HELPING THE ISRAELI ECONOMY RECOVER BY INVESTING IN SINGLE-COUNTRY EQUITY ETFs

SUMMARY

Several people who knew what the firm I founded was doing contacted me during the first three weeks after Hamas' horrific terrorist attack on Israel that left more than 1,400 people dead and more than 200 kidnapped on October 7, 2023. [1] Some asked me what investments they could make to help the Israeli economy recover. Others were more specific and asked me what single-country equity Exchange Traded Funds (ETFs) they could buy to support Israel's economic recovery during and after the war that was started by the Hamas attack.

In Part 1 of this report, I explain the danger that the Israeli economy is facing from the falling stock prices that were caused by the war with Hamas. I share several scenarios showing how falling stock prices can negatively impact companies and the economy and cause high unemployment that can persist unless treated before it spreads. In Part 2, I explain why people reached out to me to learn about single-country equity ETFs in the first place and how investing in these investment vehicles can help save jobs in any crisis-stricken country and assist it – and its residents – in recovering from a crisis, as long as there is a single-country equity ETF that tracks the country's stock market.

In Part 3, I provide names and tickers of four equity ETFs tracking Israeli stock markets that trade on the US markets and that investors can buy in their brokerage accounts. I share some analyses of the ETFs I have used while selecting single-country ETFs for all 49 countries in the BBIS investment universe over the last decade. I also share potentially attractive returns that the ETFs' valuation expansion to the long-term average levels may cause in the future. In Part 4 of the report, I talk about the most critical catalyst that, in my opinion, would lead to attractive returns of the Israeli ETFs, which I calculated at the end of Part 3. I also talk about some risks that can delay or lower these returns. They include any negative surprises that prolong the war, the war with Hamas turning into a regional battle with an Iran-led terrorist coalition, the potential success of Hamas' strategy of hiding behind civilians and waiting for international public outcry to make Israel leave Gaza before eradicating Hamas, depreciation of the Israeli Shekel, and a global recession lowering economic growth and revenues that Israeli companies derive from their exports.

The first goal of this report is to provide potential investors interested in helping the Israeli economy recover with information on the four Israeli equity ETFs. I also hope that investors interested in investing in these ETFs in search of potentially attractive returns will find valuable information in this report. Finally, I hope investors interested in both goals will find this report to be of interest.

This report is of an educational rather than commercial nature. Investors who want to buy any Israeli ETFs can do this independently of BBIS.

[1] The Jerusalem Post, "Operation Swords of Iron: What Happened on Day 12," October 18, 2023.

PART 1: DANGER THAT THE FALLING STOCK PRICES PRESENT TO THE ISRAELI ECONOMY

Israel called up 360,000 reservists to the Israel Defense Forces (IDF) after the Hamas attack on October 7, 2023. [2] Operations of many companies where the mobilized people have worked have been negatively impacted and will continue to be negatively affected until the employees return to work. The companies will likely have lower profits and investment valuations until people return from the war, resulting in lower stock prices. Stock prices of four Israeli ETFs dropped dramatically by 12.4%-17.4% in just three weeks after the attack *(see Chart 1 for the price declines after the massacre).*

In crisis-stricken countries anywhere around the world, the damage from panic stock selling, which results in dramatic stock price declines, can 'jump' from the financial markets into the real economy with devastating results, as an unopposed forest fire can burn towns and cities. Suppose the stock prices of companies in a crisis-stricken country drop significantly. Some observers would say, *"It is not a big deal. Investors would lose their money, but apart from them losing their money, nobody will suffer in the real economy."*

Is their logic correct? Unfortunately, no. Below are three scenarios that show the dangers of stock price collapses that happen all over the world. I adjusted them to the Israeli context, but as I said, the panic selling often hurts companies in crisis-stricken countries all over the world, leading to lower companies' sales and profit growth and even entire countries' economic growth in the aftermath of these crises. First, stock prices often serve as a barometer of companies' financial and overall health. When companies' stock prices drop significantly, their clients may move some of their purchasing to Israeli companies' competitors, fearing that Israeli companies would not recover at all (i.e., would go bankrupt) or would not recover on time to service the contracts. After all, no purchasing managers in the client companies want to be caught unprepared for problems with satisfying their companies' demand for products and services they purchase from strategically important suppliers due to these suppliers' difficulties or bankruptcies. Not foreseeing supply problems is never good for the purchasing managers' careers.

Losing even a portion of business may be a severe and long-lasting blow to Israeli companies. In addition to the immediate loss of revenues and profits, the companies with high switching costs (i.e., software, specialized technology, and non-commodity products and services in general) may lose client contracts for a long time. Let me explain this point. Software is an important business for Israel. The readers of this report will see many software firms among the Top 10 holdings of all Israeli ETFs. The problem is that once a client moves to a different software provider of comparable quality, this client is not likely to move back next month or even next year. Moving back would take too much time, money, and effort. Also, managers who make their companies move back and forth between products with high switching costs do not look competent or productive. Once the client's employees invested time and effort in learning to use new software, they would not be happy if their employer told them to forget the new product – and all the time and effort they took to learn how to operate it –

[2] Helen Coster and Alexander Cornwell, Reuters, "Israel's Reservists Drop Everything and Rush Home," October 12, 2023.

and return to the previous supplier. So, once a software provider – or another company that sells specialized technological non-commodity products or services that clients have to spend time and effort to learn to use – loses a client, it may lose this client for many years. Faced with lower demand from their clients, managers of Israeli companies may be forced to close facilities and lay off people – even if they do not want to do it. These potential losses of production capacity and employees may lead to lower company growth. If there are many companies in this situation, the entire country's long-term economic growth can be slower than the pre-war level.

Another dangerous scenario for Israeli companies if their stock prices continue to decline is that they would have difficulty raising capital at reasonable rates. Without capital, many companies' sales and profits may grow slowly or even fall. Low stock prices, as well as slow growth of sales and profits, are often conditions that turn companies into acquisition targets. When one company acquires another, the acquired company often loses a high percentage of its workforce. If many Israeli companies are acquired, unemployment is likely to increase.

The last danger emanates from CEOs, top managers, and Board of Directors members being incentivized to keep their stock prices high because their compensation packages often include large amounts of corporate stocks and stock options. Also, top managers of companies whose stock prices plummeted are often treated as coaches of professional teams with losing records: they are fired from their jobs. To increase their compensation and not get fired, top managers and directors may choose to try to increase the stock prices after they plummeted by increasing profits, even in the short term, by closing facilities and laying off employees. While their companies' long-term production capacity and outlook deteriorate, stock prices may increase because corporate profits would increase due to reduced facility operation and maintenance costs, especially labor costs. Israeli companies cannot lay off the reservists for as long as they are engaged in reserve service with the IDF and for 30 days after it. [3] However, the regular pre-war employment and layoff rules return after the 30 days that start from the day the reservists return from the war. Once again, unemployment may increase significantly in this scenario.

The danger of unemployment rising in Israel is especially severe because the employment situation there was not good even before the war. For example, in the tech sector, where Israel is one of the world leaders, many jobs were eliminated all around the world. Outside of Israel, tech heavy-hitters such as Dell, eBay, Google, Microsoft, Spotify, Yahoo, and Zoom were laying people off in 2023. [4] The reasons for the layoffs included the fact that fewer people were needed in a slowing economy of 2022-2023 versus the fast-growing economy rebounding after the COVID-19 slowdown in 2021, high inflation around the world that sharply reduced consumers' purchasing power, rising interest rates implemented by central banks worldwide to fight inflation but that also made raising capital more expensive, and the resulting danger of the global recession in large part due to expensive capital needed for corporate growth. Please read the BBIS report titled *"To Protect Investment Portfolios from Inflation, We Need to Know Its Roots"* about 16 causes of inflation that I wrote in April 2021. Below is a link to the report.

