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ISRAEL EQUITY REVIEW AND OUTLOOK – Q1 2023

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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 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 benchmark for Israeli equities trading worldwide in Tel Aviv, New York, London, Singapore and Australia. BIGI® is tracked by a NYSE-listed ETF, as well as an Israel-domiciled index fund tracking BIGI®

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.

MarketVector also maintains five additional Israel Equity Indexes under the BlueStar brand (BIGI®-TIM, IGEL, IDEI, BIGI®-SD and BIGI®-SV), one Israel Government Bond Index (BIGUSD), approximately 70 Regional and Global Thematic/Tech Equity indexes, and the BlueStar-TzurGilboa Israel Equity Hedge Fund Index.

JOSHUA KAPLAN, CFA*

Global Head of Research
(646) 380-2503

jkaplan@marketvector.com

STEVEN SCHOENFELD*

Chief Executive Officer
(646) 380-2501

sschoenfeld@marketvector.com

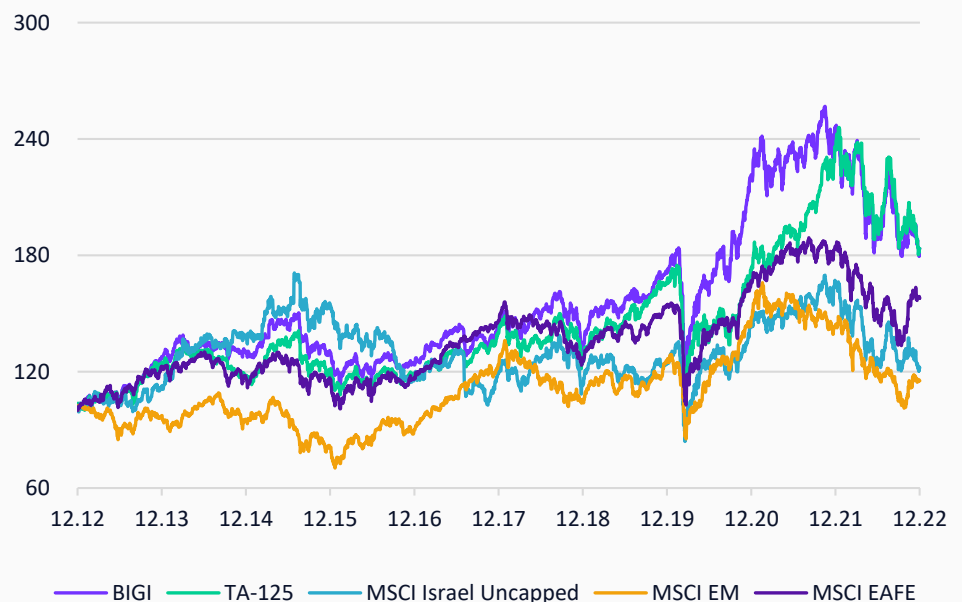
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ISRAELI EQUITIES STABILIZE IN Q4, UNDERPERFORM IN 2022; ISRAEL TECH IN SPOTLIGHT AS MOBILEYE RE-ENTERS THE MARKET; ISRAELI ECONOMY BEGINS 2023 ON A STRONGER MACROECONOMIC NOTE

Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), declined 0.09% in the fourth quarter of 2022, significantly underperforming developed international equities by 17.31%, as measured by MSCI EAFE.
- Israeli technology stocks, as defined by the BlueStar Israel Global Technology Index™ (BIGITech®), gained 0.34% in Q4. Over the course of the full year 2022, the BIGITech® outperformed the Dow Jones US Technology Index and the MSCI EM Tech Index by 4.07% and 2.94%, respectively, but slightly underperformed the S&P Global 1200 Information Technology Index by 0.72%.
- Israel's macroeconomic environment ended the year on a strong note, boasting lower inflation, higher growth, and a notable fiscal surplus, outpacing other developed nations.
- Domestically-oriented Israeli stocks outperformed their globally-oriented peers in Q4, ending the year with solid outperformance. This success can be attributed to the stability provided by the local economy and monetary policy, in contrast to globally-oriented stocks that were heavily impacted by price corrections in sectors such as technology due to global growth concerns and foreign monetary policy.
- MarketVector Indexes™ ("MarketVector") announced the results of its Q4 2022 index review of Israeli equity indexes in December. Mobileye was the most notable addition to both the BIGI® and BIGITech® indexes, while significant declines in the market cap of some of Israel's smallest companies resulted in a greater number of deletions from the index than usual.

