

ISRAEL MARKET REVIEW AND OUTLOOK Q3 2025



Israeli Equities Surge to Record Highs, Showcasing Market Resilience Despite Regional Conflicts

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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.

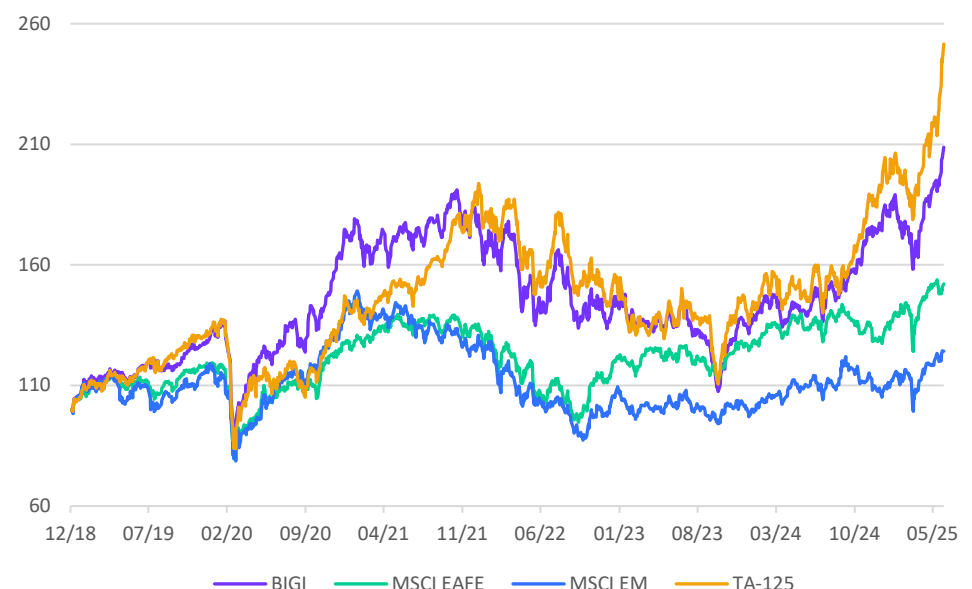
BlueStar Indexes® produced updates on the Israeli market since 2012. In this Israel Equity Review and Outlook we provide data and insight on Q4 2024's performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as data on our flagship Israeli equity indexes, BIGI® and BIGITech®. In general, we provide an outlook on key economic, geopolitical, and domestic political developments.

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 an 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 an NYSE-listed ETF. In addition, there are two Israel-domiciled investment vehicles tracking BIGITech® managed by KSM.

Highlights:

- Israeli stocks, as measured by the BlueStar® Israel Global Index (BIGI®), rose by 23.63% in Q2 2025, leading the index to all-time highs.
- Israeli Technology stocks rose strongly in Q2 2025, up 15.24% as measured by the BlueStar® Israel Global Technology Index (BIGITech®).
- Consumer-price growth has eased: the Bank of Israel projects headline inflation at 2.6 % for 2025, down from 3.2 % at end-2024. The Monetary Committee kept the policy rate unchanged at 4.5 % at its July 7, 2025 meeting, stressing that supply bottlenecks linked to the conflict still pose upside risks but hinting at possible cuts once pressures subside.
- The Bank of Israel Research Department now expects GDP to expand by 3.3 % in 2025 and to accelerate to 4.6 % in 2026, reflecting a gradual rebound in private consumption and investment after last year's slowdown.
- Despite offsetting measures, the 2025 deficit is now forecast at about 4.7 % of GDP, above the government's 4.4 % target, as higher defense spending and tax-related revenue shortfalls weigh on the budget. The Bank of Israel has urged lawmakers to pass the budget without additional spending increases and to adopt offsets that would stabilize the debt-to-GDP ratio.
- Investor confidence has improved: five-year CDS on Israeli sovereign debt fell to 76 bp, the lowest since before the October 2023 attacks, and government-bond yields have retraced accordingly, though both remain modestly above pre-war levels.



