

ISRAEL MARKET REVIEW AND OUTLOOK Q3 2024

LINGERING ECONOMIC AND GEOPOLITICAL PRESSURES STALL RECOVERY IN ISRAELI STOCKS

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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 Q1 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, geo-political and domestic political developments which could impact the markets in for the rest of 2024.

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 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® managed by KSM.

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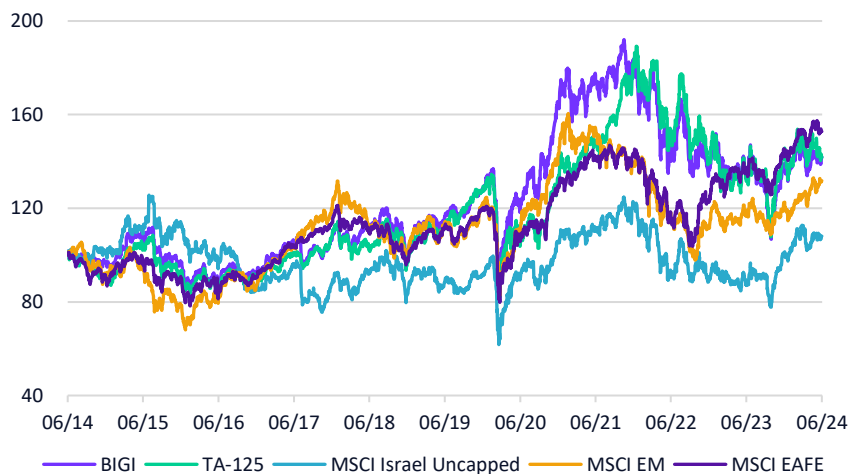
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Highlights:

- Israeli stocks, as defined by the BlueStar® Israel Global Index (BIGI®), fell 4.29% in the Q2 2023, underperforming both US and international markets.
- Israeli technology stocks, as defined by the BlueStar® Israel Global Technology Index (BIGITech®), declined 4.79% in Q2, significantly underperforming US and Global tech peers.
- The Monetary Committee decided to leave rates unchanged at 4.5% during the May meeting, citing an already elevated risk premium and an expansion in GDP. However, the Bank of Israel mentioned that there has been a modest uptick in inflation, explaining that forecasts for the coming year increased, and are approaching the upper bound of the target range.



- Despite rising tensions in the North, volatility in Israel's foreign exchange market has waned as the shekel has been stable around 3.5 USD/ILS.
- Defense and civilian costs of the Israel-Hamas war has amounted to hundreds of billions of shekels, and the Bank of Israel cited that the future defense budget is expected to grow in a permanent fashion.
- In the housing market, home prices continued to increase amidst logistical difficulties in the industry's activities. Although new home purchases are far below 2021 levels, this measure rose slightly quarter-over-quarter, and is now above its 12-month moving average.
- The budget deficit between 2025 and 2027 is now expected to decline gradually from 5.2% of GDP to 3.7%.

Israel Equity Market Performance

Israeli equities, as defined by the BlueStar® Israel Global Index® (BIGI®), fell 4.29% in Q2 of 2024, giving back part of last quarter's gains. BIGI® underperformed the SPDR S&P 500 ETF Trust (in USD) by about 8.5%, but remains positive on the year. Additionally, the Israel Global Exposure Index underperformed the Israel Domestic Exposure in Q2, likely attributable to differences in country exposures.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON

Benchmark	Q2 2024 Return(%)	2024 YTD (%)
BIGI®	(4.29)	2.72
BIGITech®	(4.79)	(0.14)
iShares Israel ETF	(4.00)	7.99
KSM TA-125 ETF	(7.46)	(1.46)
SPDR S&P 500 ETF Trust	4.28	15.29
iShares Emerging Markets ETF	5.00	7.49
iShares EAFE ETF	(0.17)	5.75
Israel Domestic Exposure	(6.16)	0.39
Israel Global Exposure	4.07	8.46
Israel Infrastructure	(14.45)	(14.35)

The BIGITech® fell further than the BIGI®, shedding about 4.8%. The index underperformed US and Global tech peers by 18.08% and 18.17%, 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 second quarter in a row took Israeli-based technology stocks by surprise.

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON

Benchmark	Q2 2024 Return(%)	2024 YTD (%)
BIGITech®	(4.79)	(0.14)
iShares U.S. Technology ETF	13.29	28.57
iShares Global Tech ETF	12.38	26.88

The sector performance table reveals significant disparities, with sectors significantly outperforming others. Health Care emerged as the leading sector, while Communication Services lagged. Notably, the Real Estate sector, a key area of interest in the Israeli market, displayed relative stability following a sharp recovery in Q4 2023 capping off an overall tumultuous year. The BOI noted in April of 2024 that the challenges in the construction sector due to the war have lessened but are still substantial, with housing prices steadily increasing year-to-date.

