

April 16, 2024

ISRAEL MARKET REVIEW AND OUTLOOK - Q2 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 Q1 2024'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, geopolitical and domestic political developments which could impact the markets in for the rest of 2024

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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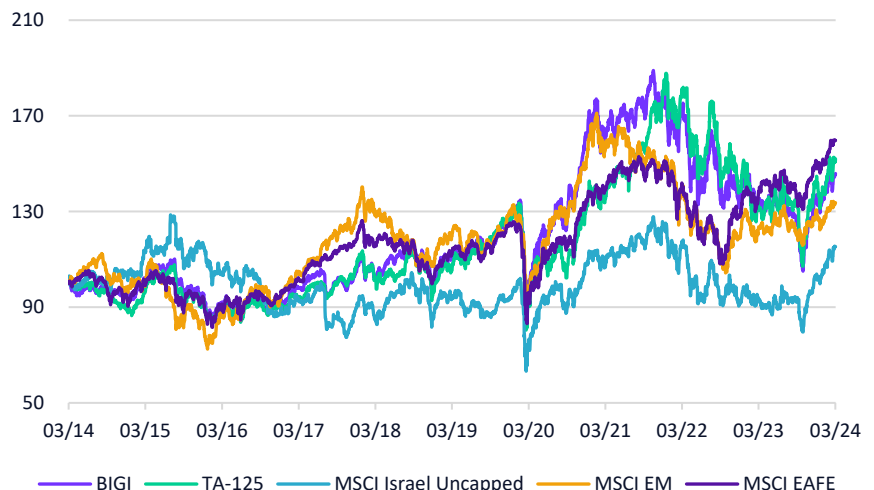
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THE STAGE IS SET FOR A RECOVERY IN 2024. ISRAELI STOCKS HAVE REBOUNDED AS INVESTOR CONFIDENCE EMERGES, YET LINGERING ECONOMIC PRESSURES PERSIST

Highlights:

- Israeli stocks, as defined by the BlueStar® Israel Global Index (BIGI®), rose 7.32% in the first quarter of 2023, underperforming US equities yet outperforming international markets.
- Israeli technology stocks, as defined by the BlueStar® Israel Global Technology Index (BIGITech®), gained 4.8% in Q1, underperforming US and Global tech peers by 8.6% and 8%, respectively.
- In general, Israeli stocks have recovered considerably from lows since following the October 7th attacks, signifying investor's confidence that the IDF has the situation under control. The stability and resilience of the Israeli equity market has once again been demonstrated.
- Moody's downgraded Israel's credit rating and outlook, citing deteriorating public finances and a potentially higher debt burden due to the war. However, Fitch removed Israel from Rating Watch Negative (RWN), assigning the Long-Term Foreign Currency Default Rating (IDR) a rating of 'A+' with a Negative Outlook.
- The Monetary Committee left interest rates unchanged at 4.5% in meetings held in February and April of 2024, choosing not to implement rate cuts, citing worries that inflation could pick up once more amid the ongoing conflict with Hamas.
- Additional funding in the billions of shekels is required to support military operations, provide compensation for reservists, assist the many individuals displaced near the border, and aid those impacted by the attacks on October 7 by Hamas operatives.
- The contentious judicial reform bill has been put to the sideline by Israel's Supreme Court, alleviating, for the time being, a significant concern for the Israeli markets. Israel's myriad of strategic and political challenges as we publish this report are the continued need to destroy Hamas' military capabilities, deep desire to return the remaining hostages, and growing threats from Iranian proxies in Lebanon, Iraq, Syria and Yemen. Furthermore, PM Netanyahu faces strengthened opposition at home, and pressure from US President Biden's call for an "immediate ceasefire" before the IDF's military objectives have been achieved.



Source: MarketVector, Bloomberg. Data as of March 31, 2024. All data in USD.

Israel Equity Market Performance

Israeli equities, as defined by the BlueStar® Israel Global Index® (BIGI®), rose over 7.32% in Q1 of 2024, rebounding from the prior year's losses. BIGI® outperformed other international developed markets but underperformed the SPDR S&P 500 ETF Trust (in USD) by 3.24%. Additionally, the Israel Domestic Exposure Index outperformed the Israel Global Exposure in Q1, perhaps attributable to ranging exposures across sectors.