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Israel Equity Market Performance

Israeli equities, as measured by the BlueStar® Israel Global Index® (BIGI®), rose 23.63% in Q2 of 2025. This quarter's growth was in part driven by macroeconomic tail-winds and a renewed confidence in global trade. This is largely reflected in the outperformance evident in the Israel Domestic Exposure Index relative to the Israel Global Exposure Index. Israeli equities have impressively recovered off lows following the terrorist attacks on October 7, 2023, and the subsequent multi-front regional war which Israel has fought.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON	
Benchmark	2025 YTD (%)
BIGI®	19.86%
BIGITech®	15.24%
TA-125	34.31%
SPDR S&P 500 ETF Trust	6.20%
iShares Emerging Markets ETF	15.27%
iShares EAFE ETF	18.31%
Israel Domestic Exposure	49.27%
Israel Global Exposure	10.38%

Despite very strong equity price action, acute labor shortages persist, especially in construction, where 87% of contractors report unmet staffing needs and the shortfall still tops 28,000 workers despite expanded recruitment of foreign labor. The squeeze highlights the need for productivity-boosting reforms. The Bank of Israel points to the government ban on Palestinian workers as a reason for the slow down in the construction industry. Another contributor is the extensive mobilization of reservists, affecting the available labor input.

At the same time, Israel's housing demand remains stubbornly elevated, so the construction bottleneck is now colliding with a surge in home-price expectations and pushing building-material costs sharply higher. That inflationary spillover forces the Bank of Israel to keep policy tighter for longer just as growth outside the tech sector weakens, widening the policy dilemma. In response, the government has begun fast-tracking approvals for off-site modular fabrication and offering tax credits for contractors that adopt automated site-management systems

TOTAL RETURN BY SECTOR (BLSTR): Q2 2025		
Sector	Weight	Total Return
Communication Services	1.56%	8.20
Consumer Discretionary	2.10%	-2.01
Consumer Staples	1.68%	-1.29
Energy	1.81%	4.63
Financials	32.62%	1.47
Health Care	7.23%	-4.32
Industrials	6.98%	-3.44
Information Technology	37.59%	-2.58
Materials	1.53%	-0.33
Real Estate	4.02%	5.11
Utilities	2.88%	9.51

On a company level, SolarEdge was this quarter's top performer. Revenue rose to \$219.5 million (+12 % QoQ) with an 8.0 % GAAP gross margin, and SolarEdge generated \$19.8 million of free cash flow. The non-GAAP loss narrowed to \$1.14 per share, marking a second straight quarter of positive cash generation.

In contrast, Fiverr was this quarter's bottom performer. Revenue grew 14.6 % YoY to \$107.2 million, lifting adjusted EBITDA to \$19.4 million (18.1 % margin). Diluted non-GAAP EPS reached \$0.64, while free cash flow climbed to \$27.4 million. The company's decline may be attributable their report of a decline in active buyers (-10% YoY), analyst downgrades on weak revenue visibility, or simply doubts around elevated valuations.

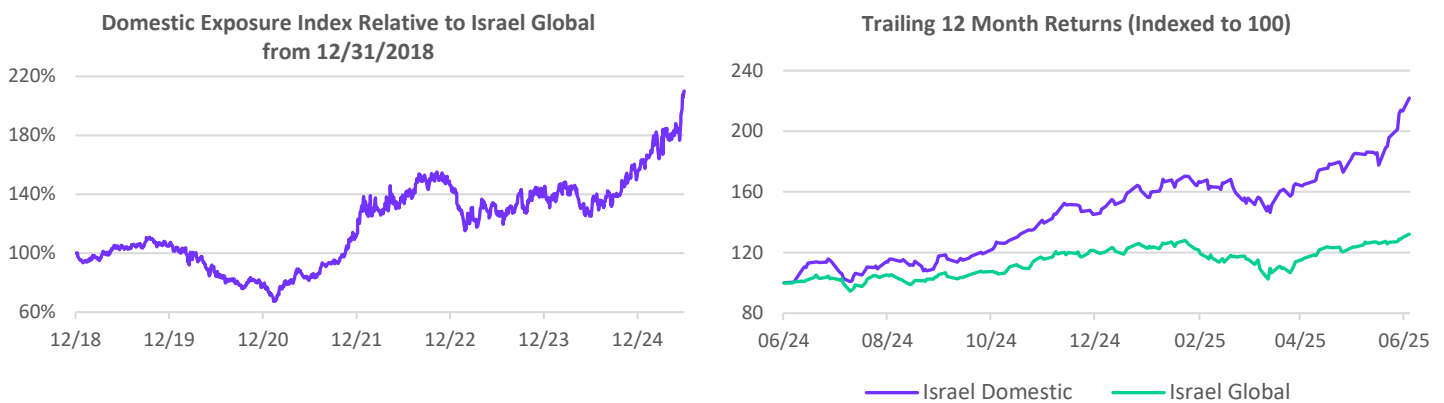
TOP AND BOTTOM TOTAL RETURN BY NAME (BLSNTR): Q2 2025			
Sector	Weight	Contribution	Total Return
SOLAREEDGE TECHNOLOGIE S INC	0.40%	0.10	30.49
ISRACARD LTD	0.37%	0.07	21.85
OPC ENERGY LTD	0.34%	0.05	17.49
CELLEBRITE DI LTD	0.67%	-0.07	-10.13
MOBILEYE GLOBAL	0.45%	-0.05	-10.73
FIVERR INT	0.28%	-0.04	-12.41