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[3] Megan Childs, Erika Collins, Faegre Drinker Biddle & Reath LLP, Published on the JD SUPRA Website, "Considerations for Israeli Employers During Israel-Hamas War, October 19, 2023.
[4] Perception Box, "Global Layoffs in Tech Sectors and Reasons Behind Them," March 8, 2023.

https://bbistrategies.com/our-publications--events/to-protect-investment-portfolios-from-inflation-we-need-to-know-its-roots

Israel's high-tech industry followed foreign tech companies in terms of job cuts. According to a joint report by the Israel Innovation Authority and Start-Up Nation Policy Institute, many tech firms planned to cut their workforces by 5% in 2023. [5] In addition to all the factors plaguing the global high-tech sector, the Israeli high-tech industry faced instability mainly due to Prime Minister Benjamin Netanyahu's push for controversial judicial reforms. [6] Even before the war, fundraising was already tricky. Israel's tech sector, responsible for 10% of the Israeli jobs and 15% of the economic output, raised only $1.7 billion in the first quarter of 2023, or a whopping 70% less than $5.8 billion during the first quarter of 2022. [7]

In order not to allow the war to cause long-term problems for the Israeli economy, it is important that investors allocate capital to Israeli companies now. Investments in these companies – directly in individual stocks or via ETFs – can stabilize stock prices and lower the pressure on the companies' management to close facilities during and after the war and lay off people after the war. These investments would be positive for the entire Israeli economy because when people are employed at large and mid-sized corporations, they also pay for products and services provided by small businesses (i.e., restaurants, cafes, stores, dry cleaners, landscaping services).

These investments in equity ETFs would serve the same role as the monetary packages that crisis-stricken countries' governments provide to stimulate economic demand and decrease unemployment and their impact on residents in their countries. These monetary packages may include such measures as lowering interest rates, quantitative easing (printing money), providing forgivable government loans for enterprises to stay in business and employ people, extending the length and payment amounts of the unemployment programs, and even direct cash payments to the countries' residents. [8] The first two measures are pretty common and often used during crises. In contrast, the latter three were used by the US and other countries' governments to stimulate economies and consumer demand during the COVID-19 pandemic. Often, when crisis-stricken countries' governments do not have enough resources, foreign governments or multilateral organizations (i.e., the International Monetary Fund (IMF) and the World Bank) provide foreign aid – foreign aid grants that crisis-stricken countries are not expected to repay and low-interest loans that are expected to be repaid but often are not – to stimulate the economies of crisis-stricken nations and not allow unemployment to get from under control.

Investments in equity ETFs have two advantages over government monetary interventions. First, the ETF investments would not add debt to government accounts of Western donor countries or emerging market nations, many of which are already buried under mountains of debt. For example, the government Debt-to-GDP ratio of the United States, the largest foreign aid donor, reached 121.3% in 2022 and is expected to reach 137.5% in

[5] i24 News, "Israel's High-Tech Industry Expected to Continue Job Layoffs in 2023 – Report," May 16, 2023.
[6] Steven A. Cook, Council on Foreign Relations, "Israel's Judicial Reforms: What to Know," July 26, 2023.
[7] Ibid.
[8] Gabe Alpert, Charles Potters, and Vikki Velasquez, Investopedia, "A Breakdown of the Fiscal and Monetary Responses to the Pandemic," October 18, 2023.

2028. [9] [10] This level of debt is not harmless – it destroys economic growth because the government has to spend the money on servicing it. According to an influential World Bank white paper, *"Finding the Tipping Point – When Sovereign Debt Turns Bad,"* based on the dataset of 101 countries, when the Debt-to-GDP ratio reaches the threshold of 77%, each additional percentage point of the Debt-to-GDP ratio increase decreases economic growth by 0.017%. [11] As of 2022, the "debt drag" on the US economic growth was 0.75% and is expected to reach 1.03% in 2028. Lost economic growth leads to higher unemployment. According to Okun's law, a 1% decrease in real GDP leads to a 2% increase in unemployment. [12] Unfortunately, if nothing changes with the debt trajectory, by 2028, the US is expected to reach the unenviable milestone of a 2% increase in unemployment – compared to a virtuous scenario when the US debt would have been limited to 77% of the GDP or lower.

Second, investors in ETFs are driven by the *'invisible hand'* of self-interest described by Adam Smith in his timeless book "*An Inquiry into the Nature and Causes of the Wealth of Nations,*" or simply "The Wealth of Nations." In most cases, ETF investors and corporations whose stocks are included in ETFs benefit from the win/win situation: investors earn returns on their investments, and corporations do not lose their long-term production capacity through facilities' closures and employee layoffs, thus stimulating countries' future growth. Alternatively, domestic governments of crisis-stricken nations earn returns on their stimulus monetary packages only indirectly – via taxes that may or may not increase due to their monetary packages. In the latter case, the governments simply increase tax rates to raise more revenues, which actually slows countries' growth. Also, foreign governments and multilateral organizations rarely make money on foreign aid or low-interest loans and depend on fresh tax funding that comes predominantly as taxes on businesses and citizens of Western countries, thus slowing their economic growth and lowering their living standards.

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[9] The Organization for Economic Development and Cooperation (OECD), "ODA Levels in 2022 – Preliminary Data Detailed Summary Note," April 12, 2023. The US is the largest 2022 Official Development Assistance (ODA) donor with $55.3 billion.
[10] The International Monetary Fund, "World Economic Outlook," "The General Government Debt," October 5, 2023.
[11] Mehmet Caner (North Carolina State University), Thomas Grennes (North Carolina State University), and Fritzi Koehler-Geib (World Bank), The World Bank, "Finding the Tipping Point – When Sovereign Debt Turns Bad," July 2010.
[12] Juan M. Sanchez and Constanza Liborio, Federal Reserve Bank of St. Louis, "The Relationships among Changes in GDP, Employment, and Unemployment: This Time, It's Different," May 18, 2012. The law is named after an American economist Arthur Melvin Okun, who was first to measure the relationship between the economic variables.

PART 2: INVESTING IN COUNTRY EQUITY ETFs CAN HELP NATIONS RECOVER FROM CRISES

BBIS runs portfolios built from single-country equity ETFs of crisis-stricken countries worldwide. The firm aspires to contribute to ending crises by creating or protecting jobs (impact investment goal) and earning investment returns for investors (traditional investment goal). We usually have positions in 15-25 countries in crisis and different stages of recovery from crises. The motto of BBIS and its clients reflects our goals: "*The Few. The Proud. The Crisis Fighters. Earning Returns While Helping People in Crisis-Stricken Countries Recover from Devastating Crises That Destroy Their Standards of Living, Dignity, Families, Health, and Lives by Investing in Companies That Create Jobs.*"

I organized Part 2 of this report as my answers to questions that I was asked a number of times in the past.

Why is it vital to invest in stocks of publicly traded companies when these companies do not receive your investments in their stocks? In short, to avoid high unemployment, which makes every crisis worse. Our goal is to break a self-perpetuating vicious cycle, which starts with stock selloffs that lead to corporate facility closures and, most importantly, layoffs. These corporate facility closures and layoffs often spread from several companies to their suppliers and buyers all over the country and abroad through the "crisis contagion" process. By exerting upward pressure that either increases stock prices or limits their declines, investors can incentivize Chief Executive Officers (CEOs) to invest in new corporate offices and facilities or at least not to close existing ones and, most importantly, not to lay off employees. During various crises, stock prices plummet because companies' profits are expected to drop, and the uncertainty of the profit forecasts increases. The lower and less certain future profits often lead to severe stock valuation compression. Many fundamental investment managers – who focus on determining each stock's intrinsic value and use every piece of public information to learn everything they can about stocks in their portfolios – often choose to sell these stocks if unsure about the crisis' magnitude and length. [13] They do not want to take macroeconomic and political risks. Both lower and uncertain profits and low valuations due to stock selloffs result in lower stock prices.

