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ISRAEL MARKET REVIEW AND OUTLOOK - Q1 2024

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About the BlueStar Indexes®

The BlueStar Indexes® were launched in 2011 by BlueStar Global Investors, a research-driven provider of indexes and financial data. BlueStar®'s Indexes were acquired by MarketVector Indexes™ ("MarketVector") in August 2020 and are now continued as a sub-brand of MarketVector.

BlueStar Indexes® produced monthly updates on the Israeli market since 2012. In this Israel Equity Review and Outlook we provide data and insight on 2023's performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as data on our flagship Israeli equity indexes, BIGI® and BIGITech®. We also provide an outlook on key economic, geo-political and domestic political developments which could impact the markets in 2023.

The BlueStar® Israel Global Index (BIGI® or BLS & BLSTR INDEX on Bloomberg) is the broadest and deepest benchmark for Israeli equities trading. BIGI® is tracked by a NYSE-listed ETF, as well as an Israel-domiciled index fund.

The BlueStar® Israel Global Technology Index (BIGITech® or BGTH & BGTHTR INDEX on Bloomberg) is the broadest and deepest benchmark tracking the performance of Israeli companies operating in innovative sectors such as information technology, defense technology, clean technology and bio-technology. BIGITech® is tracked by a NYSE-listed ETF. In addition, there are two Israel-domiciled investment vehicles tracking BIGITech® managed by KSM.

The MCM-BlueStar® Israel Bonds Index (MBILB) is the first index to track Israel government and corporate bonds denominated in both USD and ILS. MBILB is tracked by a NYSE-listed Israel Bond ETF.

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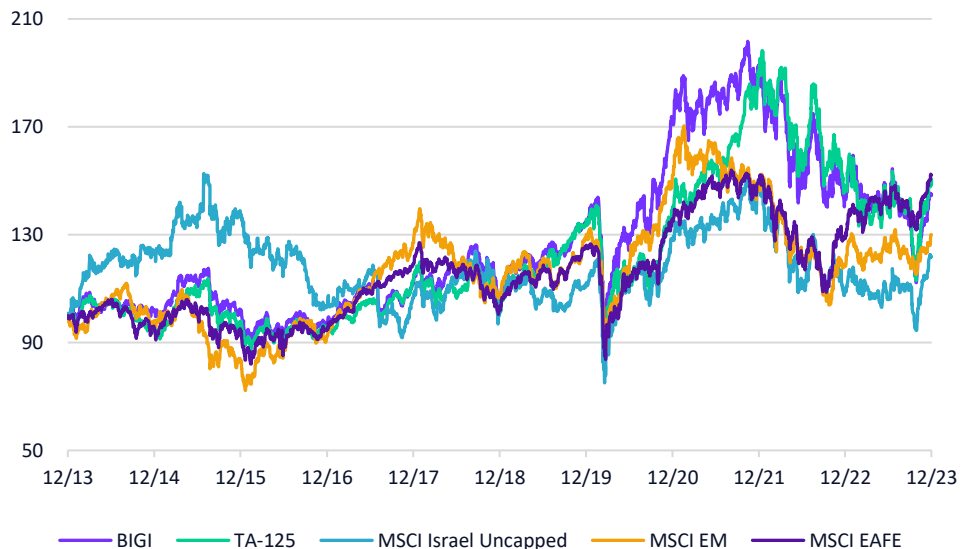
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JUDICIAL REFORMS AND WAR LEAD ISRAELI STOCKS' SIGNIFICANT UNDERPERFORMANCE IN 2023, SETTING UP POTENTIAL FOR A 2024 RECOVERY

Highlights:

