

# ISRAEL MARKET REVIEW AND OUTLOOK Q1 2025



## Israeli Equities Finish 2024 With a Boom, Outperforming both US and International Developed Markets in Q4 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.

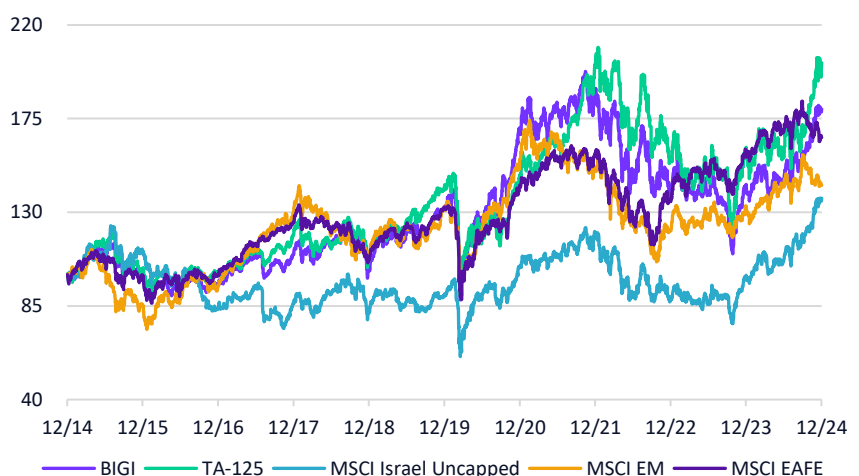
BlueStar Indexes® produced updates on the Israeli market since 2012. In this Israel Equity Review and Outlook we provide data and insight on Q4 2024's performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as data on our flagship 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 defined by the BlueStar® Israel Global Index (BIGI®), rose 12.57% in Q4 2024, finishing the year up over 26%, outperforming US large-cap stocks by just over 1%, and significantly outpacing other developed markets by nearly 22%.
- Israeli technology stocks, as defined by the BlueStar® Israel Global Technology Index (BIGITech®), also gained 7.49% in Q4 2024.
- The BoI Monetary Committee decided to leave rates unchanged at 4.5% during both the November and January meetings. The Committee cited elevated, though stable levels of inflation at 3.4%, above its upper range.
- The Bank of Israel Research Department forecasts that GDP is expected to grow by .6% in 2024 and 4% in 2025, which was revised upward from its October forecast. The Department expects GDP to grow by 4.5% in 2026.
- The government budget deficit is projected to reach 7% of GDP in 2024, driven by a positive surprise in tax revenues and moderated expenditures. For 2025, while the official deficit target is 4.4% of GDP, it is likely to rise to 4.7% due to adjustments in fiscal measures and increased defense spending recommended by the Nagel Committee.
- Diplomatic and media sources cite that Israel and Hamas are closing in on a hostage and ceasefire deal that could dramatically stabilize the situation in Gaza. The proposed deal has not yet been finalized at the time of writing.



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# Israel Equity Market Performance

Israeli equities, as defined by the BlueStar® Israel Global Index® (BIGI®), rose 12.57% in Q4 of 2024, staging a strong recovery. BIGI® outperformed the SPDR S&P 500 ETF Trust (in USD) by over 10% and finished positive on the year. Additionally, the BlueStar® Israel Domestic Exposure Index had another very strong quarter, significantly outperforming the BlueStar® Israel Global Exposure Index in Q4, attributable to sector exposure profiles.

## ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON

Benchmark	Q4 2024 Return(%)	2024 YTD (%)
BIGI®	12.57	26.22
BIGITech®	7.49	12.06
iShares Israel ETF	14.25	38.83
KSM TA-125 ETF	17.21	26.90
SPDR S&P 500 ETF Trust	2.41	25.02
iShares Emerging Markets ETF	(8.01)	7.50
iShares EAFE ETF	(8.06)	4.35
Israel Domestic Exposure	25.39	48.43
Israel Global Exposure	12.19	29.38

BIGITech® underperformed BIGI® by about 5%. However, the index *outperformed* US and Global tech peers by 1% and 3.8%, respectively. The Bol Monetary Committee's decision to maintain the key rate at 4.5% for the fifth consecutive meeting may have weighed on Israeli-based technology stocks.

## ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON

Benchmark	Q4 2024 Return(%)	2024 YTD (%)
BIGITech®	7.49	12.06
iShares U.S. Technology ETF	6.43	38.29
iShares Global Tech ETF	3.67	32.52

Consumer Discretionary was up 36.61% this quarter, after being a relative laggard last quarter. The uptick could be attributable to healthy economic sentiment and decreased saving rates. The Real Estate sector, which has been particularly volatile, finished the quarter up about 17.5%. The BOI noted that business credit continued to expand, mainly in the Construction and Real Estate industry. Every sector finished in the green, except for Utilities.

## SECTOR PERFORMANCE (%): Q4 2024

Consumer Discretionary	36.61
Health Care	23.36
Financials	21.95
Industrials	20.07
Real Estate	17.52
Consumer Staples	16.81
Materials	15.58
Communication Services	12.94
Energy	11.80
Information Technology	1.55
Utilities	(4.62)

Indicators of economic activity showed signs of recovery. In November and December of 2024, there was an increase in credit card expenditures. Capital raised in the high-tech industry was similar to 2019 and prewar levels.

## TOP AND BOTTOM BIGI® PERFORMERS: Q4 2024

Positive Contributors (%)		Negative Contributors(%)	
Lemonade Inc	122.44	Solaredge Technologies Inc	(40.64)
Novocure Ltd	90.66	Sapiens International Corp	(27.90)
Next Vision Stabilized Syste	55.77	Monday.Com Ltd	(15.24)
Shikun & Binui Ltd	51.03	Evoke Plc	(13.40)
Mobileye Global Inc-a	45.40	Ormat Technologies Inc	(11.89)
Harel Insurance Investments	43.87	Playtika Holding Corp	(11.48)
Global-e Online Ltd	41.86	Sentinelone Inc -Class A	(7.19)
Menora Mivtachim Holdings	40.57	Nova Ltd	(5.47)
Electra Ltd	39.67	Energix-renewable Energies	(4.84)
Clal Insurance Enterpr Hldgs	39.27	Zim Integrated Shipping Serv	(4.77)

On an index component level, some of Israel's largest companies have experienced significant volatility. Big Data & Applied A.I. Insurance company, Lemonade, more than doubled in size this quarter. Leveraging AI-driven underwriting and claims processing, Lemonade attracted a surge of new users—partly thanks to an expanded suite of products like pet and car insurance. The company is building on its reputation as a disruptor in the insurance sector- and looks to be doing just that.

On the other hand, Solar Edge took yet another valuation slash last quarter as lingering macroeconomic pressures and reduced margins and revenue growth have taken a toll. The company's cautious guidance for 2025, reduced demand for optimizers and inverters, and a contracting balance sheet are shaking out investors. The once high-growth high-momentum stock can now be considered a potential value trade.

# Israel Macroeconomic Update

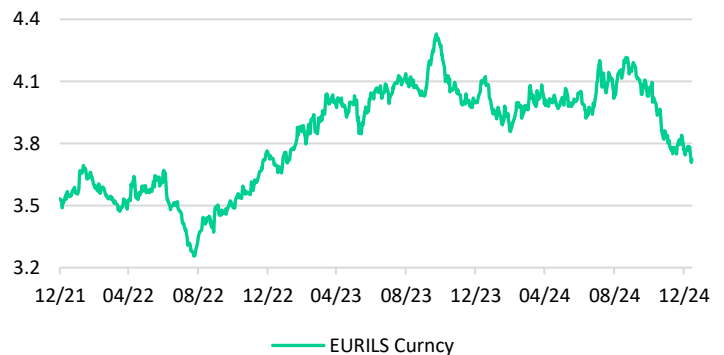
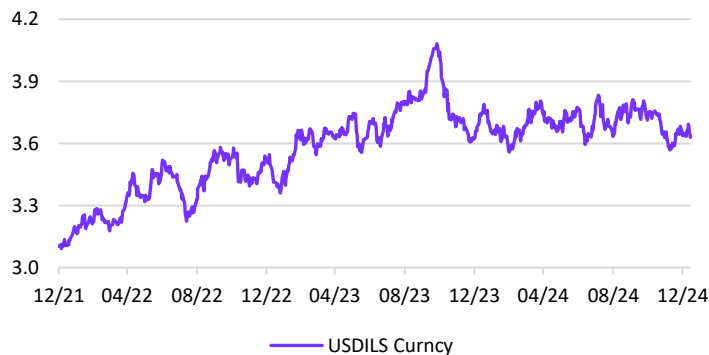
## Economic Highlights

Throughout 2024, the Bank of Israel's Monetary Committee left its policy rate unchanged at 4.50%. Inflation pressures are still lingering above the Central Bank's targeted range. The country's risk premium declined significantly in the past quarter, as reflected by the yield on shekel-denominated bonds.

