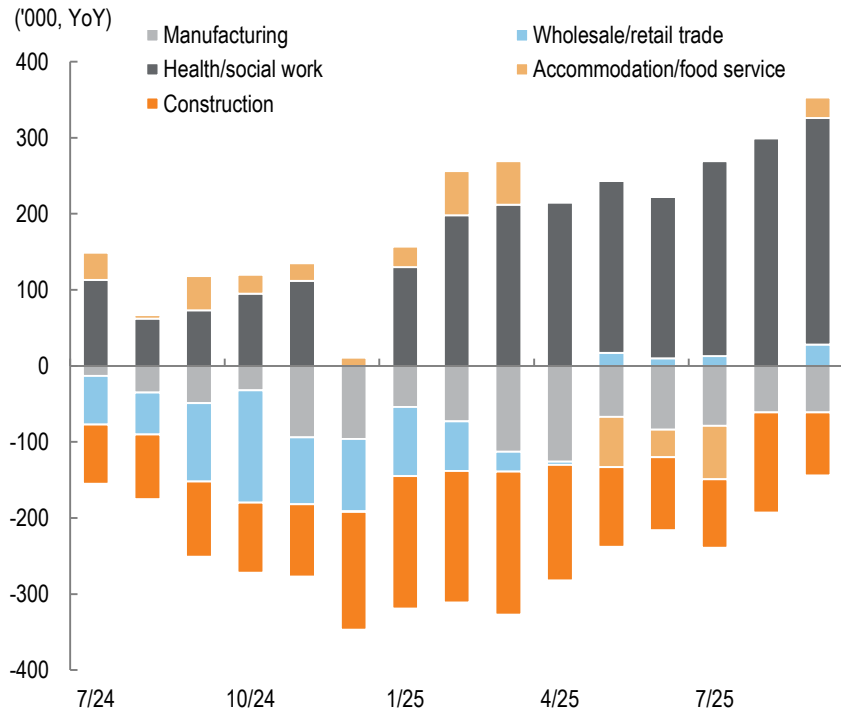
Note: Based on quarterly avg. data and HS classification standards
Source: KITA, CEIC, Mirae Asset Securities Research

Why a sustained consumption recovery may be difficult

Real wages and job market trends point to weakening purchasing power

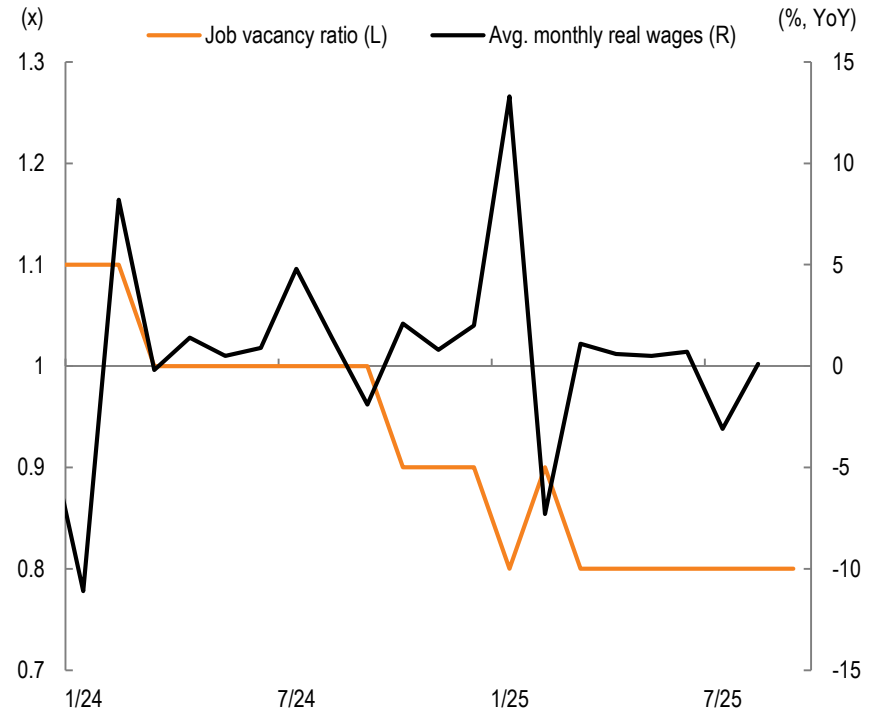
- Although the government's supplementary budget has helped boost private consumption, labor market conditions suggest that a full recovery in domestic demand is unlikely.
- Job growth is concentrated in low-wage sectors (particularly health/social work) and among those aged 60+.
- In the social work and public service sectors, hiring has been focused on part-time and low-wage positions.
- The job vacancy ratio, which exceeded 1x in 2H22, has fallen to 0.8x this year, suggesting limited room for further job creation.
- Moreover, real wages have generally declined YoY this year.