- Israeli stocks, as defined by the BlueStar® Israel Global Index (BIGI®), rose 7.06% in the fourth quarter of 2023, underperforming US and international developed market equities for the fourth straight quarter.
- Israeli technology stocks, as defined by the BlueStar® Israel Global Technology Index (BIGITech®), gained 12.33% Q4, widening their year-to-date underperformance against US and Global tech peers by more than 54%.
- Israel launched Operations Iron Swords following a Hamas led offensive against Israel on October 7th, 2023. The Israeli army initiated a ground invasion on October 27th in an effort to eradicate the terrorist-designated group.
- The controversial Judicial reform legislation off the agenda and blocked by Israel's Supreme Court. removing a major negative for Israel's markets. The next political drama will be the inquiries and fallout related to Hamas October 7th attack, and the likelihood that PM Netanyahu's coalition will founder, resulting in new elections perhaps even later this year.
- With the IDF seemingly in control of the situation in Gaza, history would suggest that 2023's massive underperformance is setting up for a recovery in 2024. Risks still abound, however, as intensifying skirmishes with Hezbollah across Israel's northern border with Lebanon have the potential to explode into another war front.
- Israel's economy continues to show impressive resilience. The Bank of Israel made its first cut since 2020, providing a sense of relief in pressured industries, notably real estate. This sector experienced a significant growth of 21.83% in the final quarter of 2023
- MarketVector launched an innovative new Israel fixed income index, the MCM-BlueStar® Israel Bonds Index, the first index to provide investors exposure to Israel government and corporate bonds that are denominated both in USD and ILS. The BlueStar® Israel Bond Index is tracked by a US-listed ETF since mid-December.



Source: MarketVector, Bloomberg. Data as of December 29, 2023. All data in USD.

Israel Equity Market Performance

Israeli equities, as defined by the BlueStar® Israel Global Index (BIGI®), rose over 7% in Q4 of 2023, rebounding from Q2 and Q3's heavy losses. The BIGI® performed in line with other international developed markets but underperformed the SPDR S&P 500 ETF Trust (in USD) by 4.63%. The Israel Domestic Exposure Index performed similarly to the Israel Global Exposure in Q4.

The BIGITech® recovered from lows and gained 12.33% in Q4, while Israeli tech stocks continue to dramatically underperform the iShares U.S. Technology and the iShares Global Tech ETFs, reaching year-to-date under performance of 65.07% and 54.05%, respectively.

The top performing sector was Real Estate, which gained 21.83% in Q4, recovering from a dramatic loss earlier in the year. Weaker economic growth and declining inflation made it possible for the Bank of Israel to cut rates for the first time since 2020, which helped alleviate pressures in the real estate sector and boost private investment.

Some of Israel's largest companies have continued to experienced periods of significant declines. For example, one of the largest Israeli tech companies, SolarEdge, which targets the solar energy industry with specialized power converters, was down 27.73% in Q4 after also finishing Q3 down 51.86%.

On the other hand, a number of companies have rebounded following the selloff experienced over the past few years. A few of the larger names that stand out are Lemonade, JFrog, and Wix.com, which all ended the quarter up over 30%.

On a macroeconomic level, interest rates cuts are expected in 2024 as inflation rates among developed economies simmer. Despite the presence of a dovish outlook, interest rates continue to be elevated, and the delayed impact of these rates might not yet be evident.