The labor market remains constrained, showing modest gains in participation and employment rates, a slight decline in overall unemployment, and moderate growth in wages. In the case that a ceasefire is reached, it is largely expected that reserves will return to participating in the labor force, bolstering employment.

The government budget deficit is projected to reach 7% of GDP in 2024, driven by a positive surprise in tax revenues and moderated expenditures. For 2025, while the official deficit target is 4.4% of GDP, it is likely to rise to 4.7% due to adjustments in fiscal measures and increased defense spending recommended by the Nagel Committee.

The labor market remains tight. In November, the job vacancy rate increased slightly but remained below its June-July levels. The participation rate for individuals aged 15 and older rose slightly to 62.7%, as did the employment rate, which reached 61%. The rate of temporary absences due to reserve military service was relatively high in November, at around 1.4%, but is expected to decrease in December as soldiers are released from service. The broad unemployment rate edged down slightly to 3.2 percent in November. Nominal wages have seen moderate increases in recent months, and real wages now exceed their prewar levels, although they remain below the long-term trend.



Since the last interest rate decision in November 2024, the shekel has appreciated by about 0.5% relative to the US dollar. The shekel also appreciated by 2.4% against the euro, and by 1.9% in terms of the nominal effective exchange rate. We anticipate additional Shekel strength if a hostage release and cease-fire agreement is reached by Israel with Hamas in Gaza.

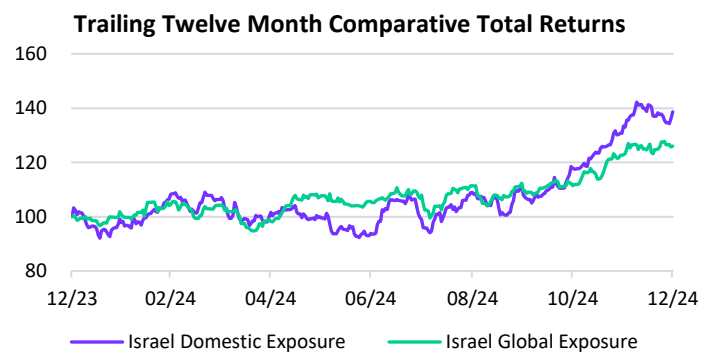
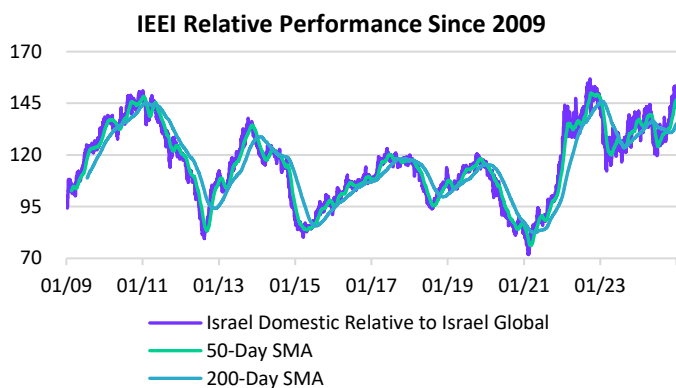
# Economic Dispersion and the BlueStar® Israel Economic Exposure Indexes

The BlueStar® Israel Domestic Exposure Index significantly outperformed its Global Exposure counterpart. This is likely attributable to differences in sector exposure, for instance, some of the top performing sectors in the BIGI® were Consumer Discretionary, Industrials, Financials, and Real Estate, which tend to be domestic-oriented companies. On a trailing twelve-month comparative return, the BlueStar® Israel Domestic Exposure Index is outperforming by 10% more or less. Despite all the idiosyncratic pressures related to politics, war, and foreign exchange markets, it’s impressive to see domestic companies outperform to this extent.

For context, the BlueStar® Israel Domestic Exposure Index in Q4 2023 suffered substantially worse declines than the BlueStar® Israel Global Exposure Index following October 7’s attack by Hamas and Israel’s subsequent response. Financials, Real Estate, and 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 BlueStar® Israel Domestic Exposure Index had nearly caught up to the BlueStar® Israel Global Exposure 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 dragged 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.

As we enter 2025, the hopes of a hostage deal are increasing and it appears that the incoming US President is a stronger supporter of Israel and could have more influence in helping Israel forge stronger ties with its regional neighbors. This, combined with strong momentum and technical support, all points to the continued dominance of Israeli Domestic stocks over the coming quarters.



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