Job growth is concentrated in social work/public service sectors



Source: CEIC, Mirae Asset Securities Research

Job vacancy ratio has fallen to 0.8x; real wages are declining



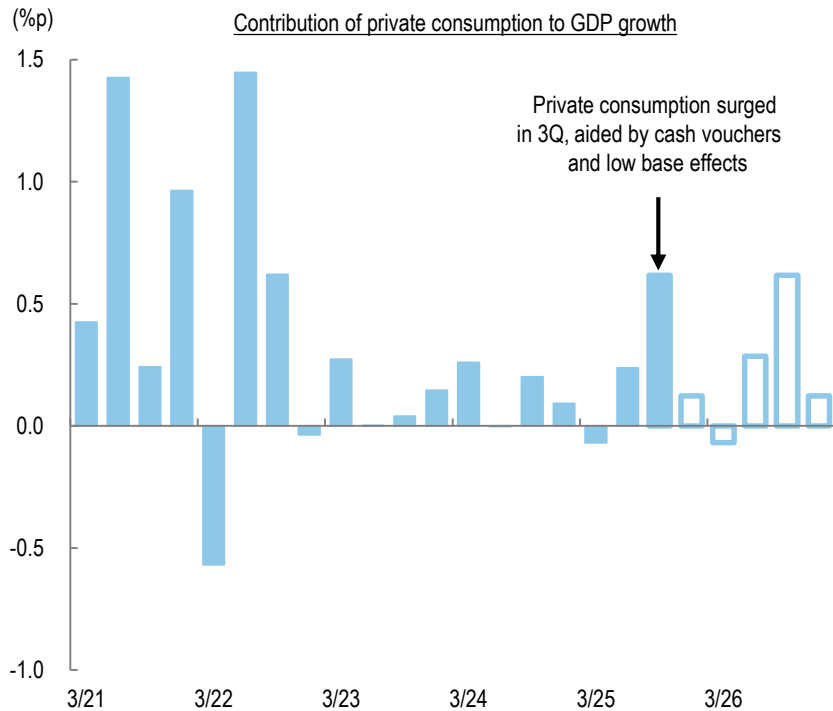
Source: MOEL, Mirae Asset Securities Research

