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ISRAEL EQUITY REVIEW AND OUTLOOK – Q4 2023

What's Inside

1. Highlights
2. Equity Market Performance
3. Economic and Political Update
4. Israeli Economic Exposure Indexes

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 2022'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 benchmarks 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®.

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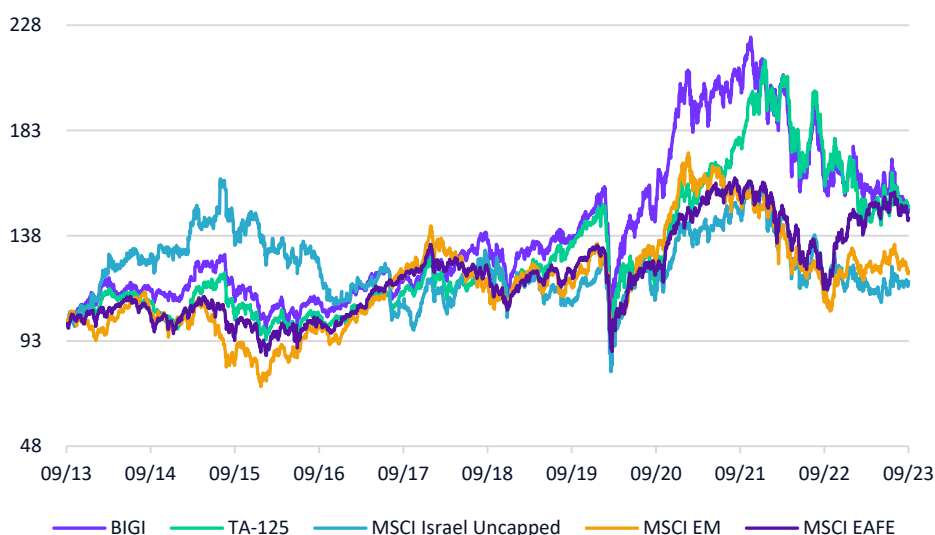
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ISRAELI EQUITIES CONTINUE UNDERPERFORMANCE AS THE FOCUS SHIFTS FROM JUDICIAL REFORM TO THE IMPACT OF RISING LONG-TERM RATES.

Highlights:

- Israeli stocks, as defined by the BlueStar® Israel Global Index (BIGI®), fell 4.61% in the third quarter of 2023, underperforming US and international developed market equities for the third straight quarter.
- Israeli technology stocks, as defined by the BlueStar® Israel Global Technology Index (BIGITech®), dropped 10.80% in Q3, widening their year-to-date underperformance against US and Global tech peers by more than 15%.
- The Bank of Israel left their policy interest rate in September unchanged at 4.75% which is now 0.65% higher than the rate of inflation.
- Economic activity in Israel remains resilient, though investors should keep an eye on a slowdown in the real estate market and private consumption as long-term interest rates continue to rise.
- As of publication – but after the Review and Outlook was written – Hamas terrorists launched a massive surprise attack on Israel from Gaza, joined by other Iranian-backed terror groups. Israel has declared war to defend its citizens, and the broader regional situation could escalate. We anticipate a major impact on Israel's economy, as well as on the Israeli Shekel and both the local stock market and Israeli companies listed abroad. Please do not hesitate to reach out to us for updates.



Sources: MarketVector, Bloomberg. Data as of September 30, 2023. All data is in USD.

Israel Equity Market Performance

Israeli equities, as defined by the BlueStar® Israel Global Index (BIGI®), fell 4.61% in Q3 in continuation of Q2's losses. BIGI® performed in-line with other international developed markets but underperformed the KSM TA-125 ETF (in USD) by 6.30%. The Israel Domestic Exposure Index continued an upward correction against the Israel Global Exposure Index in Q3 with outperformance of 10.77%.

BIGITech® had a significant decline of 10.80% in Q3, as 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 48.09% and 36.65%, respectively.

The largest sector in BIGI® is Information Technology. Unfortunately, many of Israel's largest technology stocks have not participated in 2023's global tech rally. The Information Technology component of BIGI® declined 14.40% in Q3. Further, some of Israel's largest companies have experienced significant declines. For example, one of the largest Israeli tech companies, SolarEdge, which targets the solar energy industry with specialized power converters, was down 51.86% in Q3.

On the other hand, the Financials sector, the second largest cohort of BIGI®, gained 8.93% in Q3. It is still unclear whether this gain is simply a correction from oversold levels following the fallout of Israel's judicial reforms.