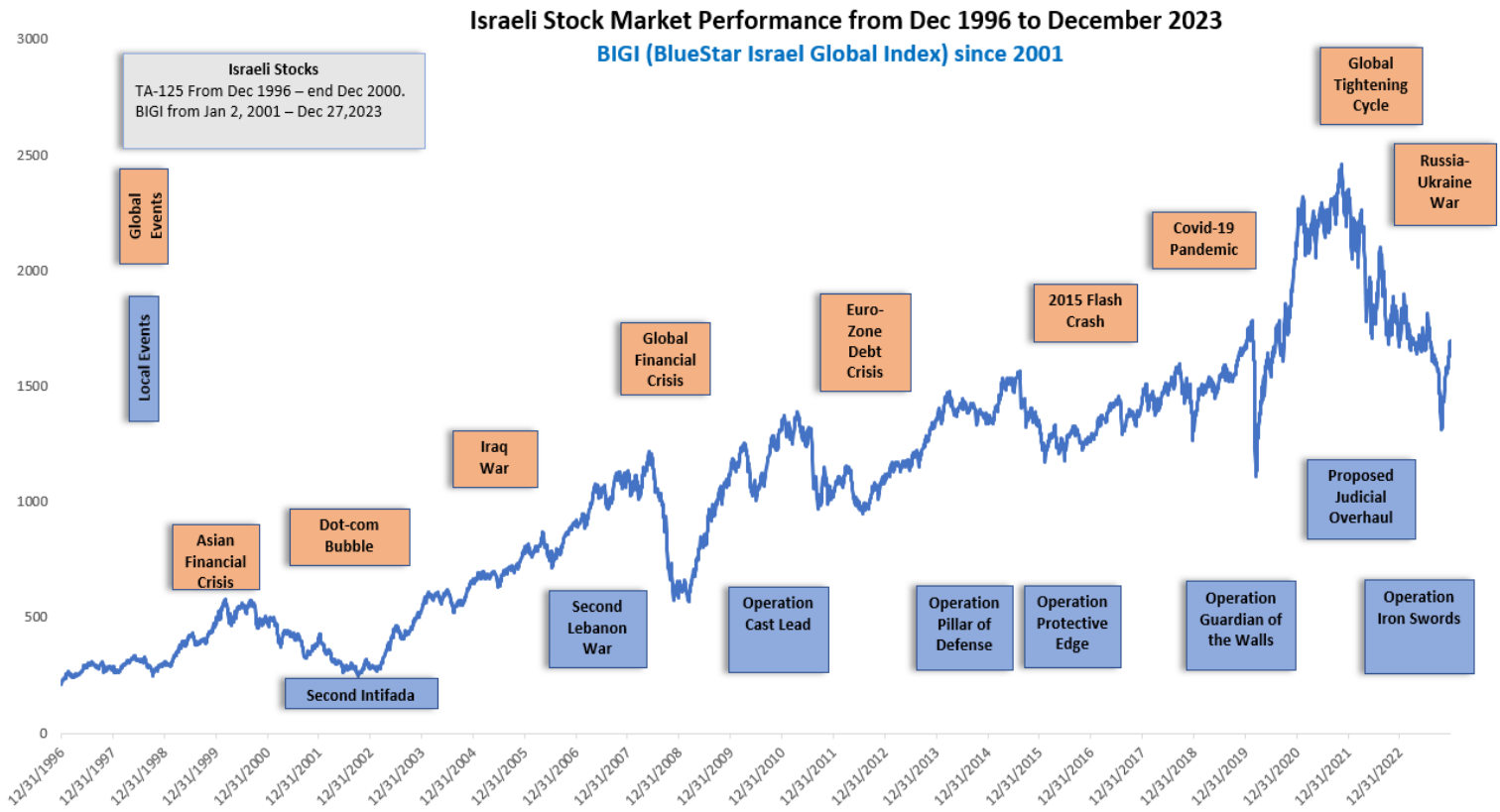
ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q4 2023 Return(%)	2023 YTD (%)
BIGI®	7.06	1.11
BIGITech®	12.33	5.60
iShares Israel ETF	9.36	11.70
KSM TA-125 ETF	7.47	1.85
SPDR S&P 500 ETF Trust	11.69	26.29
iShares Emerging Markets ETF	7.86	9.83
iShares EAFE ETF	10.47	18.85
Israel Domestic Exposure	4.96	(3.11)
Israel Global Exposure	4.43	0.30
Israel Infrastructure	8.55	(13.56)

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q4 2023 Return(%)	2023 YTD (%)
BIGITech®	12.33	5.60
iShares U.S. Technology ETF	16.16	65.07
iShares Global Tech ETF	17.91	54.05

SECTOR PERFORMANCE (%): Q4 2023	
Real Estate	21.83
Utilities	13.31
Information Technology	12.91
Industrials	5.00
Communication Services	3.33
Consumer Discretionary	3.31
Financials	1.06
Health Care	(2.92)
Consumer Staples	(4.12)
Energy	(4.14)
Materials	(5.34)

TOP AND BOTTOM BIGI® PERFORMERS: Q4 2023			
Positive Contributors (%)		Negative Contributors(%)	
LEMONADE INC	38.81	SOLAREEDGE TECHNOLOGIES INC	(27.73)
JFROG LTD	36.47	INMODE LTD	(26.99)
WIX.COM LTD	34.01	ASHDOD REFINERY LTD	(19.73)
CYBERARK SOFTWARE LTD/ISRAEL	33.75	PAYONEER GLOBAL INC	(14.87)
TREMOR INTERNATIONAL LTD-ADR	32.86	ISRACARD LTD	(13.84)
AZRIELI GROUP LTD	26.68	FORMULA SYSTEMS (1985) LTD	(12.70)
CELLCOM ISRAEL LTD	26.51	NANO DIMENSION LTD - ADR	(11.76)
PARTNER COMMUNICATIONS CO	26.42	STRAUSS GROUP LTD	(10.23)
PLUS500 LTD	26.10	DELEK GROUP LTD	(10.19)
ENERGIX-RENEWABLE ENERGIES	25.71	PLAYTIKA HOLDING CORP	(9.45)