Rate cut cycle likely to continue despite shift in timing

Anticipating one rate cut each in 1H26 and 2H26

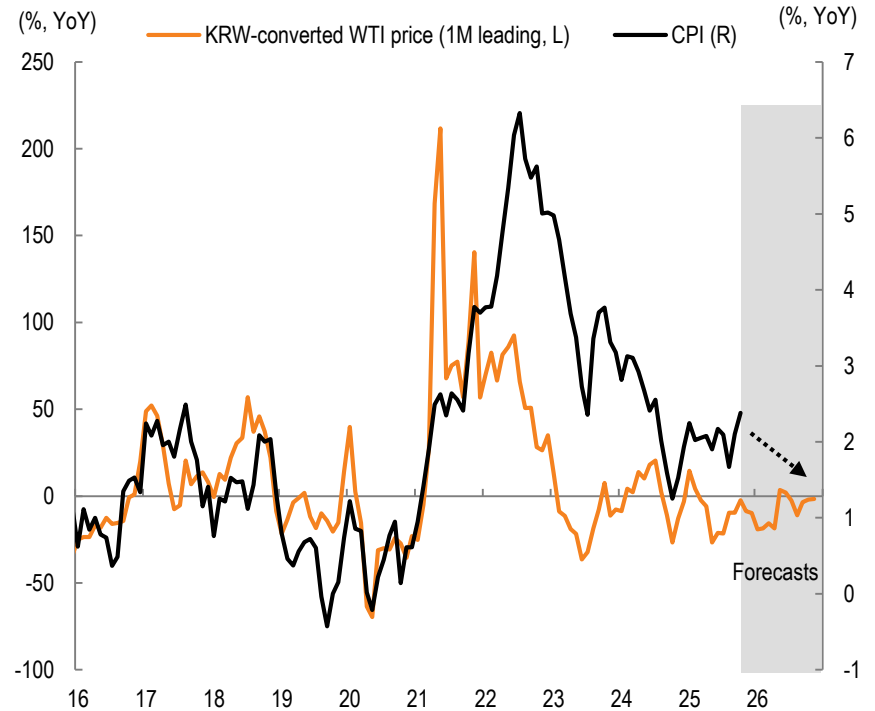
- We expect the BOK to lower the base rate twice in 2026—once in 2Q26 and again in 4Q26. It is likely to hold rates steady in 1Q26 due to financial stability concerns and a temporary pickup in growth momentum. Toward 2H26, however, slower semiconductor exports and soft domestic demand should renew expectations for further easing.
- Structural weakness in the job market should gradually weigh on consumption. Although household spending grew sharply in 3Q25 thanks to cash vouchers, the contribution of consumption to growth should fall again if job market weakness persists.
- We expect the USD/KRW rate to remain high due to continued capital outflows and a decline in Korea's export competitiveness. That said, the US Energy Information Administration's (EIA) short-term energy outlook projects lower oil prices next year due to rising crude inventories, suggesting limited inflationary pressure for Korea.

Contribution of private consumption to growth to weaken in 1H26



Source: CEIC, Mirae Asset Securities Research

Lower oil prices to limit inflationary pressure, despite a weaker won



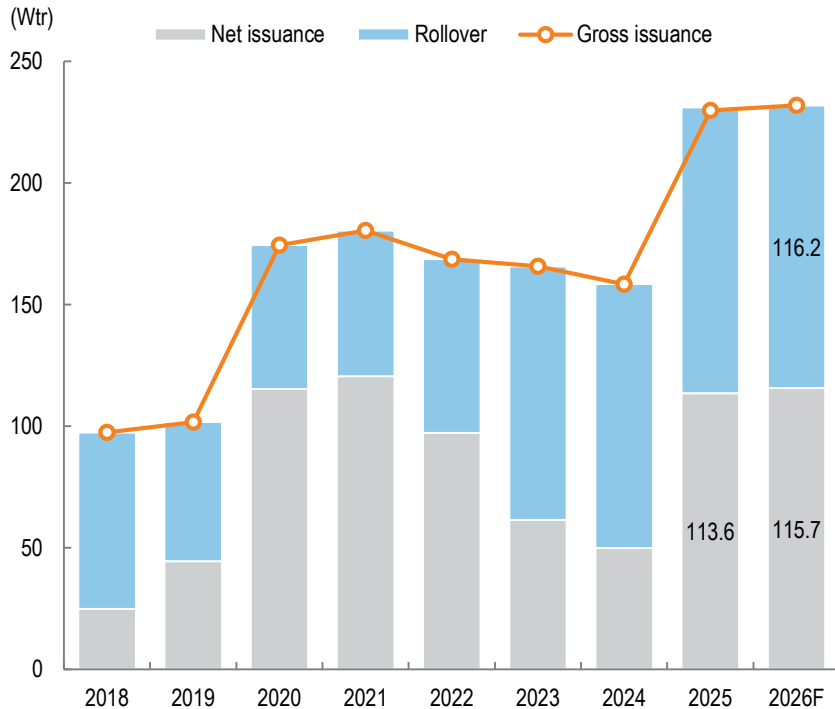
Note: Assuming WTI price of around US\$60/bbl and USD/KRW range of 1,430-1,450
Source: Bloomberg, Mirae Asset Securities Research