The stock price decreases driven by fundamental investors' sales can be accelerated further by sales of stocks by multi-billion quantitative hedge funds and 'long-only' investors. [14] Often, managers of quantitative funds do not know specific factors that determine the profitability of companies in their portfolios as fundamental investors do. Instead, they rely on various quantitative rules to forecast stock revenues, profits, and prices. These rules are based on the analyses of past relationships of these factors with other stock-specific and industry factors that allow quantitative investors to run portfolios of hundreds and thousands of stocks. Quantitative investors hold many more stocks than fundamental investors to diversify risks from not knowing much about companies in their portfolios and instead relying on more general quantitative rules. Since quantitative investors do not know

[13] The majority of fundamental managers are stock pickers and focus on the bottom-up analysis of individual stocks rather than assessing macroeconomic and political risks. Unlike fundamental stock pickers, global macro investors – such as BBIS – focus on assessing macroeconomic and political risks impacting countries (or sectors) and building portfolios that would benefit from these risks.

[14] Unlike hedge funds, long-only investors do not sell investments short.

precisely what drives stock price declines of companies in their portfolios, they sell stocks indiscriminately after stock prices fall initially due to fundamental investors selling them. For example, a stock price that has already declined by, say, 20% as fundamental managers were selling the stock can drop by an additional 20-40% due to the sales by quantitative investors. The overall decline's magnitude may depend on such factors as the percentage of the outstanding stocks held by each group of investors, the extent of the initial stock price decline, the speed (momentum) of the stock decline, and other factors.

Academic studies based on industry observations have shown that corporate investments were correlated with stock prices. I have found a paper by the Philadelphia Fed's Yaron Leitner titled *"Stock Prices and Business Investment"* helpful in explaining why a firm is likely to invest more when its stock price increases and in providing academic research on this topic. [15]

Generally, companies do not invest much or even close their facilities and lay off employees when their stock prices decline. Companies' CEOs, top managers, and Boards of Directors want their companies' stock prices to be higher rather than lower because higher stock prices serve as a barometer of the companies' overall financial health, allow the companies to raise capital at lower rates, and use its stock in acquiring other firms rather than turn into acquisition targets. Also, the compensation of companies' CEOs, top managers, and Directors is often tied to the stock price performance. These professionals are given stocks or stock options. Of course, they prefer the prices of stocks in their portfolios to be high because their compensation will be higher. This desire is even more extreme with stock options that may expire worthless if the stock price drops below a certain level.

To increase corporate profits and, ultimately, stock prices – even in the short term – companies' CEOs, top managers, and Directors often shut down offices, factories, and other corporate facilities and lay off employees. They do it to cut these facilities' ownership, rental or maintenance expenses, and, especially, labor costs. Labor expenses are often among the most significant corporate expenses. According to Forbes magazine, *"Conventional wisdom for management is that layoffs are a necessary evil during economic downturns. Often, stock prices will rise in response to layoff announcements. However, in the long term, layoffs tend to lead to decreases in stock prices."* [16]

Layoffs in one company – especially a large one – may cause layoffs in its suppliers and buyers, starting a domino chain of layoffs in the entire supply chain across the country or even spreading across the country's borders to its trading partner economies in a process called the 'crisis contagion.' Often, companies that lay off people during the crisis contagion are healthy. They are only forced to lay off their employees because they lost a significant customer or provider of essential inputs that cannot be replaced easily or promptly. For example, due to the COVID-19 pandemic's impact on semiconductor fabs (factories) in Taiwan, significantly fewer chips were produced than were required by global automakers in 2021-2022. Some car and truck models became unavailable and were expected to become available only in 2023, when the chip production would be restored.

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[15] Yaron Leitner, Philadelphia Fed, "Stock Prices and Business Investment," Q4 2007.
[16] Q.ai - a Forbes Company, Forbes, "Intel Layoffs: Will Intel Stock Keep Going Up By Cutting Costs?" November 23, 2022.

The lack of chips in the automotive industry became known as the "Chipaggedon." [17] The title of the article *"Out of Chips, Out of Work: Auto Workers Tell Their Stories"* says it all about the impact of the semiconductor shortage on the automotive industry. [18] As a result of the chip shortages, many thousands of employees in the automotive industry have been put out of work. [19]

In addition, the layoffs in large publicly traded companies may lead to layoffs in small businesses such as restaurants, taxi firms, and kindergartens because former companies' employees do not have money to spend on goods and services provided by small businesses after becoming unemployed. Layoffs in just one key company (i.e., an automaker or semiconductor producer) may lead to high unemployment that can impact the whole country where the company is based and spread beyond the country's borders.

But how do you exert pressure on the stock prices of not one or two companies but most companies in a crisis-stricken country? Single-country ETFs allow investors to infuse money into stocks of all large and medium-sized publicly traded companies in a country. This diversification is beneficial not only from the perspective of crisis-stricken countries. It is also crucial to investors' portfolios from the standpoint of protecting them from extreme losses caused by company-specific factors. Sometimes, individual companies – both in crisis-stricken countries and not – can go bankrupt with little or no warning (i.e., Yukos Oil Company (Russia), Ecovix Shipbuilding (Engevix Construções Oceánicas SA) (Brazil), Global Crossing Limited (Bermuda), Enron Corporation (USA), Lehman Brothers (USA)). Unfortunately, investments cannot end wars, but investments can alleviate the impact of wars on economies by not allowing unemployment to get out of control. High unemployment makes every crisis worse!

You can read more about how BBIS' contribution to the recovery of stock prices can help a country recover from a major crisis in Part 5, *"The Financial Mechanism to Achieve BBIS Goals,"* on pages 37-44 of the white paper *"Ending Devastating Crises While Earning Investment Returns" (see the link to the paper below).*

https://bbistrategies.com/our-publications--events/white-paper-ending-devastating-crises-while-earning-investment-returns

[17] DHL, "'Chipageddon': How Taiwan is Battling the Global Chip Shortage," September 13, 2021.
[18] Skye Witley, Fierce Electronics, "Out of Chips, Out of Work: Auto Workers Tell Their Stories," June 18, 2021.
[19] Ibid.