The BIGITech® recovered in a similar fashion to the BIGI®, gaining about 4.9% throughout the quarter. The index underperformed US and Global tech peers by 8.6% and 8%, respectively. Despite the market's anticipation for rate cuts in Q1, the monetary committee's unexpected decision to maintain the key rate at 4.5% took Israeli-based technology stocks by surprise.

The sector performance table reveals significant disparities, with sectors significantly outperforming others. Health Care emerged as the leading sector, while Communication Services lagged. Notably, the Real Estate sector, a key area of interest in the Israeli market, displayed relative stability following a sharp recovery in Q4 2023 capping off an overall tumultuous year. The BOI noted in April of 2024 that the challenges in the construction sector due to the war have lessened but are still substantial, with housing prices steadily increasing year-to-date.

In terms of high-level macroeconomics, Israel's main driver of growth, being private spending, has flattened. Additionally, the Israeli Ministry of Finance has projected 2024 growth of 1.6% citing the effects of the ongoing war. Israeli consumer confidence is showing signs of recovery from its significant drop in October. The Bank of Israel mentioned that GDP contracted 5.6% in the fourth quarter of 2023, relative to the third. Over 2023, GDP grew 2% which was in line with the Research Department's forecast.

On an index component level, some of Israel's largest companies have continued to experience 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 24.17% in Q1 2024, after finishing Q4 and Q3 of 2023 down 27.73% and 51.86%, respectively. Additionally, Intel spinoff, Mobileye Global, broke down from its trading range after reducing 2024 guidance and revealing an excess in inventory. On the other hand, several companies have rebounded following the selloff experienced over the past few years. A few of the larger names that stand out are Shufersal and Nice.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q1 2024 Return (%)	2024 YTD (%)
BIGI®	7.32	7.32
BIGITech®	4.88	4.88
iShares Israel ETF	12.50	12.50
KSM TA-125 ETF	6.48	6.48
SPDR S&P 500 ETF Trust	10.56	10.56
iShares Emerging Markets ETF	2.37	2.37
iShares EAFE ETF	5.93	5.93
Israel Domestic Exposure	6.99	6.99
Israel Global Exposure	4.23	4.23
Israel Infrastructure	0.12	0.12

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q1 2024 Return (%)	2024 YTD (%)
BIGITech®	4.88	4.88
iShares U.S. Technology ETF	13.50	13.50
iShares Global Tech ETF	12.90	12.90

SECTOR PERFORMANCE (%): Q1 2024	
Health Care	27.10
Consumer Staples	15.46
Information Technology	11.08
Energy	7.33
Materials	4.94
Financials	3.51
Real Estate	(1.53)
Industrials	(4.91)
Utilities	(8.09)
Consumer Discretionary	(9.70)
Communication Services	(11.39)

TOP AND BOTTOM BIGI® PERFORMERS: Q1 2024			
Positive Contributors (%)		Negative Contributors (%)	
Nano-x Imaging Ltd	53.38	Perion Network Ltd	(27.18)
Shufersal Ltd	45.78	Mobileye Global Inc-a	(25.78)
Teva Pharmaceutical-sp Adr	35.15	Solaredge Technologies Inc	(24.17)
Nice Ltd - Spon Adr	30.63	Fiverr International Ltd	(22.59)
Nova Ltd	29.11	Opko Health Inc	(20.53)
Tel Aviv Stock Exchange Ltd	28.05	Stratasys Ltd	(18.63)
Jfrog Ltd	27.77	Playtika Holding Corp	(17.99)
Paz Oil Co Ltd	26.36	Mivne Real Estate Kd Ltd	(17.64)
Formula Systems (1985) Ltd	23.72	Summit Real Estate Holding	(16.41)
Harel Insurance Investments	21.59	Sentinelone Inc -Class A	(15.05)