On a macro level, interest rates continue to rise as we head into Q4, the likely culprit of recent negative market sentiment. As longer term interest rates climb it is likely that the global economy will finally begin to feel the lagged effects of tighter monetary policy going forward, even if central banks are nearing the end of monetary tightening. Unfortunately Israel is not immune to these global trends, although investors in Israeli stocks may find some shelter in those sectors and companies that are more focused on the domestic Israeli economy.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q3 2023 Return(%)	2023 YTD (%)
BIGI®	(4.61)	(5.55)
BIGITech®	(10.80)	(5.99)
iShares Israel ETF	5.13	2.14
KSM TA-125 ETF	1.69	(5.22)
SPDR S&P 500 ETF Trust	(3.27)	13.07
iShares Emerging Markets ETF	(2.93)	1.82
iShares EAFE ETF	(4.05)	7.59
Israel Domestic Exposure	2.82	(7.69)
Israel Global Exposure	(7.95)	(3.95)
Israel Infrastructure	(0.27)	(20.37)

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q3 2023 Return(%)	2023 YTD (%)
BIGITech®	(10.80)	(5.99)
iShares U.S. Technology ETF	(3.38)	42.10
iShares Global Tech ETF	(6.53)	30.66

SECTOR PERFORMANCE (%): Q3 2023	
Energy	17.59
Financials	8.93
Communication Services	4.18
Health Care	2.77
Materials	1.69
Not Classified	(0.81)
Consumer Discretionary	(1.87)
Real Estate	(4.20)
Consumer Staples	(6.44)
Industrials	(6.85)
Utilities	(10.16)
Information Technology	(14.40)

TOP AND BOTTOM BIGI® PERFORMERS: Q3 2023			
Positive Contributors (%)		Negative Contributors(%)	
CAMTEK LTD	74.74	NOVOCURE LTD	(61.08)
TEVA PHARMACEUTICAL-SP ADR	35.46	NANO-X IMAGING LTD	(57.65)
DELEK GROUP LTD	33.42	SOLAREDGE TECHNOLOGIES INC	(51.86)
PAYONEER GLOBAL INC	27.23	TREMOR INTERNATIONAL LTD-ADR	(50.97)
SHIKUN & BINUI LTD	26.19	KORNIT DIGITAL LTD	(35.61)
TABOOLA.COM LTD	21.86	TOWER SEMICONDUCTOR LTD	(33.56)
OIL REFINERIES LTD	21.64	LEMONADE INC	(31.04)
WIX.COM LTD	17.33	OPKO HEALTH INC	(26.27)
AIRPORT CITY LTD	17.20	CEVA INC	(24.11)
DANEL (ADIR YEOSHUA) LTD	16.11	STRATASYS LTD	(23.37)

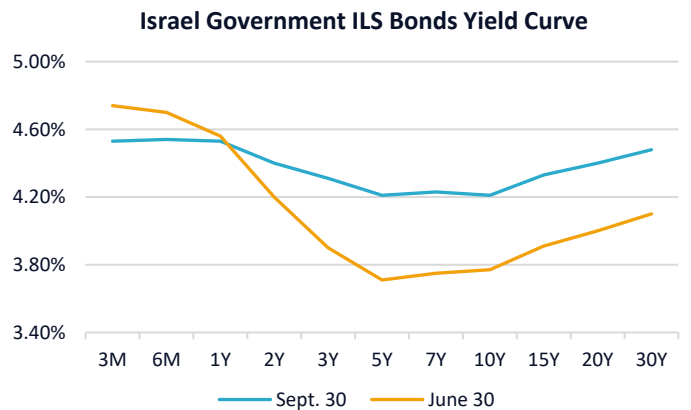
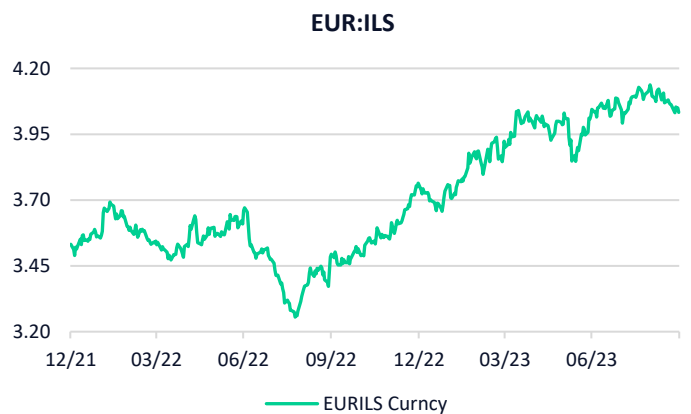
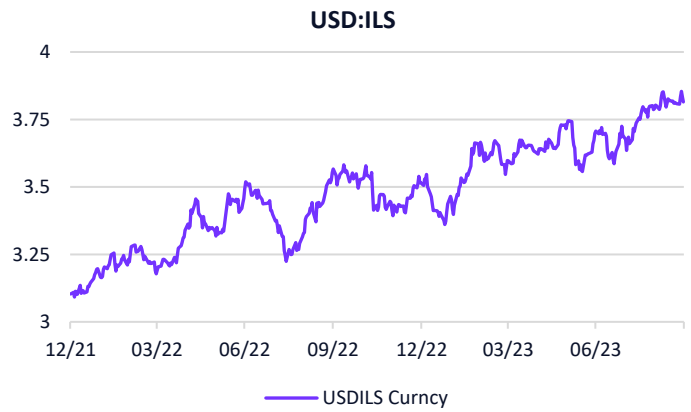
Israel Macroeconomic Update

