

ISRAEL MARKET REVIEW AND OUTLOOK Q4 2024



Israeli Equities Rise Despite Escalating Tensions in the Middle East, as Proxy Conflict with Iranian Militias Intensify Into a Direct Confrontation. BIGI index outperforms US and International Developed Markets in Q3.

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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.

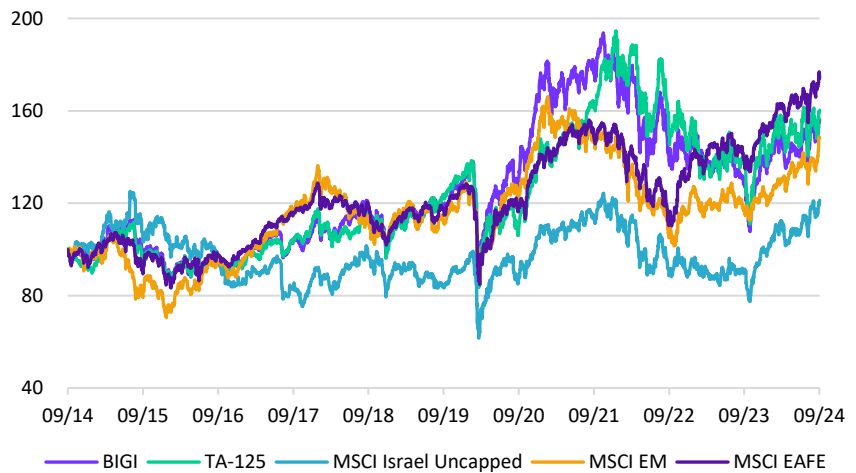
BlueStar Indexes® produced updates on the Israeli market since 2012. In this Israel Equity Review and Outlook we provide data and insight on Q3 2024's performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as data on our flagship Israeli equity indexes, BIGI® and BIGITech®. We also provide an outlook on key economic, geopolitical, and domestic political developments that could impact the markets for the rest of 2024 and the start of 2025.

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 defined by the BlueStar® Israel Global Index (BIGI®), rose 9.15% in Q3 2024, outperforming both US and international markets.
- Israeli technology stocks, as defined by the BlueStar® Israel Global Technology Index (BIGITech®), rose 4.39% in Q3.
- The Monetary Committee decided to leave rates unchanged at 4.5% during the October meeting, citing an increase in the inflation environment in view of supply limitations in the economy; the Consumer Price Index rose by 0.9% in August, bringing inflation over the past 12 months to 3.6%, exceeding the upper limit of the target range.
- Persistent geopolitical uncertainty has led to a downgrade in Israel's credit rating and a rise in its risk premium. While heightened tensions in the Middle East have had a limited impact on global financial markets thus far, oil and natural gas prices have seen an uptick.



- Despite rising tensions with Iranian-backed Hezbollah terrorists in Lebanon and directly with Iran, volatility in Israel's foreign exchange market has waned as the shekel has been stable around 3.7 USD/ILS.
- The BOI Research Department has updated its macroeconomic forecast, now assuming that the ongoing war, which has intensified along the northern front, will persist at high intensity into early 2025. The Research Department forecasts GDP to grow by 0.5 percent in 2024 and 3.8 percent in 2025. These growth rates are 1% and 0.4% points lower than the previous forecast, respectively.

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Israel Equity Market Performance

Israeli equities, as defined by the BlueStar® Israel Global Index® (BIGI®), rose 9.15% in Q3 of 2024, recovering part of last quarter's losses. BIGI® outperformed the SPDR S&P 500 ETF Trust (in USD) by about 3.3% and remains positive on the year. Additionally, the Israel Domestic Exposure Index had a very strong quarter, significantly outperforming the Israel Global Exposure index in Q3, attributable to differences in sector exposure profiles.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q3 2024 Return(%)	2024 YTD (%)
BIGI®	9.15	12.13
BIGITech®	4.39	4.24
iShares Israel ETF	12.52	21.52
KSM TA-125 ETF	9.87	8.27
SPDR S&P 500 ETF Trust	5.89	22.08
iShares Emerging Markets ETF	8.72	16.86
iShares EAFE ETF	7.33	13.50
Israel Domestic Exposure	17.92	18.38
Israel Global Exposure	6.33	15.33

BIGITech® underperformed the BIGI® by about 4.8%. However, the index outperformed US and Global tech peers by 3.3% and 3.6%, respectively. Despite the market's anticipation for rate cuts in 2024, the monetary committee's unexpected decision to maintain the key rate at 4.5% for the fourth consecutive meeting took Israeli-based technology stocks by surprise.