PART 3: INVESTING IN ISRAELI EQUITY ETFs MAY HELP THE ISRAELI ECONOMY RECOVER, WHILE INVESTORS MAY BUY STOCKS OF TOP COMPANIES AT LOW VALUATIONS

One of the ways to support Israel is to invest in its companies that create jobs directly or via single-country equity ETFs *(please see the ETF names and tickers below).* As mentioned above, Israeli companies' operations have been disrupted because many employees were called up among 360,000 reservists into the IDF. [20] Israeli companies' future revenues and profits will likely be lower than expected before the Hamas attack on October 7, 2023. The currently lower prices of the ETFs reflect these expectations *(see Chart 1 below for the price declines over three weeks after the Hamas attack)*. But investing in Israel is not only about helping Israel's economy, companies, and people recover from the current war's impact. Investors can invest at attractive valuations in the companies of a country that is often called the *"Start-Up Nation"* because of its prowess in innovation and entrepreneurship. The moniker was given to the country by Dan Senor and Saul Singer in the title of the bestselling book, *"Start-up Nation: The Story of Israel's Economic Miracle,"* published in 2009. [21]

There is another important reason to invest in the Israeli equity market. The latest fact sheet of one of the Israeli ETFs - ARK Israel Innovative Technology ETF (Ticker: IZRL) – perfectly explained it. *"Following promotion to the developed market status, ARK believes many portfolios may underweight Israel relative to its growth and innovation projections and its weight in the MSCI World Index."* [22] At the end of December 2009, just before Israel was promoted from the MSCI Emerging Markets to the MSCI Developed Markets universe in January 2010, 13 Israeli stocks represented 3.4% of the latter universe. [23] Following the promotion, only four Israeli companies that became part of the MSCI World (Developed Markets) Index represented only 0.2% of the MSCI World Index. [24] Investing via ETFs tracking the MSCI World Index would give investors almost no exposure to Israeli stocks. If investors want to get exposure to Israeli stocks, they need to invest in them directly or via ETFs.

The Israeli ETFs: Once again, to exert upward pressure on Israeli companies' stock prices, one does not need to invest with BBIS. Investors can invest directly in ETFs that trade on US stock markets but are built from shares of Israeli companies. There are four Israeli single-country ETFs: **BlackRock's iShares MSCI Israel ETF (Ticker: EIS)**, **VanEck Israel ETF (Ticker: ISRA), BlueStar Israel Technology ETF (Ticker: ITEQ),** and **ARK Israel Innovative Technology ETF (Ticker: IZRL)**.

Below are the links to these single-country equity ETFs' latest ETF fact sheets. I will identify the ETFs by their tickers later in the report. To make them memorable, I highlighted all the tickers above.

[20] Helen Coster and Alexander Cornwell, Reuters, "Israel's Reservists Drop Everything and Rush Home," October 12, 2023.
[21] Dan Senor and Saul Singer, A Council on Foreign Relations Book, "Start-up Nation: The Story of Israel's Economic Miracle," September 7, 2009.
[22] ARK Invest, ARK Israel Innovative Technology ETF, Fact Sheet, September 30, 2023.
[23] Ark Invest, "Why Invest in Israel Innovation?" September 30, 2023. The data are as of March 22, 2023.
[24] Ibid.

- iShares MSCI Israel ETF (Ticker: **EIS**), Fact Sheet, September 30, 2023 [25]
  https://www.ishares.com/us/literature/fact-sheet/eis-ishares-msci-israel-etf-fund-fact-sheet-en-us.pdf

- VanEck Israel ETF (Ticker: **ISRA**), Fact Sheet, September 30, 2023 [26]
  https://www.vaneck.com/us/en/investments/israel-etf-isra-fact-sheet.pdf

- BlueStar Israel Technology ETF (Ticker: **ITEQ**), Fact Sheet, June 30, 2023 [27]
  https://etfmg.com/wp-content/uploads/2019/03/ITEQ-FactSheet_2023-Q2.pdf

- ARK Israel Innovative Technology ETF (Ticker: **IZRL**), Fact Sheet, September 30, 2023 [28]
  https://etfs.ark-funds.com/hubfs/1_Download_Files_ETF_Website/Fact_Sheets/IZRL_Factsheet.pdf

Prices of all four ETFs declined sharply during the three weeks since the Hamas attack. As of the end of the day on Friday, October 27, 2023, EIS total returns, which account for price appreciation and dividend payments, fell by 17.4%. [29] IZRL's and ISRA's total returns were almost identical and close to those of EIS: 16.8% and 16.6%, respectively. So far, ITEQ outperformed the other ETFs with negative returns of 'just' 12.4% *(see Chart 1).* [30]

The Israeli Shekel has depreciated by 4.8% versus the US Dollar (USD) since the attack *(see Chart 2).* While one US Dollar was worth 3.86 Shekels on October 6, 2023 (the day before the terrorist invasion in Israel), it was worth 4.05 Shekels on October 27, 2023. [31] The Shekel depreciation means that in Shekel terms, the ETF prices dropped by less than they fell in USD terms as the performance of these ETFs can be approximated by the sum of the ETF performance measured in Shekels and the performance of Shekel versus the US Dollar. For example, EIS' total returns of negative 17.4% may be attributed to two sources: the performance of stocks that EIS is built of – negative 12.6% in Shekel terms – and Shekel's depreciation versus the US Dollar of 4.8%.

The relatively minor depreciation of the currency of a country that is at war can be explained by the prompt and decisive financial response of the Bank of Israel to the heinous Hamas attack. After the attack on the morning of Saturday, October 7, the Bank of Israel said on Monday, October 9, that it would sell up to $30 billion of foreign currency in the Bank's first-ever sale of foreign exchange and provide additional liquidity of up to $15 billion through swap mechanisms in the market to maintain Shekel's stability. [32]