BLUESTAR ISRAEL GLOBAL INDEX®
TEN-YEAR RELATIVE PERFORMANCE ENDING DEC. 31 2022



Israel Equity Market Performance

Israeli equities, as defined by the BlueStar Israel Global Index® (BIGI®), were down 0.09% in Q4 2022, bringing full year losses to 25.19%. In Q4, BIGI® underperformed international developed markets, represented by the MSCI EAFE index, by 17.31%, and outperformed the local TA-125 by 2.64%. The Israel Domestic Exposure Index underperformed the Israel Global Exposure Index by 2.22%.

BIGITech® gained 0.34% in Q4 2022 while emerging market technology equities, as defined by MSCI EM Tech, gained 12.00%. For the full year 2022 the BlueStar® Israel Global Technology Index outperformed the Dow Jones US Technology Index and the MSCI EM Tech Index by 4.07% and 2.94%, respectively, while underperforming the S&P Global 1200 Information Technology Index by 2.94%.

In stark contrast to the first three quarters of the year, Israeli communications services, health care, and information technology stocks buoyed the Israeli equity markets with gains of 9.08%, 6.33%, and 2.40%, respectively. The worst performing sectors in Q4, which were some of the best performers earlier in the year, were consumer discretionary, industrials, and materials which lost 14.21%, 13.53%, and 8.49%, respectively.

Despite the role-reversal of Israeli sectors in Q4, it is still our view that value-oriented sectors with more stable cash flows and dividends will continue to be market leaders in 2023, while high P:E ratio stocks and sectors will most likely lag. This view is predicated on a “higher for longer” interest rate scenario, where stocks, for the first time in a long time, need to contend with the relative safety and present cash flows offered by fixed income instruments. With that said, any sign of a slow down in the pace of interest rate increases or lower-than-expected terminal rates, especially in the US, could lead to a strong relief rally in these high P:E multiple sectors.

The three best performing Israeli stocks of 2022 belonged, unsurprisingly, to the energy sector. Energean, Oil Refineries, and Delek Group gained 41.23%, 33.82%, and 33.79%, respectively. While many Israeli energy companies are exploring and producing natural gas for domestic consumption, they are also producing natural gas or refining oil for global markets hence their participation in the global energy sector’s 2022 rally. Interestingly, as touched upon in the macro update section, energy prices were one of the smallest contributors to the rise in Israel’s Consumer Price Index (CPI) I in 2022.

On the opposite end of the spectrum, Israeli technology stocks, mostly involved in software or e-commerce, dominated the top-ten worst performing Israeli stocks in 2022, including Kornit Digital, Cognyte Software, Fiverr, 888 Holdings, Liveperson, and Lemonade. Kornit Digital, which is an industrial printing stock that serves the apparel industry, lost a little less than 85% of its value in 2022. The company had been trading at a P:E ratio of more than 300 at the start of the year. 2022 saw the company’s earning drop back into negative territory and unfortunately this was the ultimate bad set-up for any stock in 2022. Similarly, Cognyte software, which also decline by just under 85% in 2022 entered the year with a relatively high P:E ratio of roughly 50 as earnings dipped into negative territory throughout the last twelve months.

As highlighted above, price multiple corrections were the primary manifestation of globally rising interest rates throughout 2022, hitting the information technology sector particularly hard. As interest rates stabilize in 2023, the main determinant of whether these stocks can also stabilize will be the trajectory of earnings, rather than further price multiple corrections. Our view is that earnings in the tech sector will continue to come under pressure as the impact of higher interest rates on the economy come with a lag. While much of the price multiple corrections may have already occurred, if earnings continue to decline in 2023, stock prices will also continue to decline.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q4 2022 Return(%)	FY 2022 (%)
BIGI®	(0.09)	(25.19)
BIGITech®	0.34	(30.46)
MSCI Israel Uncapped	0.57	(26.25)
TA-125 INDEX	(2.73)	(22.04)
S&P 500	7.56	(18.11)
MSCI EM	9.70	(20.09)
MSCI EAFE	17.40	(14.01)
Israel Domestic Exposure	(3.92)	(22.88)
Israel Global Exposure	(1.70)	(40.41)
Israel Infrastructure	(6.43)	(19.61)

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q4 2022 Return(%)	FY 2022 (%)
BIGITech®	0.34	(30.46)
Dow Jones US Tech	1.24	(34.53)
S&P Global 1200 Info Tech	6.41	(29.74)
MSCI EM Tech	12.00	(33.40)