2026 KTB issuance

Monthly KTB issuance to be around W19-20tr, similar to the 2025 level

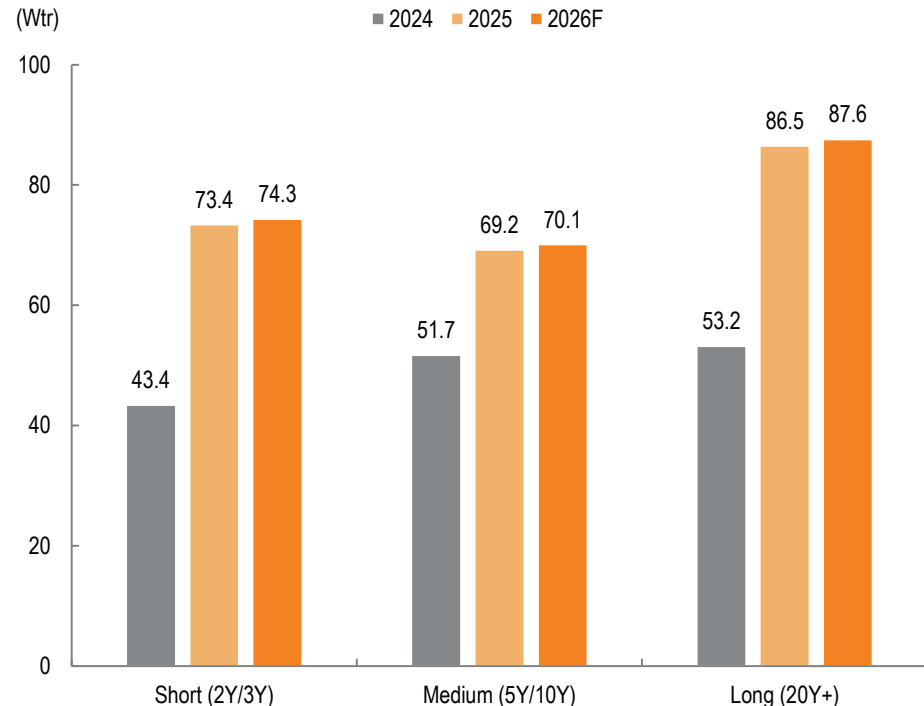
- In 2026, total KTB issuance is projected at W232tr, with net issuance estimated at W115.7tr—similar to the 2025 level. Tax revenue conditions are likely to improve, supported by higher corporate and income taxes. However, the possibility of a supplementary budget before the June local elections remains a variable.
- Monthly KTB issuance will likely average around W20tr, little changed YoY. While total issuance volume has increased compared with 2023-24, the upcoming inclusion of KTBs in the WGBI should attract foreign inflows.
- Of the W150tr National Growth Fund, W75tr will be funded through the issuance of special policy bank bonds over the next five years; this implies a potential net issuance burden of up to W15tr next year. However, tighter lending regulations suggest that banks—the main buyers of these bonds—will have ample investment capacity.

Net issuance of KTBs to remain little changed YoY



Source: MOEF, Mirae Asset Securities Research

Short- and long-dated KTBs likely to account for a larger share of issuance than medium-dated KTBs (as in 2025)