Israel Macroeconomic Update

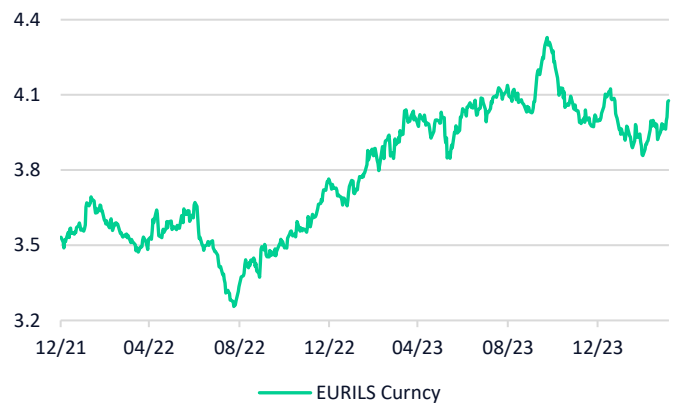
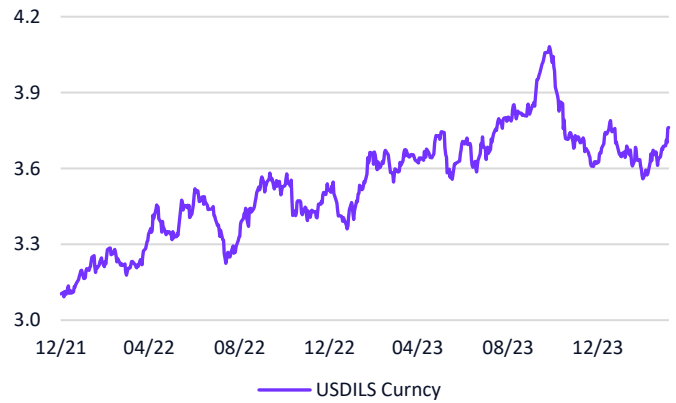
Economic Highlights

In both February and March of 2024, the Bank of Israel's Monetary Committee left their policy rate unchanged at 4.50%. Inflation pressures have significantly moderated to around 2.5% in February 2024 from highs of 5.4% experienced in December 2022. Still, current CPI rates are around the upper bound of the BOI's target inflation range of 1-3%. Interestingly, the BOI noted that the war did not contribute to an increase in inflation in the intermediate term despite heightened government expenditures.

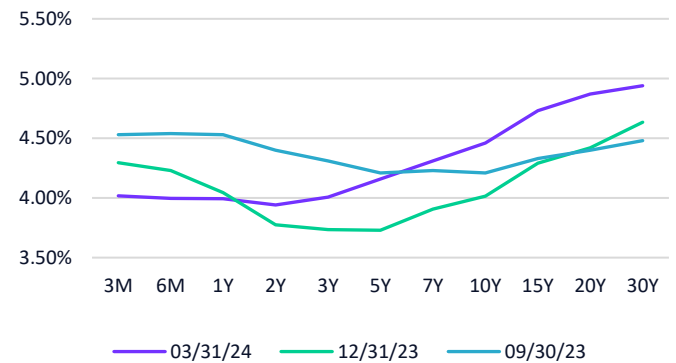
The war in Gaza, and intensifying flare-ups in the North, saw an unprecedented number of Israeli reservists called up to duty and pulled out of the labor market. While Israel's unemployment rate spiked higher since the start of the war, it has significantly tightened to around 3% in February of 2024. Since then, many reservists began returning to work, which is working to stabilize the economy's output and productivity. The BOI in April of 2024 mentioned that although economic activity remains below pre-war levels, a consistent recovery is evident in the prior few months.

By the end of 2023, the BOI's balance sheet grew to NIS 855.4 billion, marking a 3.5% increase, mainly due to a significant rise in foreign assets, partly offset by a reduction in domestic assets, primarily from the repayment of COVID-19 related loans to banks. At the same time, the Bank's liabilities decreased by 3.3% to NIS 844.9 billion. This financial movement reflects a rebalancing of the Bank's portfolio in response to evolving market conditions and the winding down of pandemic-era financial supports.

The performance of the Israeli Shekel against the U.S. Dollar and Euro has been noteworthy. Despite a sharp depreciation that began on October 7th, the Shekel is now holding its strength after a rally in the fourth quarter of 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). In general, the spread between Israeli and US government bonds remain at relatively high levels.