Israeli Equity Market Performance Amid Economic And Geopolitical Events



In the wake of a surprise attack by Hamas and increased Hezbollah aggression, Israel is facing significant challenges on both economic and defense fronts. Operation Iron Swords, a military response to these threats, coincides with economic turbulence marked by rising fiscal deficits, a declining stock market, and increased bond yields. Despite these adversities, Israel's history showcases its resilience and ability to adapt in the face of continuous security threats and economic fluctuations. This situation offers an opportunity to analyze how Israel's robust economy, which has thrived despite persistent conflicts, might navigate, and potentially overcome, the current crisis. The chart above shows the performance of the Israeli equity market from 1996, overlaid with global economic and local geopolitical/political events. Over the long term Israeli equities are typically driven more by global economic events and trends than local geopolitical events. As such, some investors view geopolitical events as causing temporary market dislocations in Israeli stocks, a phenomenon not experienced by many other country's markets.

Israel Macroeconomic Update

Economic Highlights

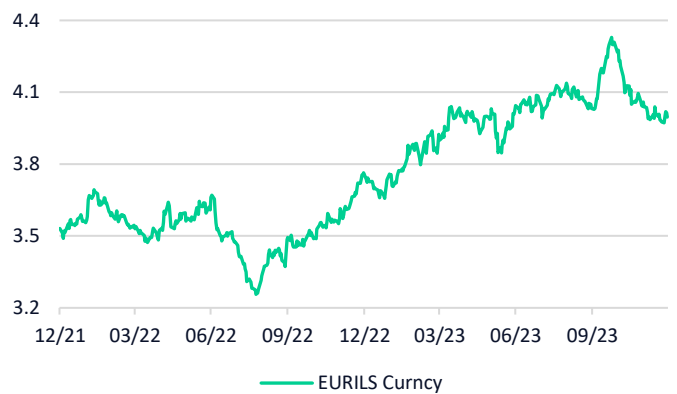
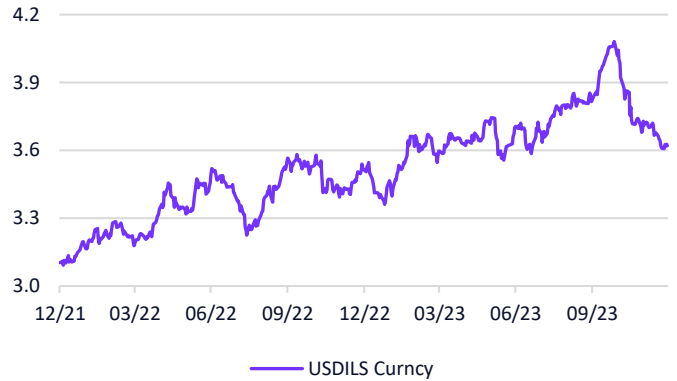
In early January, the Bank of Israel's Monetary Committee cut their policy rate from 4.75%, to 4.50%, which equates to a real yield of 1.20%, making it mildly restrictive. Inflation pressures are moderating (which is lower than many of Israel's peers) and is expected to fall within the upper bound of the BOI's target inflation range over the coming quarter.

The war in Gaza, and intensifying flare-ups in the North, saw an unprecedented number of Israeli reservists called up to duty and pulled out of the labor market. In addition, the Israeli Defense Forces are in the midst of what is likely to be their longest-lived ground operation in decades. While Israel's unemployment rate spiked higher since the start of the war, it has begun trending down from 9.7% in October to 8.5% in November. Since then many reservists began returning to work, which should begin to stabilize the economy's output and productivity.

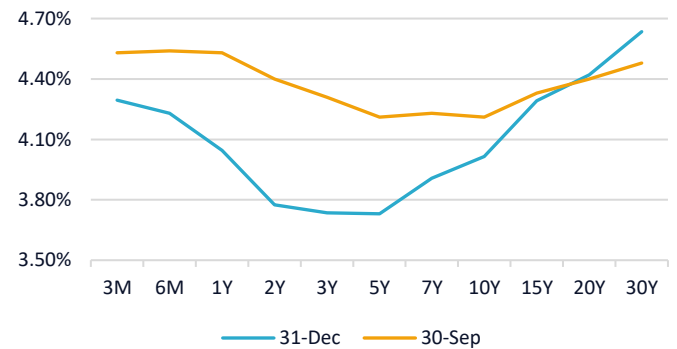
There are significant economic consequences to the current military operation that cannot be ignored. Further, the risk of war with Hezbollah along Israel's border with Lebanon seems to be growing each day. As a result the Bank of Israel has currently forecast GDP to grow roughly 2% in 2024 before a recovery of 5% in 2025.