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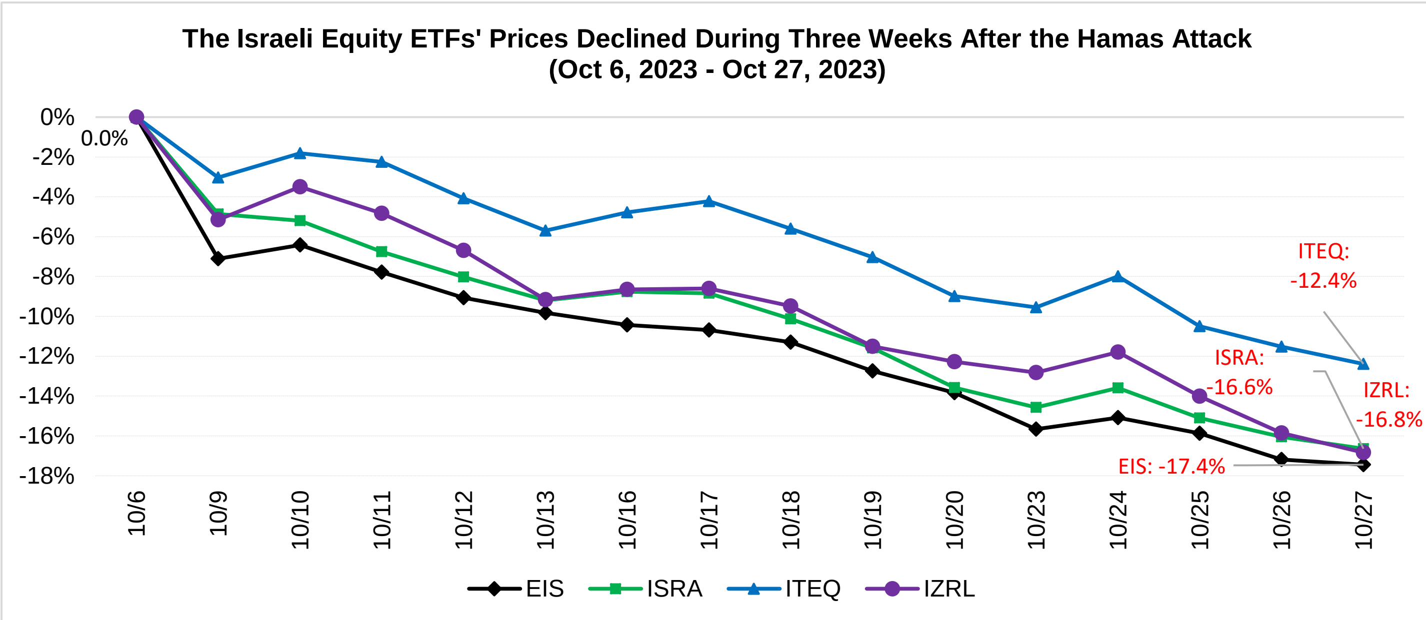
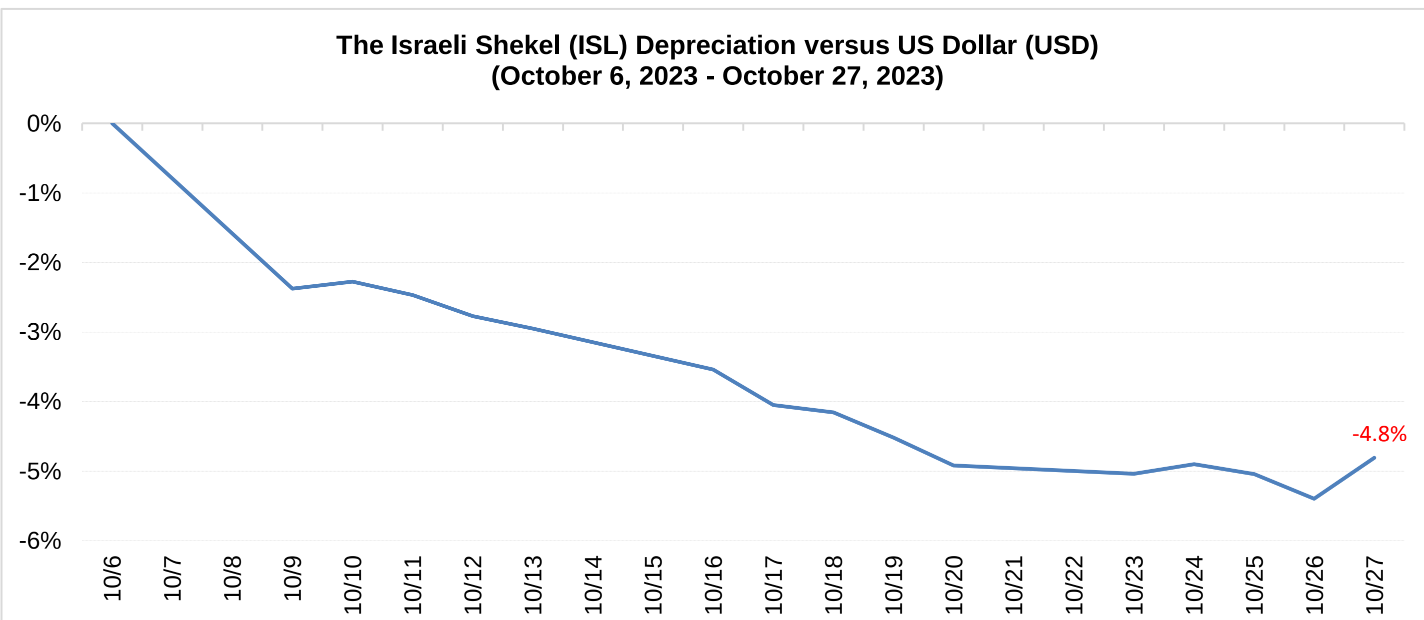
[25] BlackRock, iShares MSCI Israel ETF, Fact Sheet, September 30, 2023.
[26] VanEck, VanEck Israel ETF, Fact Sheet, September 30, 2023.
[27] ETF Managers Group, BlueStar Israel Technology ETF, Fact Sheet, June 30, 2023.
[28] ARK Invest, ARK Israel Innovative Technology ETF, Fact Sheet, September 30, 2023.
[29] Refinitiv.
[30] Ibid.
[31] Ibid.
[32] Steven Scheer and Ari Rabinovitch, Reuters, "Bank of Israel to Sell $30 Billion of Forex to Stabilize Shekel Amid Gaza War," October 9, 2023.

Chart 1. The Israeli Equity ETFs' Prices Declined During Three Weeks After the Hamas Attack.



Source: Refinitiv

Chart 2. The Israeli Shekel Depreciated Against the US Dollar by Less Than 5% After the Hamas Attack.



Source: Refinitiv

Some Factors Characterizing the Israeli ETFs: I have put some factors that could be useful to investors in assessing the Israeli ETFs in *Chart 3*. Below are my comments about the factors.

Chart 3. Factors for Assessing the Israeli ETFs.

N	Factors	EIS	ISRA	ITEQ	IZRL
1	**Investment Focus** **Broad-Based Markets vs. Sector Focus** [1]	Broad Based	Broad Based	Technology	Technology
2	**Longevity** **Inception Date** [1]	March 26, 2008	June 25, 2013	November 2, 2015	December 5, 2017
3	**Liquidity** **Assets Under Management, $Million** [2]	126.97	56.17	88.62	94.23
4	**Diversification**				
	Weighting Method [1]	Market Capitalization	Market Capitalization	Market Capitalization	Equal Capitalization
	Number of Holdings [1]	117	94	57	76
	Top 10 Holdings Weight, % [1]	50.9%	49.8%	54.4%	26.7%
	Weight of the Largest Sector, % [1]	30.5%	38.4%	66.4%	59.3%
	Weight of the 2nd Largest Sector, % [1]	26.5%	24.3%	7.5%	12.8%
	Weight of the Largest Two Sectors, % [1]	57.0%	62.7%	73.9%	72.1%
	Weight Difference Between Two Largest Sectors	4.0%	14.1%	58.9%	46.5%
5	**Returns (as of September 30, 2023)**				
	5-Year Returns - Annualized, % [2]	0.5%	1.2%	2.9%	-2.3%
	3-Year Returns - Annualized, % [2]	2.2%	-1.5%	-9.3%	-9.6%
	1-Year Returns [2]	-4.2%	-5.9%	-5.8%	7.3%
	Year to Date [2]	-2.5%	-6.0%	-6.4%	5.5%
6	**Risk (Volatility of Returns)** **5-Year Standard Deviation, Annualized** [2]	21.0%	21.1%	23.3%	25.1%
7	**Valuations**	IBES MSCI Israel Index		IBES MSCI Israel Information Technology Index	
	Price to Next 12-Month Earnings, Current [2]	9.3		22.7	
	Price to Next 12-Month Earnings, 5 Yr Average [2]	11.1		30.2	
	Current vs. 5-Yr Average	-16.4%		-24.8%	
	Price to Next 12-Month Sales, Current [2]	2.2		5.1	
	Price to Next 12-Month Sales, 5 Yr Average [2]	2.3		7.0	
	Current vs. 5 Yr Average	-6.9%		-26.6%	
8	**Costs** **Annual Management Fees** [1]	0.58%	0.59%	0.75%	0.49%

Sources: 1. Latest ETF Fact Sheets: EIS, ISRA, and IZRL as of 09-30-23, and ITEQ as of 06-30-23.
2. Refinitiv.