Israel Government ILS Bond Yield Curve



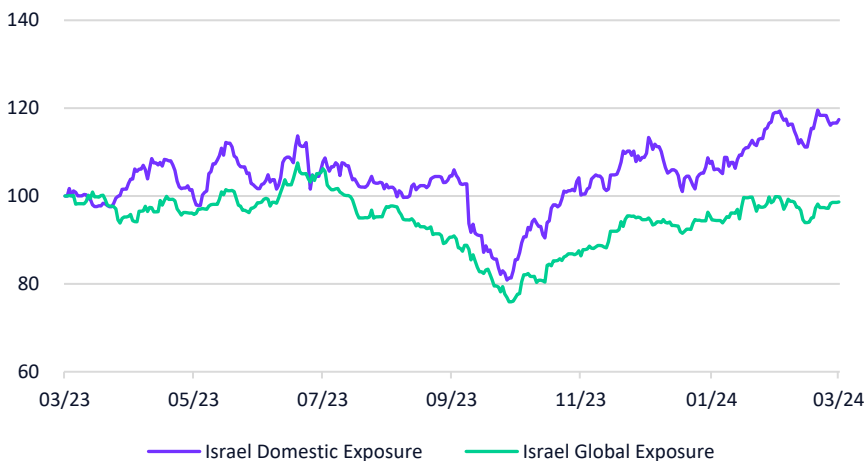
Monetary and Economic Dispersion and the BlueStar® Israel Economic Exposure Indexes

With such a dichotomy between global and local monetary policies as well as global and local 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.

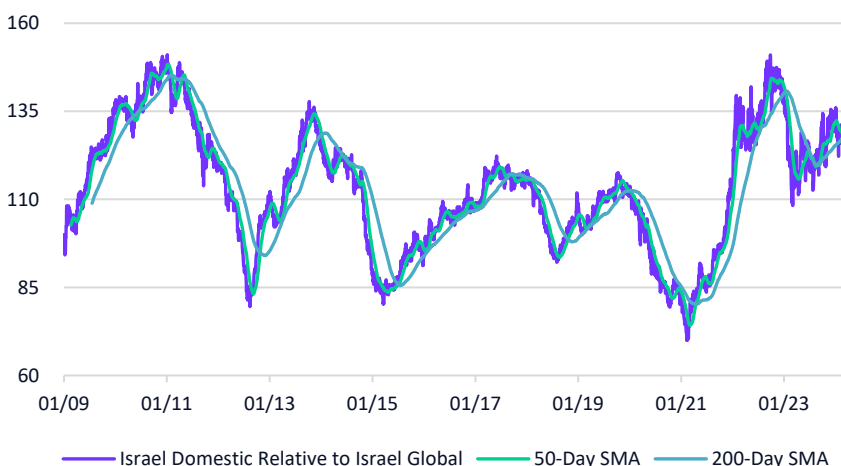
For context, the BlueStar® Israel Global Exposure Index outperformed by more than 19% from the end of Q3 2022 through Q2 2023, following a period of substantial underperformance in the wake of the Covid-19 pandemic. In our Q3 2023 update we noted that “as we enter the third quarter, the relative performance outlook is muddled since domestic stocks appear poised for a more substantial relief rally.” Last quarter As expected, the Israel Domestic Exposure Index suffered substantially worse declines than the Global Exposure Index following October 7’s attack by Hamas and Israel’s subsequent response. Financials, Real Estate, Communications Services – any sector primarily linked 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. We also noted that “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.”

In Q1 2024 the Domestic Exposure Index outperformed the Global Exposure Index by roughly 2.5% however, the outlook continues to be ambiguous. As the war in Gaza drags on other geopolitical risks at home and political challenges abroad have the potential to quickly change the relatively positive picture in the domestic Israeli economy and markets. On the other hand, the continued dominance of technology stocks on the global stage, may be waning as stocks grow into their valuations, which would favor the domestic exposure index over the global exposure index. In addition, investors should watch for is the future path of global interest rates; on one hand lower rates might reignite the rally in growth sectors but on the other hand rates are only likely to head lower when economic growth begins to soften. Put another way, lower future interest rates could help to raise valuations in growth sectors (typically a large chunk of the global exposure index) but it could also indicate an economic slowdown which would lower earnings expectations.