Note: Dec. 2025 and 2026 volumes are estimates

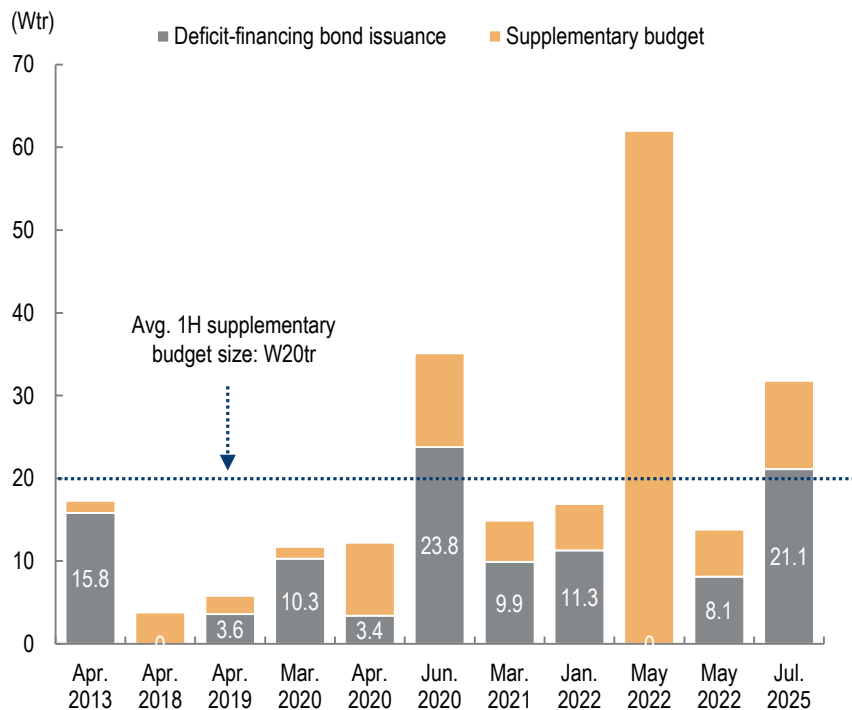
Source: MOEF, Yonhap Infomax, Mirae Asset Securities Research

Potential 1H26 supplementary budget remains a risk

Tax revenue conditions improving, but a 1H26 supplementary budget remains a risk

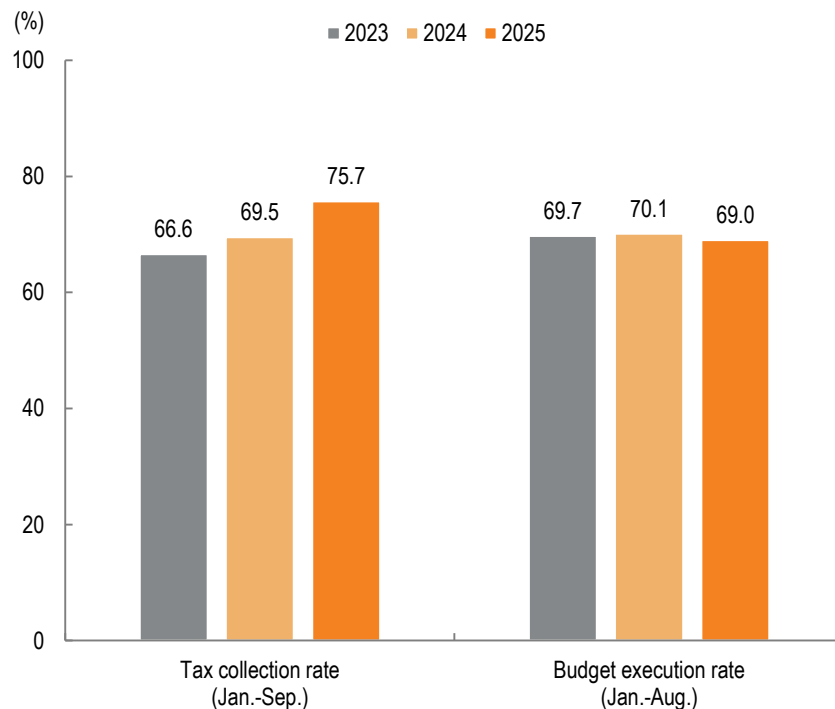
- The current administration maintains a clear fiscal expansionary stance. As consumption growth slows, the government may roll out additional stimulus measures, such as another round of cash vouchers. Investors should be alert to the possibility of a supplementary budget ahead of the June local elections.
- Historically, 1H supplementary budgets have averaged around W20tr, with roughly half covered via deficit-financing bond issuance. This suggests that up to W10tr of additional bonds could be issued early next year.
- That said, the new administration is seeing improved progress in tax collection, and tax revenue conditions should improve further next year on higher corporate and income taxes. If a supplementary budget is introduced in 2H26 rather than 1H26, the burden from deficit-financing bond issuance would likely be limited.