1. **Investment Focus:** The original two ETFs – EIS and ISRA – were launched to give investors exposure to the broad-based Israeli stock market, while the two ETFs launched later – ITEQ and IZRL – provide investors with a narrower exposure, primarily to the Israeli Information Technology and other technology-related sectors.

    a. **The Broad-Based Israeli ETFs:** EIS and ISRA are two broad-based ETFs. According to the EIS Fact sheet, BlackRock, the EIS provider, briefly described the ETF mission, saying that EIS *"seeks to track the investment results of a broad-based index composed of Israeli equities."* [33]

    ISRA's provider, VanEck, described the fund as follows, *"VanEck Israel ETF (ISRA) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the BlueStar Israel Global Index (BLSNTR), which is comprised of equity securities, which may include depositary receipts, of publically traded companies that are generally considered by the Index Provider to be Israeli companies."* [34]

    Among the Top 10 holdings in both ETFs are some globally oriented technologically leading companies that trade on the US markets, such as Check Point Software Technologies Ltd. (Ticker: CHKP), Teva Pharmaceutical Industries Ltd. (Ticker: TEVA), Nice Ltd. (Ticker: NICE), and CyberArk Software Ltd. (Ticker: CYBR). In addition, both ETFs include stocks of banks that trade on the Israeli exchanges: Bank Leumi le Israel, Bank Hapoalim, Israel Discount Bank Ltd., and Israeli Tefahot Bank Ltd *(see Chart 3 for the lists of all four ETFs Top 10 holdings).*

    b. **The Technology-Focused Israeli ETFs:** Both ITEQ and IZRL were founded to take advantage of investing in the Israeli high-tech sector that their providers consider among the very top in the world. ITEQ's fact sheet perfectly expressed respect for Israel as an investment destination by quoting arguably the world's best – and definitely the most famous – investor, *"Israel is, as Warren Buffett says, "the leading, largest and most promising investment hub outside of the United States."* [35] Warren Buffett has not named a large country with hundreds or at least dozens of millions of citizens the *"world's second most promising investment hub"* after the United States, the superpower with a population of 331.9 million. [36] Instead, he named the country with a total population of less than 9.4 million people, which lives under the constant threat of a military attack by some of its neighbors. [37]

    The message of IZRL's latest fact sheet rhymes with that of ITEQ. It says, *"ARK believes Israel is a world leader in the developments of innovative products and services with companies that are advancing scientific research and enhancing many sectors of the global economy. Ranked highly in the world for*

[33] BlackRock, iShares MSCI Israel ETF, Fact Sheet, September 30, 2023.
[34] VanEck, VanEck Israel ETF, Fact Sheet, September 30, 2023.
[35] ETF Managers Group, BlueStar Israel Technology ETF, Fact Sheet, June 30, 2023.
[36] Google Search, "US Population (2021)." Downloaded on October 30, 2023.
[37] Google Search, "Israel Population (2021." Downloaded on October 30, 2023.

technological advancements and entrepreneurship, and responsible for many innovations, ARK thinks Israel has earned its status as an innovation powerhouse." [38]

According to the ITEQ fact sheet, *"ITEQ tracks the BlueStar Israel Global Technology Index (BIGITech), a flagship benchmark for the Israeli technology stocks, which encompasses Israeli companies listed on exchanges throughout the world."* [39] It is the first ETF to target companies in the Israeli tech industry and *"provides exposure to the technology themes of tomorrow, such as cyber security, autonomous driving, artificial intelligence, CleanTech, DefenseTech, and 3D printing."* [40] *IZRL "seeks to provide investment results that closely correspond to the performance of the ARK Israeli Innovation Index (IZRLINVN), which is designed to track companies whose main business operations are causing disruptive innovation and aiming for new growth."* [41]

Surprisingly, the technology-oriented ETFs have only two companies in common among their Top 10 positions – Wix.com Ltd and CyberArk Software Ltd. ITEQ's Top 10 positions are much more similar to EIS and ISRA's but without the banks and pharmaceutical companies. Since IZRL providers use an equal weighting method in constructing and rebalancing the ETF, the ETF includes most companies that constitute the Top 10 positions at ITEQ, but their positions are smaller. [42] *Please see the Top 10 positions in all four ETFs in Chart 4.* Names of the companies included in the ETFs are color-coded to make it easier to identify which companies investors get exposure to when they invest in each of the ETFs.

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[38] ARK Invest, ARK Israel Innovative Technology ETF, Fact Sheet, September 30, 2023.
[39] ETF Managers Group, BlueStar Israel Technology ETF, Fact Sheet, June 30, 2023.
[40] Ibid.
[41] Ibid.
[42] ARK Invest, ARK Israel Innovative Technology ETF, Holdings List, October 27, 2023.

Chart 4. Top 10 Holdings in the Israeli ETFs.

	EIS	
N	Stocks	Weights
1	Bank Leumi Le Israel BM	7.35%
2	Check Point Software Technologies Ltd.	7.22%
3	Teva Pharmaceutical Industries Ltd.	6.61%
4	Bank Hapoalim BM	6.54%
5	Nice Ltd.	6.20%
6	CyberArk Software Ltd.	3.96%
7	Israel Discount Ban Ltd.	3.87%
8	Mizrahi Tefahot Bank Ltd.	3.24%
9	Elbit Systems Ltd.	3.07%
10	Wix.com Ltd.	2.87%
	TOP 10 TOTAL WEIGHT	50.93%

	ISRA	
N	Stocks	Weights
1	Check Point Software Technologies Ltd.	7.42%
2	Teva Pharmaceutical Industries Ltd.	6.50%
3	Bank Leumi Le Israel BM	5.82%
4	Nice Ltd.	5.33%
5	Bank Hapoalim BM	5.28%
6	Amdocs Ltd.	5.00%
7	Solaredge Technologies Inc.	4.15%
8	CyberArk Software Ltd.	4.06%
9	Israel Disount Bank Ltd.	3.14%
10	Mizrahi Tefahot Bank Ltd.	3.08%
	TOP 10 TOTAL WEIGHT	49.77%

	ITEQ	
N	Stocks	Weights
1	Amdocs Ltd.	7.84%
2	Check Point Software Technologies Ltd.	7.73%
3	Nice Ltd.	7.19%
4	Solaredge Technologies Inc.	6.55%
5	CyberArk Software Ltd.	6.00%
6	Elbit Systems Ltd.	4.77%
7	Monday.com Ltd.	4.09%
8	Tower Semiconductor Ltd.	3.93%
9	Wix.com Ltd.	3.26%
10	Ormat Technologies	3.02%
	TOP 10 TOTAL WEIGHT	54.38%

	IZRL	
N	Stocks	Weights
1	Camtek Ltd.	3.30%
2	UroGen Pharma Ltd.	3.30%
3	Teva Pharmaceutical Industries Ltd.	2.70%
4	Taboola.com Ltd.	2.70%
5	WalkMe Ltd.	2.50%
6	Ituran Location and Control Ltd.	2.50%
7	Wix.com Ltd.	2.50%
8	CyberArk Software Ltd.	2.40%
9	Bezeq The Israeli Telecom Corp Ltd.	2.40%
10	Hilan Ltd.	2.40%
	TOP 10 TOTAL WEIGHT	26.70%

Sources: *Latest ETF Fact Sheets: EIS, ISRA, and IZRL as of 09-30-23, and ITEQ as of 06-30-23.*

2. **Longevity:** In all the charts in this report, the ETFs were ranked in the order they were founded, which also coincides with the tickers' alphabetical order. All four ETFs were launched more than five years ago, which – for me – indicates that they have enough client appeal and ETF providers' determination to keep them going. *See the ETF inception dates in Chart 3.*

3. **Liquidity:** In the competition of broad-based ETFs, there is a clear leader in terms of assets under management, while in the competition of the ETFs focused primarily on the Information Technology sector, both ETFs have roughly the same amount of assets under management. EIS is the bigger of the two broad-based ETFs in terms of the net assets under management. As of September 30, 2023, EIS' assets were $127.0 million versus ISRA's assets of $56.2 million, or 2.26 times higher. ITEQ's and IZRL's assets were much more evenly split: $88.6 and $94.2 million, respectively.