SECTOR PERFORMANCE (%): Q4 2022	
Communication Services	9.08
Health Care	6.33
Information Technology	2.40
Consumer Staples	1.21
Financials	0.42
Utilities	(3.87)
Real Estate	(4.35)
Energy	(4.75)
Materials	(8.49)
Industrials	(13.53)
Consumer Discretionary	(14.21)

TOP AND BOTTOM BIGI® PERFORMERS: FY 2022			
Positive Contributors (%)		Negative Contributors (%)	
Energean Plc	41.23	Kornit Digital Ltd	(84.91)
Oil Refineries Ltd	33.82	Cognyte Software Ltd	(84.68)
Delek Group Ltd	33.79	Fiverr International Ltd	(74.37)
Plus500 Ltd	25.15	888 Holdings Plc	(74.35)
Amdocs Ltd	23.76	Liveperson Inc	(71.61)
Leonardo Drs Inc	16.29	Lemonade Inc	(67.51)
Teva Pharmaceutical-sp Adr	13.86	Global-e Online Ltd	(67.44)
Tel Aviv Stock Exchange Ltd	11.78	Israel Canada T.R Ltd	(66.12)
Ormat Technologies Inc	9.67	Ironsource Ltd-a	(64.60)
Tower Semiconductor Ltd	9.54	Batm Advanced	(63.92)

TOP AND BOTTOM BIGI® PERFORMERS: Q4 2022			
Positive Contributors (%)		Negative Contributors (%)	
Taboola.Com Ltd	70.17	Sentinelone Inc -Class A	(42.92)
Perion Network Ltd	31.16	Cognyte Software Ltd	(40.59)
Inmode Ltd	22.64	Nano-x Imaging Ltd	(35.66)
Solaredge Technologies Inc	22.38	Lemonade Inc	(35.41)
Plus500 Ltd	17.99	Israel Canada T.R Ltd	(34.60)
Leonardo Drs Inc	16.29	Opko Health Inc	(33.86)
Amdocs Ltd	14.91	Shikun & Binui Ltd	(30.87)
Tel Aviv Stock Exchange Ltd	14.76	Delek Group Ltd	(30.28)
Paz Oil Co Ltd	13.13	Tadiran Group Ltd	(29.07)
Teva Pharmaceutical-sp Adr	13.01	Danel (Adir Yeoshua) Ltd	(24.75)

December 2022 BIGI®, BIGITech® IDEI and IGEI Index Reviews

The Q4 2022 semi-annual index review changes became effective at the open on Friday December 16. The overarching stories for the December review were the fast-track entry of Mobileye into the BIGI®, BIGITech®, and Israel Global Exposure indexes, as well as declining market capitalizations, causing a greater number of deletions than usual. BIGI® now has 101 components, and BIGITech® now has 60 constituents.

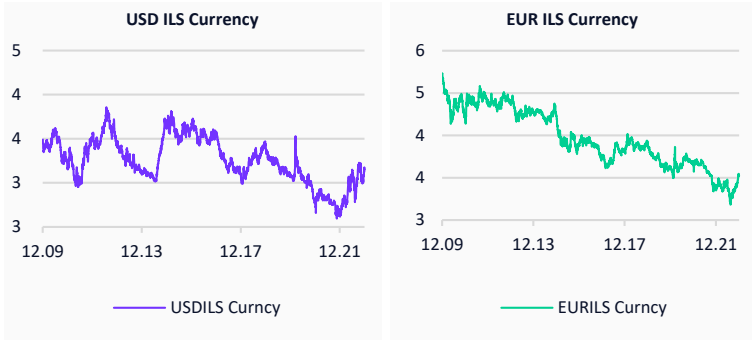
BIGI®			
Action	Company	Additional Data	
Addition	MOBILEYE GLOBAL INC COMMON CLASS A	New Number of Comps:	101
Addition	FIBI HOLDINGS	Net Change in Number of Comps:	-7
Deletion	AFI PROPERTIES LTD	Aggregate Market Capitalization (USD mm):	315,983
Deletion	ALTSHULER SHAHAM FINANCIAL SERVICES LTD	USD Weight:	60.26%
Deletion	COGNYTE SOFTWARE LTD	ILS Weight:	37.69%
Deletion	YH DIMRI CONSTRUCT & DEVELOP	GBP Weight:	2.05%
Deletion	ELECTRA CONSUMER PRODUCTS 1970 LTD		
Deletion	G CITY LTD		
Deletion	IDI INSURANCE		
Deletion	ISRAS INVESTMENT COMPANY LTD		
Deletion	ITURAN LOCATION AND CONTROL		