Historically, 55% of 1H supplementary budgets have been covered via the issuance of deficit-financing bonds



Source: MOEF, Press, Mirae Asset Securities Research

Budget execution is similar to 2023-24, but tax collection has improved



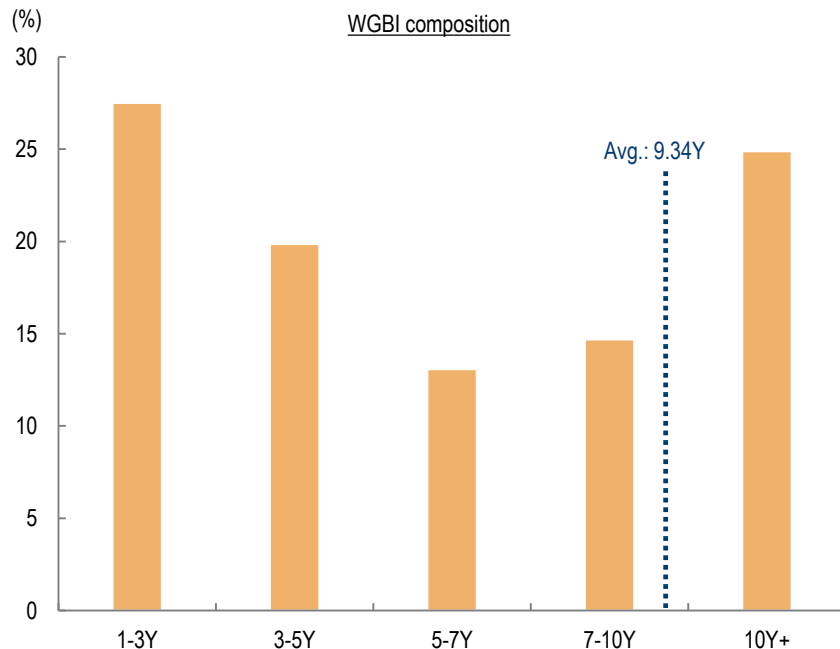
Source: MOEF, Mirae Asset Securities Research

WGBI inclusion could add roughly W9tr in monthly inflows

WGBI inclusion to occur over eight months, concluding in Nov. 2026

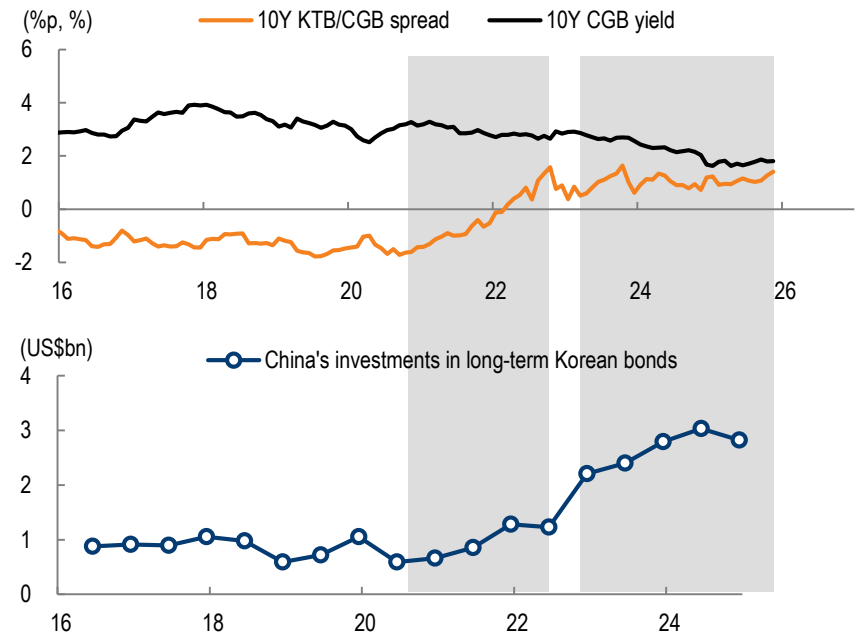
- KTBs will be added to the WGBI starting in Apr. 2026, with full inclusion scheduled to be completed by Nov. 2026. We estimate total new inflows associated with the inclusion at W74–89tr, based on a projected index weight of 2.08% and a USD/KRW rate assumption of 1,430.
- As of early November, foreign investors hold W310tr of won-denominated bonds with an average duration of 6.8 years. To increase their portfolio duration to 9.3 years, they would need to steadily accumulate long-dated KTBs once the inclusion process begins.
- The largest potential sources of WGBI-driven demand are China and Japan. As the long-term yield spread between Korean and Chinese government bonds has widened, Chinese investors have been increasing their holdings of long-term KTBs. In addition, Japanese life insurers have announced plans to reduce yen-denominated bond holdings and increase foreign bond holdings through Mar. 2026.