4. **Diversification:** Diversification of a portfolio is essential and determines its returns, these returns' volatility, and the portfolio's susceptibility to significant losses due to the individual companies' risks that can cause rapid declines in their stock prices.
   a. **Weighting Method of ETF Construction Leads to Exposure to Companies of Different Sizes with Different Volatilities:** The ETF providers of three out of the four ETFs – EIS, ISRA, and ITEQ – use the

Market Capitalization method of determining the weights of individual stocks in ETFs, while IZRL is built on the Equal Capitalization basis. Under the Market Capitalization method, companies with higher market capitalization – large companies – have higher weights in the ETFs. The performance of stocks of these largest companies heavily influences the performance of the ETF prices. Alternatively, when the Equal Capitalization method is used, all companies in the ETF – regardless of their size – have the same or similar weights. Equal Capitalization gives investors more meaningful exposure to smaller-cap companies and their performance.

In light of the above explanation, it is not surprising that the weight of the Top 10 holdings in the first three ETFs built on the Market Capitalization method is close to twice the weight of the Top 10 holdings in IZRL, which is constructed and rebalanced with the use of the Equal Capitalization method. The Top 10 holdings constituted 50.9% of EIS, 49.8% of ISRA, and 54.4% of ITEQ. [43] For comparison, the Top 10 companies' weight in IZRL was just 26.7%.

Generally, ETFs built on the Equal Capitalization basis are more volatile because of the higher weight of smaller, more volatile companies.

b. **Increasing the Number of Stocks Diversifies Away Individual Companies' Idiosyncratic Risks:** Increasing the number of stocks – whose prices are not perfectly correlated – to 30-50 stocks allows an ETF provider to lower the idiosyncratic company risk. [44] This risk is a risk of ETF prices declining rapidly due to one or several stock prices plummeting for company-specific reasons (i.e., product sales dropping dramatically; sharp input costs increasing, thus decreasing profits; CEO or Chief Financial Officer (CFO) leaving abruptly due to a personal scandal or a suspicion of financial irregularities; and ultimately companies going bankrupt).

   However, increasing the number of stocks in a portfolio above 30-50 may raise the volatility of returns because the ETF would include smaller and riskier stocks. All Israeli ETFs have more than 50 stocks. EIS has 117 equities in its portfolio, while ISRA has 94, ITEQ – 57, and IZRL – 76. [45] Having more than 50 stocks in a portfolio lowers the idiosyncratic company risk but potentially increases the volatility of ETF returns. EIS' exposure to the highest number of equities, including smaller ones, may have contributed to the ETF's higher increased return volatility. The fact that IZRL is built using Equal Capitalization weighting – with its lower exposure to large and less risky stocks – contributes to IZRL's higher volatility.

c. **Exposure to Different Industry Sectors and Lower Concentration in One or Two Sectors Lower Volatility:** Having significant exposure to various industrial sectors whose prices are either not perfectly correlated and often move in different directions is another diversification strategy that usually leads to portfolios' lower volatility. EIS and ISRA are much more diversified and are exposed to all (11) or almost

[43] Fact Sheets of EIS, ISRA, and IZRL, September 30, 2023. Fact Sheet of ITEQ, June 30, 2023.
[44] Wesley Grey, Alpha Architect, "How Many Stocks Should I Own in My Portfolio?" September 9, 2014.
[45] Latest ETF Fact Sheets: EIS, ISRA, and IZRL as of 09-30-23, and ITEQ as of 06-30-23.

all (10) industrial sectors, respectively *(see Chart 5 for all ETFs' sector composition).* For comparison, ITEQ has exposure to seven sectors and IZRL to just five. [46]

EIS is the most diversified among all four ETFs. The weight of the Top sector, which is the same across the ETFs – Information Technology – is by far the lowest in EIS. It is only 30.5% *(see Chart 3 for the Top Sector weights in all four ETFs).* [47] The weight of the Top 2 industrial sectors is also the lowest in EIS. It is 57.0% *(see Chart 3 for the Top 2 Sector weights)*. [48] In ISRA, the weight of the Top sector, again, Information Technology, is 38.4%. [49] It is almost 8.0% higher than that in EIS, which adds to the volatility. The weight of the Top 2 sectors is 62.7%, or 5.7% higher than in EIS. [50] What is essential is that the second largest sector in both ETFs is Financials, a Value sector. Its weight is not much lower than that of Information Technology, a Growth sector, in EIS and ISRA: 26.5% and 24.3%, respectively. [51] [52]

According to Investopedia, *"Growth stocks are those of companies that are considered to have the potential to outperform the overall market over time because of their future potential. Value stocks are classified as companies that are currently trading below what they are really worth and will thus provide a superior return."* [53]

From the portfolio construction standpoint, it is important to know that returns of Growth and Value stocks are not perfectly correlated. Both Growth and Value stock prices often move in the same direction, but the magnitude of their moves is different. Sometimes, Growth and Value stock prices move in the opposite direction: when Growth stock prices increase, Value stock prices decline, and vice versa. Growth and Value stocks' weak positive and/or negative correlations make portfolios less volatile. The relatively small difference between the weights of the largest and second-largest sectors that contain predominantly Growth and Value stocks, respectively, makes EIS and ISRA less volatile.

ITEQ and IZRL are more volatile in large part because the weights of the Information Technology stocks in them are much higher than in EIS and ISRA, but the weights of the second largest sectors are small in relative and absolute terms. By design, ITEQ and IZRL are less diversified than EIS and ISRA. According to the latest fact sheets, the Information Technology sector weighted 66.4% in ITEQ and 59.3% in IZRL, more than twice the EIS sector's weight. [54] [55] Their second largest sectors somewhat reduced the volatility caused by the high weight in the Information Technology sector. In ITEQ, the second largest sector was the Industrials, with a weight of 7.5%. [56] The Industrials is a Value sector. In IZRL, the weight

[46] Ibid.
[47] BlackRock, iShares MSCI Israel ETF, Fact Sheet, September 30, 2023.
[48] Ibid.
[49] VanEck, VanEck Israel ETF, Fact Sheet, September 30, 2023.
[50] Ibid.
[51] BlackRock, iShares MSCI Israel ETF, Fact Sheet, September 30, 2023.
[52] VanEck, VanEck Israel ETF, Fact Sheet, September 30, 2023.
[53] Mark Cussen, Marguerita Cheng & Ryan Eichler, Investopedia, "Value or Growth Stocks: Which Is Better?" July 27, 2023.
[54] ETF Managers Group, BlueStar Israel Technology ETF, Fact Sheet, June 30, 2023.
[55] ARK Invest, ARK Israel Innovative Technology ETF, Fact Sheet, September 30, 2023.
[56] ETF Managers Group, BlueStar Israel Technology ETF, Fact Sheet, June 30, 2023.

of the second largest sector – Communication Services – was 12.8%. [57] The Communications Services sector is often a mixed Growth and Value sector. For example, old Telecommunications companies are Value, while the Interactive Media and Services industry, with its Internet companies, is growth-heavy. [58]

Chart 5. The Israeli ETFs Sector Composition.