BIGITECH®			
Action	Company	Additional Data	
Addition	MOBILEYE GLOBAL INC COMMON CLASS A	New Number of Comps:	60
Addition	PAGAYA TECHNOLOGIES LTD CL A SHS	Net Change in Number of Comps:	-5
Deletion	ARBE ROBOTICS LTD	Aggregate Market Capitalization (USD mm):	158,018
Deletion	COMPUGEN LTD	USD Weight:	91.46%
Deletion	COGNYTE SOFTWARE LTD	ILS Weight:	5.89%
Deletion	ITURAN LOCATION AND CONTROL	GBP Weight:	2.65%
Deletion	KAMADA LTD		
Deletion	REE AUTOMOTIVE LTD - CLASS A		
Deletion	SIMILARWEB LTD		

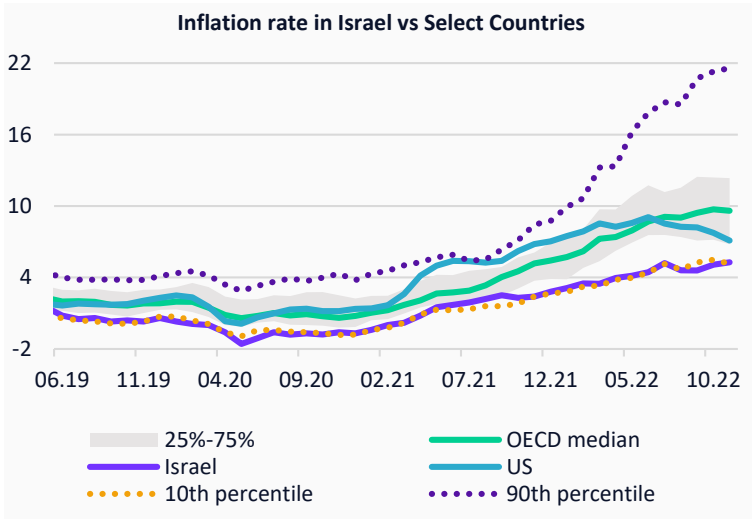
Israel Domestic Exposure Index			
Action	Company	Additional Data	
Deletion	ATREYU CAPITAL MARKETS LTD.	New Number of Comps:	74
Deletion	AUGWIND ENERGY TECH STORAGE	Net Change in Number of Comps:	-8
Deletion	YD MORE INVESTMENTS LTD	Aggregate Market Capitalization (USD mm):	144,148
Deletion	MEITAV INVESTMENTS HOUSE LTD	ILS Weight:	98.26%
Deletion	NAWI BROTHERS GROUP LTD	USD Weight:	1.74%
Deletion	SPLITIT PAYMENTS LTD		
Deletion	TERA LIGHT LTD		
Deletion	VICTORY SUPERMARKET CHAIN LTD		

Israel Global Exposure Index			
Action	Company	Additional Data	
Addition	MOBILEYE GLOBAL INC COMMON CLASS A	New Number of Comps:	70
Deletion	ARAD LTD	Net Change in Number of Comps:	-1
Deletion	XLMEDIA PLC	Aggregate Market Capitalization (USD mm):	186,536
		USD Weight:	84.91%
		ILS Weight:	10.55%
		GBP Weight:	3.87%
		HKD Weight:	0.68%