Avg. life of the WGBI stands at 9.34 years; 7Y+ bonds account for 40%



Source: FTSE Russell, Mirae Asset Securities Research

Widening long-term yield spread between Korea and China → increased Chinese demand for long-dated KTBs



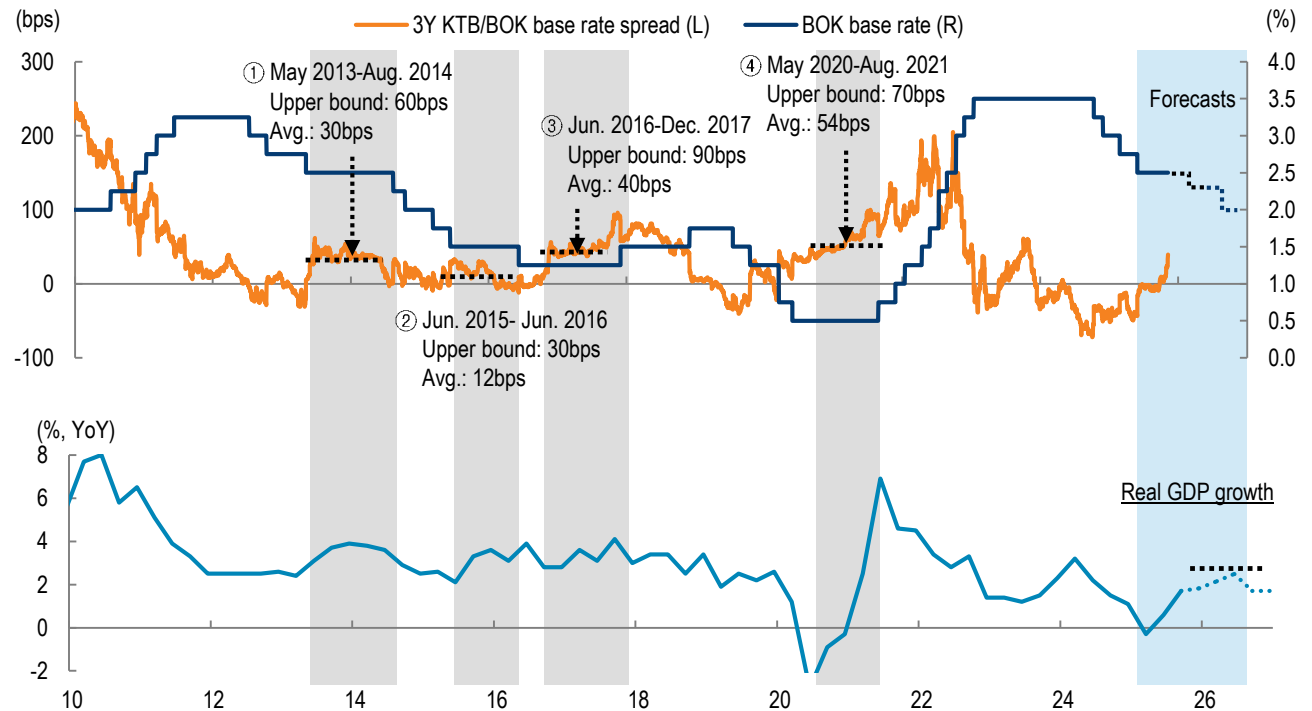
Source: Bloomberg, CEIC, Mirae Asset Securities Research