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q3 2024 Return(%)	2024 YTD (%)
BIGITech®	4.39	4.24
iShares U.S. Technology ETF	1.06	29.93
iShares Global Tech ETF	0.75	27.83

Consumer Staples emerged as a leading sector, while Consumer Discretionary was a relative laggard. The uptick Consumer Staples could be due to fewer Israelis traveling abroad amid security concerns, prompting more local spending on household goods. The Real Estate sector, which has been particularly volatile, finished the quarter up nearly 15%. The BOI noted that construction sector is recovering gradually, though housing prices are still steadily increasing. Energy has also risen quite a bit this quarter, likely due to uncertainty around global oil prices.

SECTOR PERFORMANCE (%): Q3 2024	
Consumer Staples	20.04
Financials	18.27
Industrials	17.84
Real Estate	14.84
Energy	11.11
Health Care	8.16
Utilities	7.08
Information Technology	5.67
Communication Services	2.50
Materials	(0.81)
Consumer Discretionary	(6.88)

All but two sectors in the BIGI® index finished Q3 in the green, with the exceptions being Materials and Consumer Discretionary. The BOI noted that outstanding business credit is growing, although at a slower pace than before the war.

TOP AND BOTTOM BIGI® PERFORMERS: Q3 2024			
Positive Contributors (%)		Negative Contributors (%)	
KORNIT DIGITAL LTD	76.47	MOBILEYE GLOBAL INC-A	(51.22)
PAYONEER GLOBAL INC	35.92	CAMTEK LTD	(36.24)
SHUFERSAL LTD	35.79	NEXT VISION STABILIZED SYSTE	(25.73)
TEL AVIV STOCK EXCHANGE LTD	32.10	JFROG LTD	(22.66)
SHIKUN & BINUI LTD	29.93	EVOKE PLC	(17.71)
PHOENIX FINANCIAL LTD	27.22	NANO-X IMAGING LTD	(17.17)
CEVA INC	25.19	NOVA LTD	(11.17)
MENORA MIVTACHIM HOLDINGS LT	24.98	SOLAREEDGE TECHNOLOGIES INC	(9.30)
HAREL INSURANCE INVESTMENTS	24.92	NOVOCURE LTD	(8.76)
PAZ OIL CO LTD	23.61	INMODE LTD	(7.07)

On an index component level, some of Israel's largest companies have continued to experience periods of significant declines. The once-hot autonomous driving spinoff, Mobileye, took a 51.22% tumble this quarter. In the company's latest earnings release, they cited reduced expectations for EyeQ and SuperVision shipments in the second half of the year. Additionally, their operating margins fell significantly from 31% in the prior year to 18%. The company also projected wider than expected operating losses for the rest of 2024.

On the brighter side, Kornit Digital not only raised and beat on revenue and EPS in their Q2 earnings release, but they announced new printing technology, improved gross margins, geographic expansions in India and Brazil, and new contracts with global apparel brands. The company finished the quarter up 76.47% to about \$25 a share, but still trades significantly below its highs in 2021.

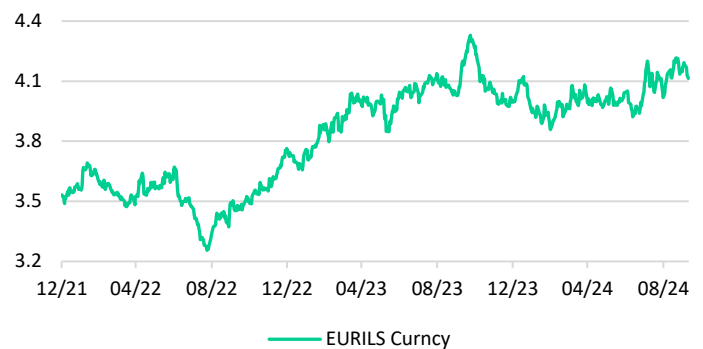
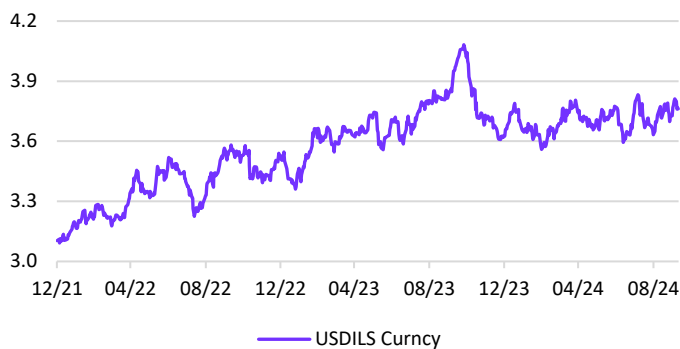
Israel Macroeconomic Update

Economic Highlights

In February, March, May, and October of 2024, the Bank of Israel's Monetary Committee left its policy rate unchanged at 4.50%. Inflation pressures are still lingering at 3.6% in October after moderating to around 2.5% in February 2024 from highs of 5.4% experienced in December 2022. In the October meeting, the BOI noted that economic activity and the labor market continue to gradually recover but remain tight, and that the country's continued geopolitical uncertainty is reflected in the economy's high-risk premium.