Trailing Twelve Month Comparative Total Returns

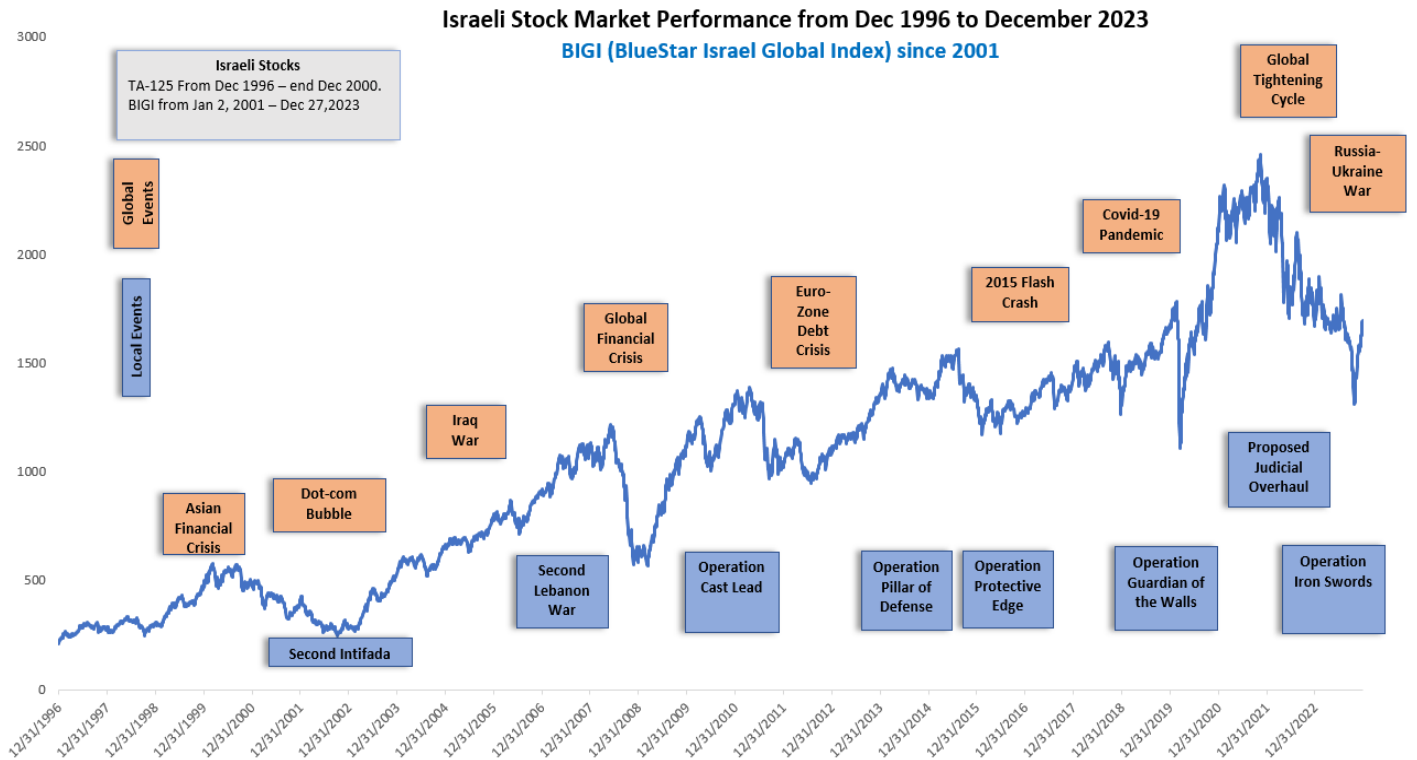


IEEI Relative Performance Since 2009



Sources: MarketVector, Refinitiv. Data as of March 31, 2024. All data in USD.