Israel Macroeconomic Update

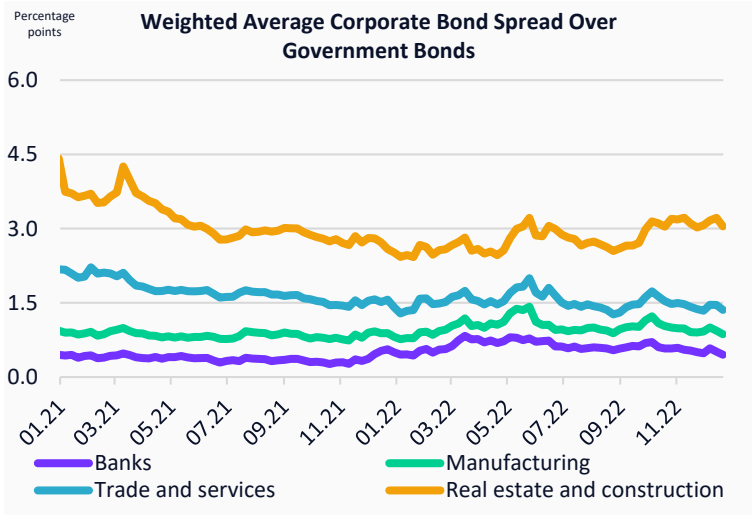


In January, the Bank of Israel's Monetary Committee raised their policy interest rate by 0.50% to 3.75%, in response to inflationary trends and the tight labor market. The current interest rate in Israel is notably lower than the Fed Funds rate and higher than the ECB deposit facility rate. Throughout the course of 2022, the Shekel experienced a sharp depreciation against the USD, breaking a nearly four-year trend of appreciation. It wasn't until the middle of the year that the Shekel began to depreciate against the Euro.

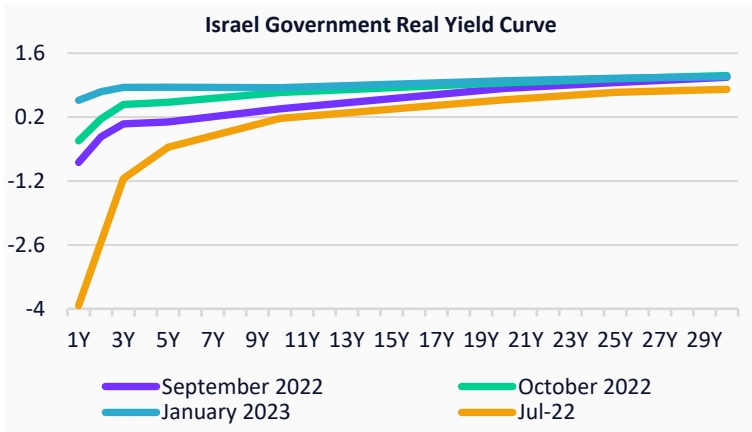


Our analysis suggests that these trends are primarily driven by current and expected interest differentials as inflation in Europe and the US is running at a higher rate than in Israel. As soon as interest rate spreads stabilize, or even reverse, we anticipate that the Shekel will continue its trend of appreciation, owing to the relative attractiveness of the Israeli economy and the impressive stability of the government's fiscal policy.

The current globally rising rate regime was brought on by high levels of inflation caused by both supply and demand shocks to the global economy. Being an island economy, Israel is generally less impacted by global macro events than other developed market peers. It is not so surprising that the inflation rate in Israel ranks at just the 10th percentile among OECD nations. Housing prices in Israel have continued to rise at a rapid pace although mortgage demand seems to be tapering off while new home starts continue to rise. The Bank of Israel is projecting that inflation will fall to within the target range by the end of 2023 and that its policy interest rate will end the year around 4%. This level of transparency is welcomed compared to the ambiguity around the future path of interest rates offered by the US Fed.



On balance, Israel's economy seems to be on solid footing despite the turmoil in equity markets. While GDP growth slowed in 2022 the Bank of Israel projects that Israel's GDP will grow 2.8% in 2023 and 2.5% in 2024 compared to 0.1% and 1.4% for the global economy.



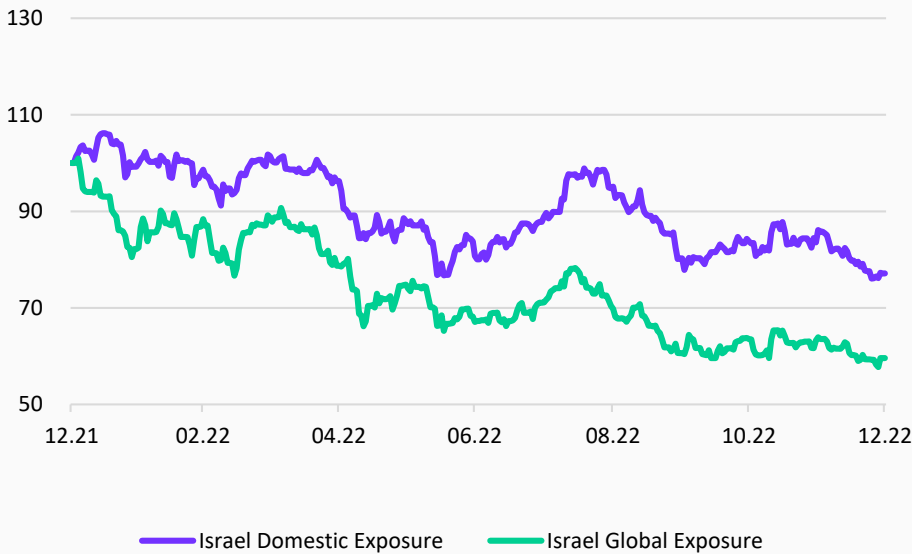
The slower growth projection is likely due to the impact of higher interest rates on investment in capital projects and on consumer budgets, as well as slower global growth leading to a lower level of Israeli exports. Furthermore, a depreciated shekel will make Israeli imports more expensive which further impacts consumers and gross margins of many businesses in Israel. However, it appears unlikely that Israel will experience any type of economic crisis or recession in 2023 as corporate bonds spreads remain essentially unchanged from the end of 2021 and there are no points of inversion on Israel's real yield curve, which would be an indicator of a future recession.