Economic Highlights

In early September, the Bank of Israel's Monetary Committee kept their policy rate steady at 4.75%, which equates to a real yield of 0.65%, 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 year. However, similar to the situation in the US, the labor market is very tight and economic activity remains relatively strong; if inflation does not continue to moderate, interest rates will likely need to tighten.

Unfortunately, Israel must contend with another potential contributor to inflation, which is a weakening currency. The Shekel lost 2.9% to the US Dollar in Q3, although it remained flat against the Euro. On a year-to-date basis the Shekel is down 8.5% and 7.1% against the Dollar and Euro, respectively. A lot of the depreciation is related to the Judicial reforms that were passed this year, but some of it may also have to do with interest rate differentials are generally lower demand for ILS purchases (for example foreign purchases of Israeli residential real estate are slowing).

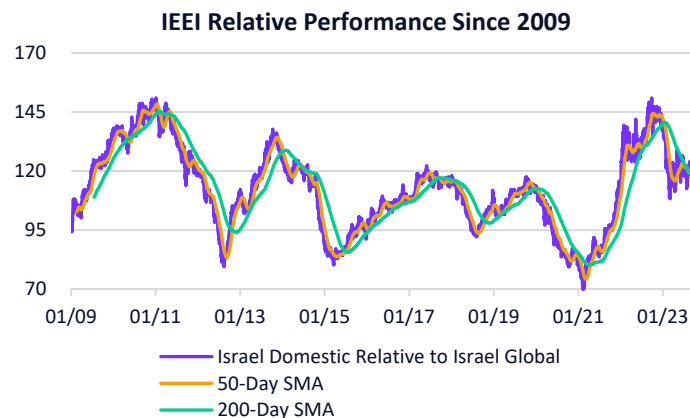
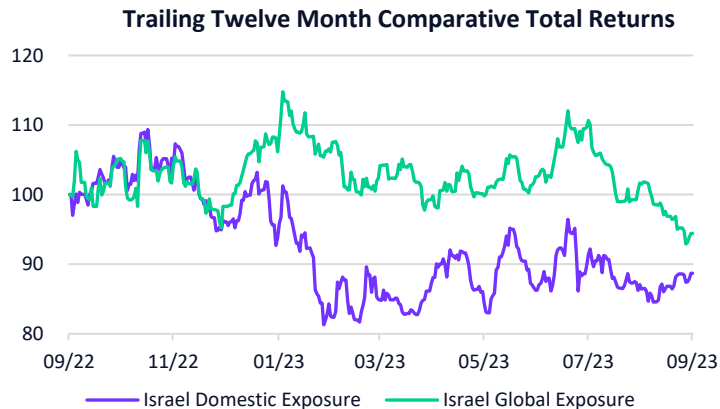
Israel's GDP grew 3% on an annualized basis in Q2 which is above the pre-Covid trend line. Non-residential construction activity remained strong while there was softening in private sector spending and net exports of goods and services. Home price growth is decelerating, and new mortgage demand continued to trend downward. Interestingly while new housing starts are declining, employment in the residential construction sector remains strong. It appears to us that the residential real estate market in Israel could become a focal point of the Israeli economy going forward. Israel's real estate market experienced a boom over the last decade or so as interest rates remained low, the Shekel was strong, and Israel's GDP growth was exceptionally strong relative to other developed markets. Rising interest rates and moderating economic growth could undo a lot of the value created in Israeli real estate over recent years.



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 an 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.



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. As we can see in the top chart to the left, the trailing twelve-month performance gap between the two indexes is closing. Further, as seen on the bottom chart to the left, the relative performance of domestic over global has broken back above both the 50 and 200-day moving averages, indicating that Israel domestic stocks can continue to outperform global, at least in the short term.

In the medium term, however, when considering some of the economic cross-currents at play, and the fact the domestic has outperformed global by such a wide margin since early 2021, we think it is likely that Israeli global stocks will continue to outperform. While this view can change based on incoming data, the domestic Israeli economy is still vulnerable to the ripple effect of the recently-passed judicial reforms and the Israeli real estate market may be entering into somewhat of a contraction. Further, rising interest rates will eat into Israelis’ discretionary budgets, as they will in much of the rest of the world. Each of these factors has the potential to weigh on domestically oriented companies in sectors such as financials and real estate as we look towards 2024.

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