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,” the IDF’s military response to these threats, coincides with economic turbulence marked by rising fiscal deficits, an uncertain stock market, and increased bond yields. Despite these multi-pronged challenges, Israel’s history showcases its resilience and ability to adapt in the face of continuous security threats and economic fluctuations. The current 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 ‘Geopolitical Chart’ displayed above shows the performance of the Israeli equity market from 1996, overlaid with global economic and local geopolitical/political events. (It should be noted that this Geopolitical Chart is consistently the most frequently-requested BlueStar chart since its inception in 2012). Over the long-term Israeli equities are typically driven more by global economic events and trends than local geopolitical events. Notably, due to the severity of the shock of Hamas’ attack on October 7th, domestic factors briefly dominated Israeli stock market performance, though the recovery since end-October 2023 has been strong. Thus, based on past history and the most recent ‘stress test’ many investors view geopolitical events as causing temporary market dislocations in Israeli stocks, a phenomenon not experienced by many other country’s markets, and one which historically has presented significant opportunities to allocate to Israeli equities at attractive valuations.

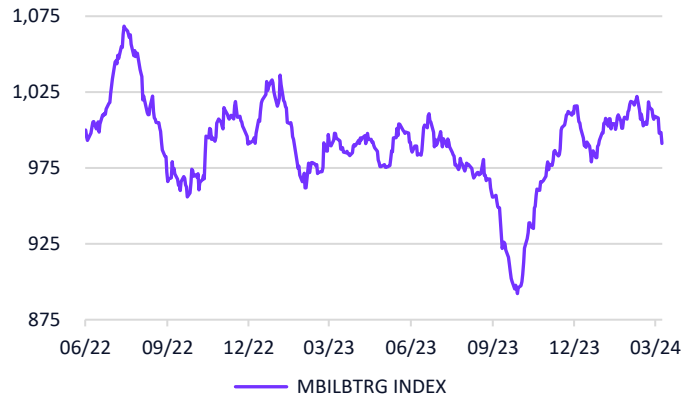
MCM-BlueStar® Israel Bonds Index

In August 2023 MarketVector launched the MCM-BlueStar® Israel Bonds Index (MBILB) 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.

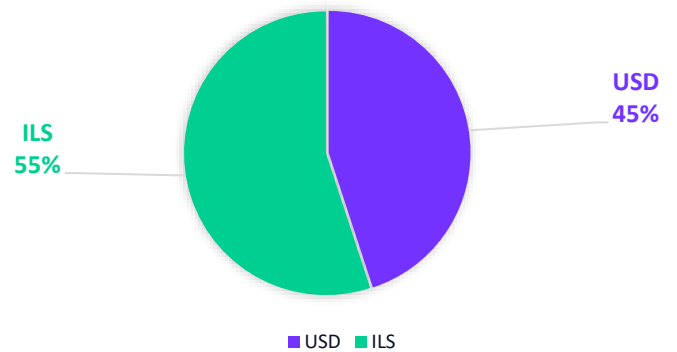
The Israeli bond market, as defined by MBILB, outperformed U.S. and Global bond markets in Q1 2024 by 0.66% and 1.43%, respectively. Israeli bonds also outperformed over the 12 months ending March 31, 2024 (reaching back prior to the events of October 7) by 3.68% and 1.48%, respectively.

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.

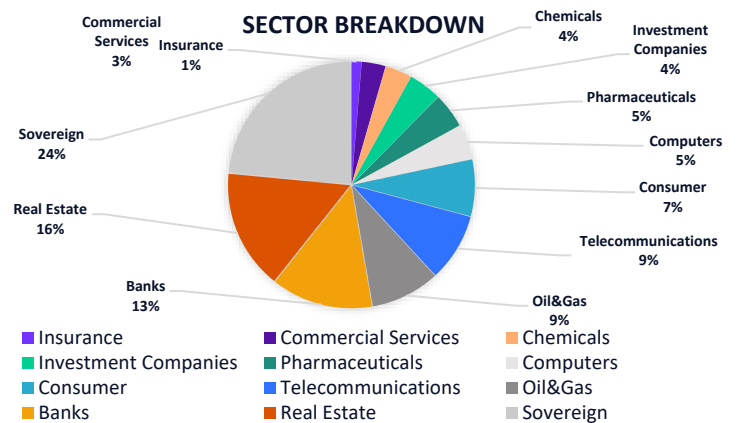
The MCM-BlueStar® Israel Bonds Index provides the basis for investment vehicles, but can also be used to track the performance of the Israeli fixed income market over time. Since the index's inception its average spread over U.S. Treasury and Israeli Government (ILS) bonds with a similar time to maturity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



CURRENCY BREAKDOWN



SECTOR BREAKDOWN



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