SECTOR PERFORMANCE (%): Q2 2024

Health Care	10.53
Utilities	4.37
Industrials	(2.10)
Financials	(2.95)
Information Technology	(5.66)
Consumer Discretionary	(8.65)
Consumer Staples	(9.91)
Real Estate	(11.88)
Energy	(14.26)
Materials	(16.60)
Communication Services	(19.28)

All but two sectors in the BIGI® index finished Q2 down, with the exceptions being Health Care and Utilities. Materials, Energy, and Real Estate stocks took over a 10% correction, each.

TOP AND BOTTOM BIGI® PERFORMERS: Q2 2024

Positive Contributors (%)		Negative Contributors(%)	
Zim Integrated Shipping Serv	121.44	Solaredge Technologies Inc	(64.41)
Camtek Ltd	51.93	Perion Network Ltd	(62.86)
Nova Ltd	32.22	Maytronics Ltd	(62.34)
Plus500 Ltd	25.73	Nice Ltd - Spon Adr	(34.02)
Tower Semiconductor Ltd	18.29	Oil Refineries Ltd	(30.06)
Wix.Com Ltd	15.70	Stratasys Ltd	(27.80)
Teva Pharmaceutical-sp Adr	15.17	Nano-x Imaging Ltd	(24.87)
Payoneer Global Inc	13.99	Shikun & Binui Ltd	(24.59)
Playtika Holding Corp	13.00	Clal Insurance Enterpr Hldgs	(22.69)
Fiverr International Ltd	11.20	Taboola.Com Ltd	(22.52)

On an index component level, some of Israel's largest companies have continued to experience periods of significant declines. For example, SolarEdge, which was once one of Israel's largest tech companies, SolarEdge, was down 64.41% in Q2 2024, after being down 24.17%, 27.73%, and 51.86%, in Q1 2024, Q3 2023, and Q3 2023, respectively. The company is about 93% off its peak in 2022.

On the bright side, Camtek, an Israeli-based semiconductor company, finished the quarter up about 52%. The company has benefitted from both endogenous and exogenous factors, given industry tailwinds and demonstrated earnings growth.

Another standout quarterly performer was ZIM Integrated Shipping Services, an Israeli-based international cargo shipper. The NYSE listed company is up 120% on the quarter after falling nearly 91% from its peak in 2022. The company reported impressive Q1 earnings showcasing both top and bottom line improvement.

Israel Macroeconomic Update

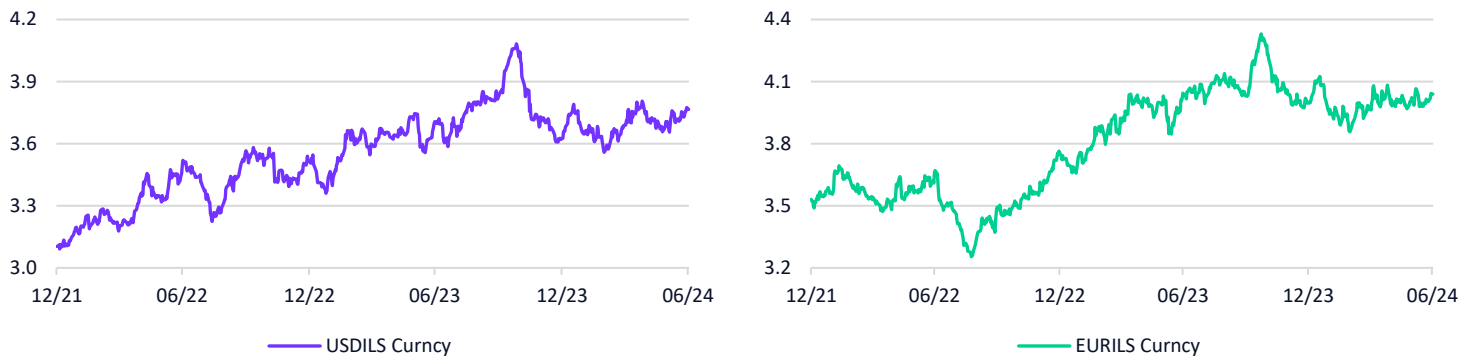
Economic Highlights

In February, March, and May of 2024, the Bank of Israel's Monetary Committee left their policy rate unchanged at 4.50%. Inflation pressures are still lingering at 2.8% in May after moderating to around 2.5% in February 2024 from highs of 5.4% experienced in December 2022. In May, the BOI noted that economic activity and the labor market continue to gradually recover, and that the country's continued geopolitical uncertainty is reflected in the economy's high risk premium.

Israel's GDP rose about 3.4% in Q2 2024 compared with the previous quarter. The BOI stated that growth in GDP reflects strong private consumption and fixed capital formation. They also note that, despite this expansion, GDP remains 2.8% lower than its prewar level.