2026 yield outlook

Rate cut expectations intact; KTB yields likely to decline toward year-end

- In 2026, we expect the three-year KTB yield to move in the 2.3–2.8% range and the 10-year yield in the 2.7–3.2% range. Yields should gradually move lower in 2H26, in line with economic conditions.
- Once the rate cut cycle ends, the spread between the three-year KTB yield and the base rate could widen to 70–90bps if the market begins to price in the possibility of future hikes. However, with the GDP contributions of both consumption and exports likely to weaken, we believe the BOK is unlikely to shift to a tightening stance.
- We expect Korea's GDP growth to be in the high-1% range next year. Still, the tariff burden on exporters should persist, and structural job market weakness should limit the strength of the domestic demand recovery.
- After a period of steepening, we expect the 10-year/three-year term spread to flatten in 2H26.

Spread between the 3Y KTB yield and the base rate likely to see only limited widening when rate cuts resume



Source: BOK, KOFIA, Mirae Asset Securities Research

2026 investment strategy: KTBs and USTs

KTBs

- Yields: With BOK rate cut expectations being pushed back, yields should have limited downside in early 2026. However, the job vacancy ratio has fallen to 0.8x, indicating limited room for additional job creation. Therefore, rate cut expectations will likely remain intact, leading to lower yields in 2H26.
- Investment strategy: In early 2026, we recommend using any yield increase caused by reduced rate cut expectations as an opportunity to increase duration, as consumption and semiconductor export momentum are both likely to soften later in the year.

KTB yield curve

- 10-year/three-year yield curve: Improved tax collection progress and higher corporate and income tax revenues next year will likely support improvement in Korea's fiscal balance. We expect the KTB yield curve to steepen in 1H26 and then flatten toward year-end.
- 30-year/10-year yield curve: Once KTBs are included in the WGBI starting in Apr. 2026, foreign demand for long-dated KTBs should increase. This will likely deepen the inversion of the 30-year/10-year yield curve.

USTs

- Yields: Tariff-driven inflation pressures and resilient wage growth will likely keep US inflation elevated, pushing the 10-year UST yield as high as 4.3–4.4%. The large US fiscal deficit should also exert upward pressure on long-term yields.
- Yield curve: In 1H26, the 10-year/two-year UST term spread is likely to hover around 50bps amid weakening Fed rate cut expectations. However, we expect the yield curve to steepen further in 2H26 as inflation concerns moderate.
- Investment strategy: We recommend taking a duration-neutral position.

Appendix 1

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Mirae Asset Securities International Network

Mirae Asset Securities Co., Ltd. (Seoul)

One-Asia Equity Sales Team
Mirae Asset Center 1 Building
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539
Korea

Tel: 82-2-3774-2124

Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699

Ho Chi Minh Representative Office

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3910-7715

Mirae Asset Securities (HK) Ltd.

Units 8501, 8507-8508, 85/F
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong SAR
Tel: 852-2845-6332

Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building
Vila Olimpia
Sao Paulo - SP
04551-060
Brazil
Tel: 55-11-2789-2100

Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building
91 Pasteur St.
District 1, Ben Nghe Ward, Ho Chi Minh City
Vietnam

Tel: 84-8-3911-0633 (ext.110)

Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers
B12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022
China

Tel: 86-10-6567-9699 (ext. 3300)

Mirae Asset Capital Markets (India) Pvt Ltd

1st Floor, Tower 4, Equinox Business Park,
LBS Marg, Off BKC, Kurla (West), Mumbai - 400 070
India

Tel: 91-22-62661300 / 48821300

Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42
25 Old Broad Street,
London EC2N 1HQ
United Kingdom

Tel: 44-20-7982-8000

PT. Mirae Asset Sekuritas Indonesia

District 8, Treasury Tower Building Lt. 50
Sudirman Central Business District
Jl. Jend. Sudirman, Kav. 52-54
Jakarta Selatan 12190
Indonesia
Tel: 62-21-5088-7000

Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
China

Tel: 86-21-5013-6392