The government budget deficit forecast for 2024 has been raised to 7.2% of GDP due to increased war expenditures and the postponement of special aid from the US to future years. The 2025 deficit projection assumes the government will implement permanent measures to reduce the deficit by at least NIS 30 billion. Under this assumption, the 2025 deficit is expected to be 4.9% of GDP. The debt-to-GDP ratio is projected to reach 68% by the end of 2024, rising to 69% in 2025.

The BOI reported in Oct. that the Composite State of the Economy Index rose by 0.23% in August, marking the highest increase since February, though it remains below the average growth rate seen in previous months. Supply constraints continue to hinder economic activity from returning to its prewar trend. Since the last monetary policy decision, the nominal volume of credit card purchases has increased, but in real terms, they declined in August.



Since the last interest rate decision in May, the shekel has depreciated by 2.8% against the US dollar, 1.5% against the euro, and 2.3 percent in terms of the nominal effective exchange rate. The exchange rate has experienced significant volatility due to various developments in the war and the broader geopolitical environment.

Economic Dispersion and the BlueStar® Israel Economic Exposure Indexes

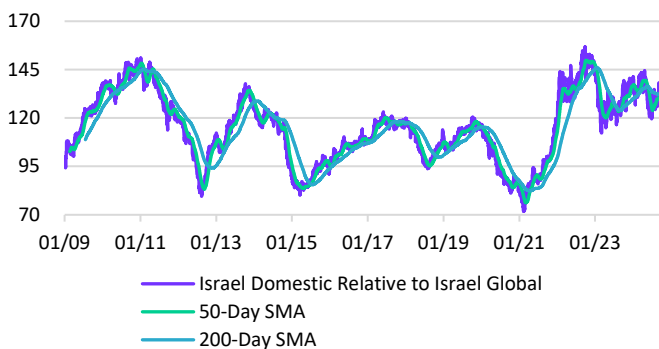
Despite dovish monetary policy abroad, the BlueStar® Israel Domestic Exposure significantly outperformed its Global Exposure counterpart. This is likely attributable to differences in sector exposure, for instance some of the top performing sectors in the BIGI® were Financials, Industrials, and Real Estate, which tend to be domestic oriented companies. That said, the two indexes’ trailing twelve-month comparative total returns are nearly at the same level.

Zooming out to the relevant performance since 2009 reveals that the Israel Domestic Index has outperformed the Global counterpart by about 30%. It is interesting to note the cyclicity and scale of periods of out and underperformance. Despite all the idiosyncratic pressures related to politics, war, and foreign exchange markets, it is impressive to see domestic companies outperform.

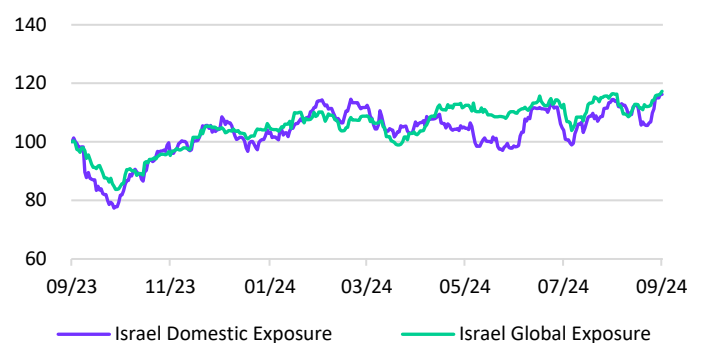
For context, the BlueStar® Israel Global Exposure Index outperformed by more than 19% from the end of Q3 2022 through Q2 2023, following a period of substantial underperformance in the wake of the Covid-19 pandemic. In our Q3 2023 update we noted that “as we enter the third quarter, the relative performance outlook is muddled since domestic stocks appear poised for a more substantial relief rally.” In Q4 2023, 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 to the Global Index, ending the quarter roughly in-line.

In our Q1 2024 Review and Outlook we also noted that the outlook for the relative performance of these two indexes continues to 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.

IEEI Relative Performance Since 2009



Trailing Twelve Month Comparative Total Returns



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