Israel Economic Exposure Indexes

With such a dichotomy between global and local monetary policy and economic developments, there is 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 late 2020 we provided evidence to suggest that domestically-oriented Israeli stocks could begin to recover against their globally-oriented peers following a period of deep underperformance during the corona virus bear market. 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%.

Trailing Twelve Month Comparative Total Returns



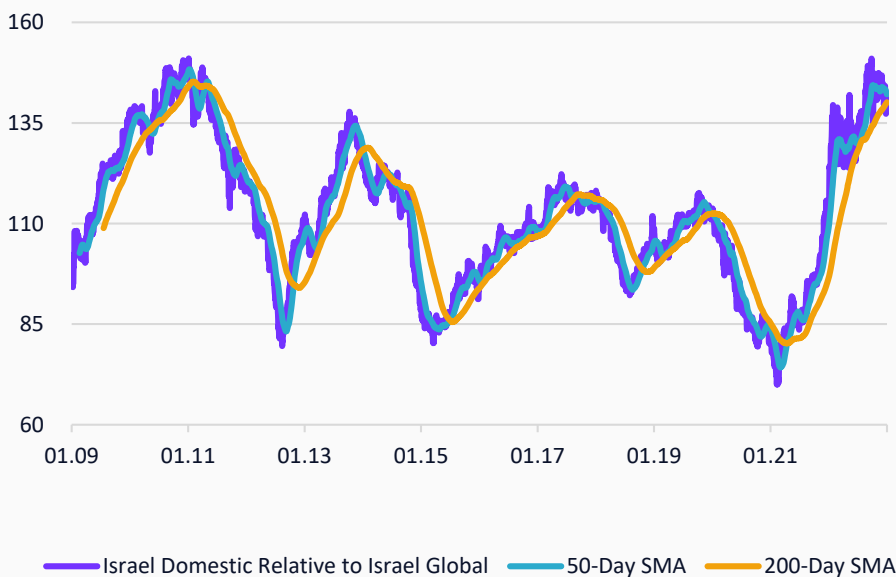
Last quarter we noted that the “IEEI Relative Performance Since 2009” chart suggested a high probability of a relief rally for the Israel Global Exposure Index in the near future. The Global Exposure Index outperformed by 2.22% in Q4 2022 and the outperformance has continued in 2023 as of January 9. While the macro backdrop for Israeli stocks continues to favor domestically-oriented companies, it is our view that this relief rally in globally-oriented stocks could continue a bit longer for a couple of reasons.

First, from a technical perspective domestically-oriented stocks continue to look overbought, and the relative performance of the Israel Domestic Index over the Israel Global index has dropped below both the 50 and 200 day moving averages indicating a reversal in trend.

Second, domestically-oriented Israeli stocks are impacted more by the local Israeli economy and monetary policy while globally-oriented stocks are impacted more by global economic and industry trends and foreign monetary policy. Data on Israeli economic activity has been relatively strong in 2022 compared to its developed market peers while inflation has been relatively low and monetary policy makers have been quite transparent about the path of interest rates. On the other hand global inflation has run hotter than in Israel while the future path of interest rates around the world is less certain.

In our view, those factors have been factored into equity prices and, therefore, any economic data that could suggest that foreign monetary policy makers might pause or slow interest rate hikes would disproportionately favor globally-oriented Israeli stocks and propel this relief rally further even in the context of a prolonged bull market in the relative performance of Israeli domestic stocks.

IEEI Relative Performance Since 2009



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