The performance of the Israeli Shekel against the U.S. Dollar and Euro has also been notable. Despite a sharp depreciation that began on October 7th, the Shekel is now the strongest it has been since Q2 2023. Furthermore, the long end of yield curve on ILS-denominated Israeli sovereign debt is steepening. Taken together these indicators suggest that Israel's economy is relatively stable and that investors expect an acceleration of growth following the fall out from the war in Gaza (in-line with the Bank of Israel's expectations).

The Bank of Israel's Monetary Committee cut their policy rate from 4.75%, to 4.50%, which was the first cut of this cycle. More cuts are expected later in the year. Inflation is expected to fall within the upper bound of the BOI's target inflation range over the coming quarter.



Israel Government ILS Bonds Yield Curve

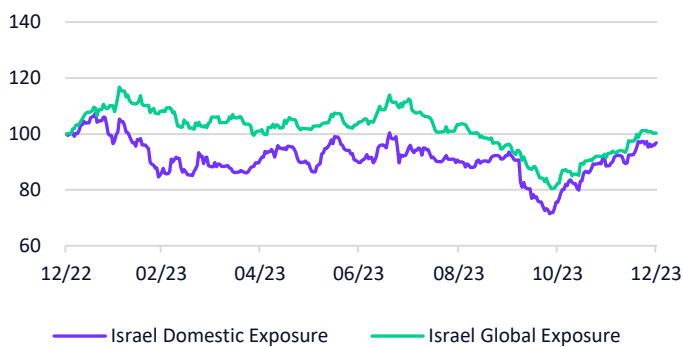


Israel Economic Exposure Indexes

With such a dichotomy between global and local monetary policy and economic developments, there are now even more potential insights available from tracking the performance of Israeli Domestic vs Israeli Global companies. The path of inflation, interest rate differentials and currencies, and real economic activity are expected to continue to impact both earnings growth and price multiples on these two groups of Israeli stocks differently, presenting opportunity for investors to capitalize on these trends.

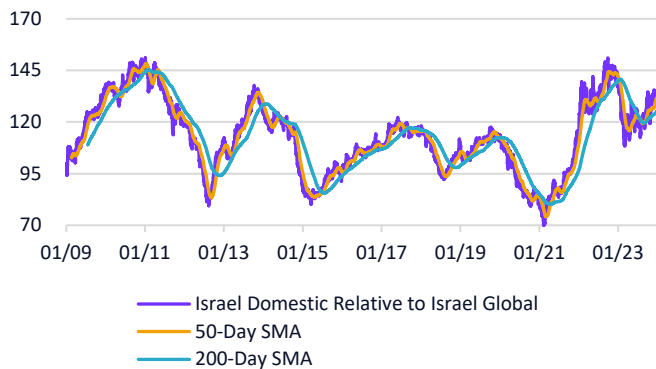
In 2021 the Israel Domestic Exposure Index outperformed the Israel Global Exposure Index by an astounding 44% and continued to outperform through 2022 by an additional 17.5% bringing the total outperformance from the end of 2020 through 2022 to roughly 69%. However, in our Q4 2022 update, we noted that the “IEEI Relative Performance Since 2009” chart suggested a high probability of a relief rally for the Israel Global Exposure Index in the near future. Indeed the Global Exposure Index outperformed by more than 19% from the end of Q3 2022 through Q2 2023. And, last quarter we noted that “as we enter the third quarter, the relative performance outlook is muddled since domestic stocks appear poised for a more substantial relief rally.” The Israel domestic exposure index did outperform the global exposure index by more than 10% in the quarter

Trailing Twelve Month Comparative Total Returns



As expected, the Israel Domestic Exposure Index suffered substantially worse declines than the Global Exposure Index following October 7th. Financials, Real Estate, Communications Services – any sector most leveraged to Israel’s domestic economic output and productivity – took on a “sell now ask later” mentality. But, by the end of the quarter the Israel Domestic Exposure Index had nearly caught up the Global Index, ending the quarter roughly in-line.