Economic Dispersion and the BlueStar® Israel Economic Exposure Indexes

The BlueStar® Israel Domestic Exposure Index significantly outperformed its Global Exposure counterpart. This is likely attributable to differences in sector exposure. Even amid intense political uncertainty, wartime disruptions, and a volatile shekel, domestically oriented companies have shown surprising resilience—underscoring the strength of Israel’s engine.

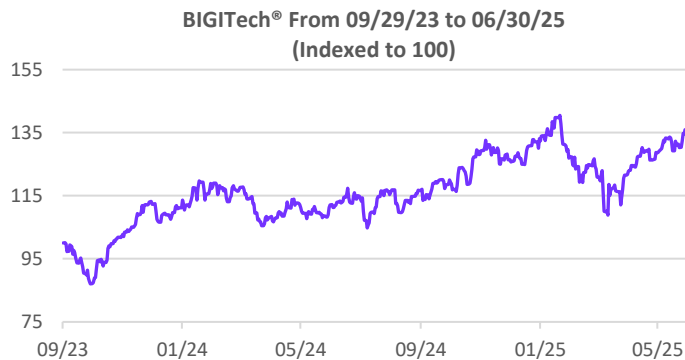
For context, the Israel Domestic Exposure Index in Q4 2023 suffered substantially worse declines than the Global Exposure Index following October 7’s attack by Hamas and Israel’s subsequent response. Financials, Real Estate, Communications Services—any sector primarily linked to Israel’s domestic economic 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 to the Global Index, ending the quarter roughly in-line.

Throughout 2024 we noted that the outlook for the relative performance of these two indexes would be muddled. 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.



BlueStar® Israel Global Technology Index

The BlueStar Israel Global Technology Index (BIGITech®) had a very strong second-quarter showing, climbing 15.24%—outpacing the S&P 500 by about 9%. Leadership came from large-cap cyber-security and defense names such as Elbit Systems, Check Point and CyberArk, while high-growth platforms Monday.com and Wix also rebounded as risk appetite returned.



Several positive developments converged to fuel BIGITech's rally. Israeli private tech rounds hit US \$9 billion in H1 2025, the strongest first-half tally in three years, signaling renewed VC confidence after 2024's funding trough. At the same time, heightened global defense spending channeled fresh demand toward Israeli defense-tech exports and dual-use cybersecurity solutions. In addition, global monetary conditions were also supportive: the ECB's April rate cut and expectations that the Fed will begin easing later this year helped reduce discount-rate pressure on long-duration tech cash-flows, even as headline U.S. inflation edged down toward the 2%–3% range. Additionally, AI-driven infrastructure CapEx spurred demand for the semiconductor and cloud-software companies which are heavily-represented in BIGITech®.

BIGITech® TOP HOLDINGS AS OF JUNE 30, 2025

Sector	Weight
ELBIT SYSTEMS LTD	7.58%
MONDAY.COM LTD	7.57%
CYBERARK SOFTWARE LTD	7.45%
CHECK POINT SOFTWARE TECHNOLOGIES LTD	7.2%
NICE ADR	6.65%
WIX.COM LTD	5.36%
AMDOCS LTD	5.29%
SENTINELONE INC	3.58%
NOVA LTD ORD	3.41%
VARONIS SYSTEMS INC	3.31%

Monday.com stood out as a top performer as its stock gained almost 30 %. The catalyst was a blow-out 1Q 25 result on May 12: revenue grew 30% YoY to \$282 million, GAAP operating income swung positive, free-cash-flow hit a record, and management pushed full-year sales guidance to \$1.22 billion–\$1.23 billion.

Elbit Systems continued its strong YTD performance during Q2, up roughly 17% for the quarter and up an impressive 65% 2025 YTD. ESLT's gains has been propelled by strong earnings and a growing order book for its battle-proven defense systems across the DefenceTech spectrum.

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