What's next for stock market after Fed's giant step?

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Dealers at Hana Bank's headquarters work at its office in Seoul, Friday. Seen behind is an electronic board indicating a fall of 0.43 percent of the KOSPI on the same day. Yonhap

By Lee Min-hyung

With the U.S. Fed making a giant rate hike of 75 basis points, market analysts expect the Korean stock market to continue experiencing turbulence until signs of downward inflationary pressure are detectable.

"The bottom line is that inflation needs to be tamed for the stock market to continue a relief rally," Meritz Securities analyst Lee Seung-hoon said.

Korean and U.S. stocks bounced back immediately after the Fed shared its strong willingness to stabilize prices, but curbing inflation is most important for stock markets here and abroad to enter a stable recovery path, according to the analyst.

Starting this month, the benchmark KOSPI has been on a sharp decline amid growing fears of big rate hikes by the U.S. Fed and the Bank of Korea. The main bourse edged up 0.16 percent on Thursday to close at 2,451.41 on diminished uncertainties over the Fed's rate hikes, but finished down 0.43 percent on Friday at 2,440.93.

"One factor that will affect expectations of inflation among market participants are international oil prices," the analyst said. "The outcome of U.S. President Joe Biden's scheduled visit to Saudi Arabia in mid-July will be a crucial issue to watch."

Cape Investment & Securities analyst Na Jeong-hwan did not expect the main bourse to suffer any further downward risks, as the ongoing rate hike does not necessarily result in big earnings falls for Korea's export-reliant companies.

"Korean stocks faced a huge downward adjustment back in 2018 due to then-escalating trade friction between the U.S. and China, which did not pose a direct threat to the earnings of Korean export firms," he said. As the earnings fundamentals of major export firms remain robust, the KOSPI is unlikely to face any big further declines, according to the analyst.

He focused more on non-monetary factors — such as the war between Russia and Ukraine and supply chain disruptions in China.

"But Korean stock markets may not be able to achieve a major rebound until the end of this year if the two external risk factors are not cleared away by then," he said.

Daishin Securities analyst Lee Kyoung-min said that the latest giant rate hike by the Fed would help investors relieve their fear sentiment to some extent.

"The long dominant fear sentiment among investors will ease now that the Federal Open Market Committee (FOMC) meeting in June is over," he said. "The KOSPI is forecast to be on a path to recovery after having recently experienced a big plunge."

The analyst urged investors to focus on stocks with solid profit momentum.

"Investors are advised to pay attention to the possible resilience of internet, secondary batteries and semiconductor stocks, whose short-term falls were huge."

But analysts said the U.S. stock market will face continued volatility this year due to the Fed's strong stance on monetary tightening.

"The high inflation-induced monetary stance of the U.S. will keep limiting the recovery momentum of U.S. stocks even in the latter half of this year," he said.