IEEI Relative Performance Since 2009



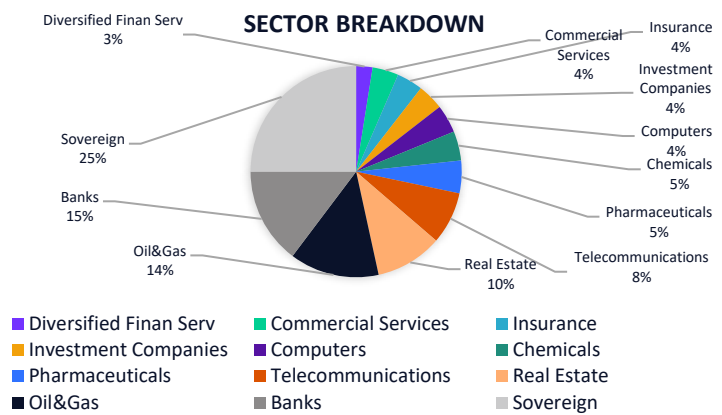
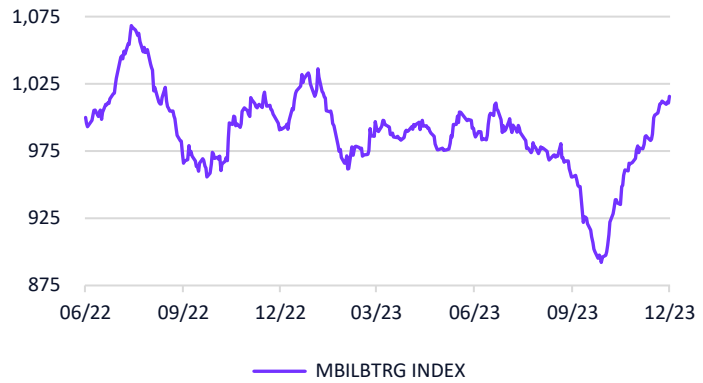
The outlook for the relative performance of these two indexes is muddled. With so many important factors at play, technical analysis has lost some of its utility. It seems that if the situation on Israel’s northern border can be contained, that Israeli domestic stocks have room to run higher. However, if war breaks out with Hezbollah, it is likely that the domestic economy and stocks will remain depressed for a considerable amount of time.

MCM-BlueStar® Israel Bonds Index

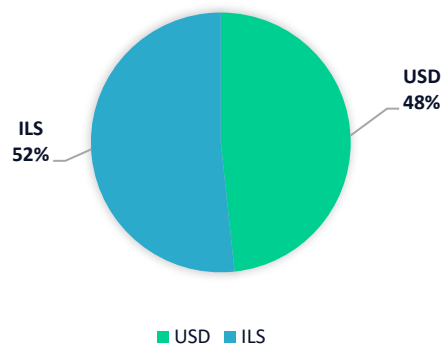
MarketVector in August launched the MCM-BlueStar® Israel Bonds Index in partnership with MCM (Migdal Capital Markets). This is a first-of-its-kind index that combines Israeli sovereign and corporate debt as well as USD and ILS denominated debt. The index includes 35 bonds and is designed to maximize exposure to the USD and sovereign debt while also ensuring sufficient diversification on the issuer and security level. The index includes mostly investment grade bonds but may also include some USD-denominated sub-investment grade corporate bonds.

The Israeli government is fortunate to be backed by such a resilient and dynamic economy as Israel's which boasts a world-class technology sector, and plays host to hundreds of the world's largest and most important companies from technology giants to financials and consumer companies. Furthermore, Israel plays a critical strategic role on the geopolitical stage for its allies and partners including the U.S. and several other leading democratic nations. As a result Israel's access to external capital via the global capital markets is exceedingly strong. This strength, despite transient headwinds and fluctuations in global markets, permeates through to Israel's banking, non-banking financial, and real estate sectors.

The MCM-BlueStar® Israel Bonds Index provides the basis for investment vehicles, but can also be used to track the performance of the Israeli fixed income market over time. Since the index's inception its average spread over U.S. Treasury and Israeli Government (ILS) bonds with a similar time to maturity has been 1.65% and 1.92%, respectively.



CURRENCY BREAKDOWN



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