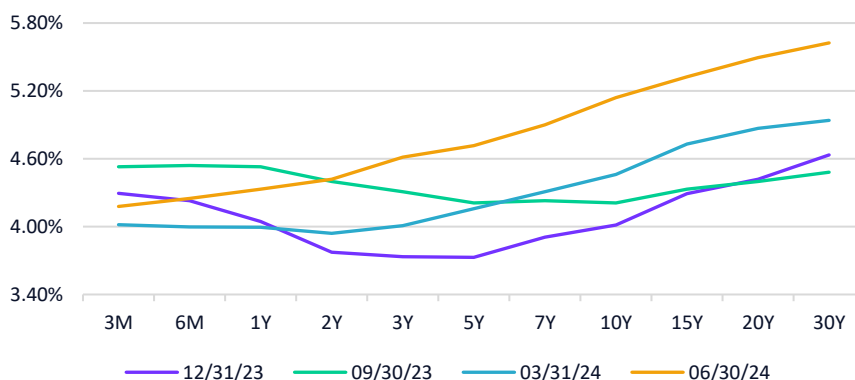
Reported in June, the Q1 2024 balance of assets held abroad by Israeli residents rose about USD 19.4 billion (about 2.8% QoQ), to around USD 720 billion. The BOI points to figures including a rise of cash and deposits (by 4% QoQ), an increase in the balance of equities in Israel (by 6.7%), and an increase in the balance of government bonds (by 3.4% QoQ). Additionally, the balance of assets management by all institutional investors rose by about NIS 109 billion to NIS 2.62 trillion (a 4.3% increase QoQ). It should also be noted that, during the Q1 2024, institutional investors sold net foreign currency assets totaling about 3.5 billion.

The performance of the Israeli Shekel against the U.S. Dollar and Euro has been noteworthy. Despite a sharp depreciation that began on October 7th, the Shekel is now holding its strength after a rally in the fourth quarter of 2023.



Furthermore, the long end of yield curve on ILS-denominated Israeli sovereign debt is steepening. Taken together these indicators suggest that Israel's economy is relatively stable and that investors expect an acceleration of growth following the fall out from the war in Gaza (in-line with the Bank of Israel's expectations). In general, the spread between Israeli and US government bonds remain at relatively high levels reflecting relatively high risk premiums.

Israel Government ILS Fixed Rate Bond Yield Curve



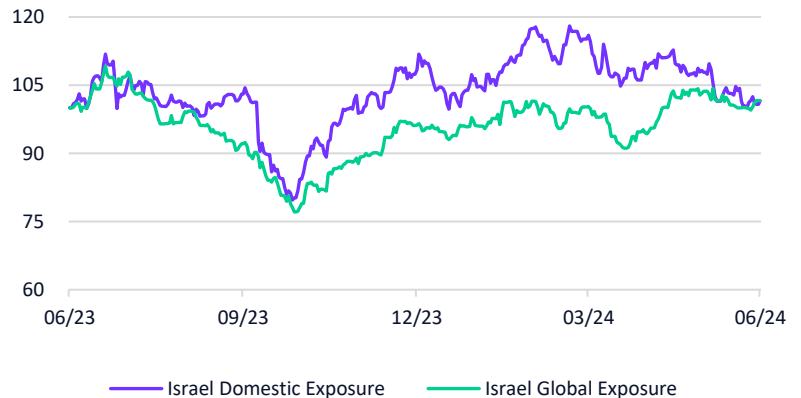
Economic Dispersion and the BlueStar® Israel Economic Exposure Indexes

With such a dichotomy between global and local monetary policies as well as global and local 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 opportunity for investors to capitalize on these trends.

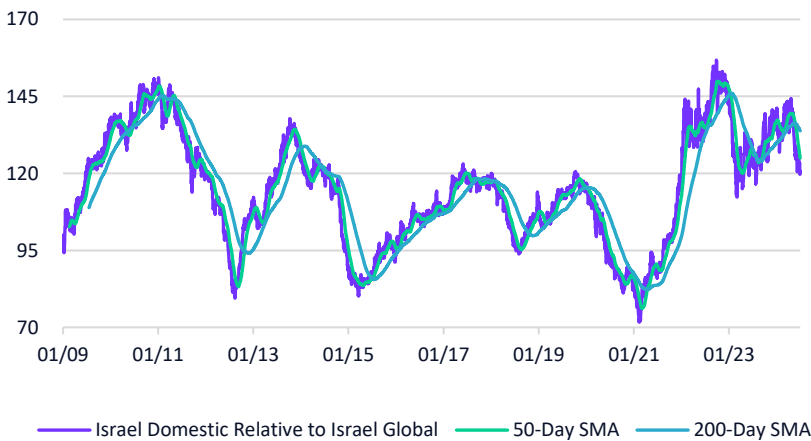
For context, the BlueStar® Israel Global Exposure Index outperformed by more than 19% from the end of Q3 2022 through Q2 2023, following a period of substantial underperformance in the wake of the Covid-19 pandemic. In our Q3 2023 update we noted that “as we enter the third quarter, the relative performance 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 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.

In Q2 the Global Exposure Index outperformed its domestic counterpart by roughly 10 percentage points. This outperformance is credited to a big bounce in the healthcare sector and fintechs like PLUS500 Payoneers. Based on the technicals, it seems that a double top in Domestic’s performance relative to Global has been put in place and momentum should continue driving the Global Exposure Index’s outperformance over the coming months.

Trailing Twelve Month Comparative Total Returns



IEEI Relative Performance Since 2009



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