	EIS	
N	Stocks	Weights
1	Information Technology	30.5%
2	Financials	26.5%
3	Real Estate	8.5%
4	Health Care	8.4%
5	Industrials	8.0%
6	Consumer Discretionary	4.7%
7	Communication Services	3.3%
8	Materials	3.0%
9	Utilities	2.6%
10	Energy	2.5%
11	Consumer Staples	1.9%
	Other / Cash	0.2%
	TOTAL SECTORS	100.0%

	ISRA	
N	Sectors	Weights
1	Information Technology	38.4%
2	Financials	24.3%
3	Health Care	9.2%
4	Industrials	6.0%
5	Consumer Discretionary	4.5%
6	Real Estate	4.2%
7	Communication Services	3.9%
8	Utilities	3.3%
9	Energy	2.7%
10	Materials	2.4%
11		
	Other / Cash	1.0%
	TOTAL SECTORS	100.0%

	ITEQ	
N	Sectors	Weights
1	Information Technology	66.4%
2	Industrials	7.5%
3	Health Care	7.0%
4	Utilities	5.5%
5	Consumer Discretionary	4.0%
6	Communication Services	3.9%
7	Financials	3.7%
8		
9		
10		
11		
	Other / Cash	1.9%
	TOTAL SECTORS	100.0%

	IZRL	
N	Sectors	Weights
1	Information Technology	59.3%
2	Communication Services	12.8%
3	Health Care	12.3%
4	Industrials	8.8%
5	Consumer Discretionary	6.6%
6		
7		
8		
9		
10		
11		
	Other / Cash	0.2%
	TOTAL SECTORS	100.0%

Sources: *Latest ETF Fact Sheets: EIS, ISRA, and IZRL as of 09-30-23, and ITEQ as of 06-30-23.*

5. **Volatility of Returns:** Volatility of returns is a statistical measure of the dispersion of returns for an investment instrument or an index. In most cases, the higher the volatility, the riskier the security. The volatility is often measured as the standard deviation of returns.

   EIS has the lowest volatility of returns. Its annualized 5-year standard deviation was 21.0% as of September 30, 2023 *(see Chart 3).* As mentioned above, EIS has lower volatility than the other three ETFs because it is built using the Market Capitalization weighting method that ensures that larger and less volatile companies

[57] ARK Invest, ARK Israel Innovative Technology ETF, Fact Sheet, September 30, 2023.
[58] Fisher Investments, "Your Handy Primer on Value and Growth Stocks," September 30, 2021.

are at its core. Notably, the weights of the Information Technology (Growth) and Financials (Value) sector stocks, counterbalancing each other, are close: 30.5% and 26.5%.

ISRA's annualized 5-year standard deviation was almost identical to EIS'. It was 21.1% as of September 30, 2023. In my opinion, the fact that the weight of the Information Technology exceeded that of the Financials sector – with its countercyclical impact on the ETF returns – by more than in EIS contributed to ISRA's higher volatility. The difference between the largest two sector weights was 14.1% for ISRA versus 4.0% for EIS *(see Chart 3).* At the same time, ISRA's exposure to fewer volatile small-cap companies among its 94 equities versus EIS' 117 might have lowered ISRA's standard deviation.

Due to the much smaller moderating impact of Value stocks, whose weights are low by design, on the returns of ITEQ and IZRL, the volatility of these ETFs is higher than that of EIS and ISRA. ITEQ's 5-year annualized standard deviation was 23.3%, while IZRL's was 25.1% *(see Chart 3 for standard deviations of returns as of September 30, 2023, for all four ETFs).* IZRL's standard deviation is higher than ITEQ's because ARK Invest – IZRL's provider – uses the Equal Capitalization method to determine the sizes of individual equity positions in IZRL. The weight of the Top 10 holdings is 26.7% for IZRL versus 54.4% for ITEQ. Also, not all of IZRL's Top 10 holdings are large and less volatile companies, as is the case for ITEQ.

For comparison, US indices are generally less volatile than their Israeli counterparts because they include larger stocks, and the geopolitical situation that impacts profit uncertainty is much less volatile in the US. The 5-year annualized standard deviation of the Standard & Poor's 500 Index with its 500 largest stocks was 19.0% as of September 30, 2023; the MSCI USA Index – with its 627 stocks, many of each were smaller and riskier than those in the Standard & Poor's 500 Index – was 19.3%, and that of the technology-heavy NASDAQ Composite Index with its 3490 equities – many small and volatile – was 22.3%. [59] [60] [61]

It has to be said that volatility is a double-edged sword and is not always bad. Investors may benefit from higher volatility when a sector to which they have exposure rallies. If investors have a higher allocation to a sector that outperforms, they benefit from the outperformance. If, however, the industry underperforms, they suffer. For example, investors benefitted from investing in technology-heavy IZRL (incrementally) and especially ITEQ in 2019 and 2020 compared to the broad-based EIS and ISRA. During these two years, the total returns of EIS and ISRA were 35.5% and 62.5%, respectively. IZRL had returns of 63.3%, slightly higher than ISRA's *(see Chart 6 for the annual performance of four Israeli ETFs and three American indices – S&P 500, MSCI USA, and NASDAQ Composite – from 2008 to 2023).*

But all of them were entirely overshadowed by ITEQ, which had returns of 120.1%, almost twice ISRA's and IZRL's returns, and more than three times those of EIS. However, in 2021, due to the sector rotation – a regular movement of sectors up and down the leaderboard in terms of their performance – ITEQ and IZRL

[59] S&P Dow Jones Indices, S&P 500 Fact Sheet, September 29, 2023.
[60] MSCI, MSCI USA Index Fact Sheet, September 29, 2023.
[61] NASDAQ, NASDAQ Composite Index Fact Sheet, September 29, 2023.

underperformed. In 2021, EIS and ISRA had excellent positive returns of 22.8% and 10.1%, respectively, while the returns of the technology ETFs were negative. ITEQ returns were negative 8.0%, while IZRL's were negative 3.6%. Still, these negative returns were not bad enough to impact the excellent performance of all four ETFs during the 2019-2021 period.

6. **Performance:** All Israeli ETFs' performance has disappointed in 2022 and the first nine months of 2023. All four ETFs had total negative returns during these 21 months. EIS had total returns of negative 28.9%, ISRA's returns were -30.2%, ITEQ's returns were -34.8%, and IZRL's returns were the worst: -35.2%. I believe the performance was terrible due to high valuations after excellent performance by all four ETFs in 2019-2021. Political divisions within Israel, weekly protests, and multiple strikes (i.e., by doctors and military reservists) against Prime Minister Benjamin Netanyahu's government to overhaul the country's judicial system led to lower productivity. [62] [63]

   Broad expectations of the global recession increased in 2022 and became another reason behind the Israeli stock market's poor performance in 2022 and 2023. Historically, high inflation around the world leads to higher interest rates that usually slow global growth. In fact, many observers considered that the US economy's growth would not only slow slightly but expected the US economy to enter recession. In August 2022, 72% of economists polled by the National Association of Business Economics expected the next US recession would begin by the middle of 2023 – if it had not already started in 2022. [64] And when the US enters a recession, the global economy often follows. Recessions and even expectations thereof often harm Growth stock prices and make the stocks' relatively high valuation ratios decline more versus Value stocks. Of course, the Hamas attack contributed to the Israeli ETFs' performance getting even worse.

   Bad annual performance in 2022-2023 led to very mediocre annualized five-year returns and bad three-year returns. The five-year returns of the ETFs were all below 3%: EIS – 0.5%, ISRA – 1.2%, ITEQ – 2.9%, and IZRL – negative 2.3% *(see Chart 3 for the five-year, three-year, one-year, and Year-to-Date returns)*. The 3-year annualized returns for the broad-based ETFs were disappointing – EIS had low positive returns of 2.2%, and ISRA had low negative returns of 1.5%. In comparison, the 3-year annualized returns for technology-heavy ITEQ and IZRA were much worse: negative 9.3% and 9.6%, respectively.

[62] The Associated Press, "Hundreds of Thousands March in Israel against Netanyahu's Judicial Overhaul," July 22, 2023.
[63] The Guardian, "Israel Protests: Doctors Announce Strike Amid Mass Demonstrations Over Judicial Overhaul," July 24, 2023.
[64] Matt Egan, CNN Business, "72% of Economists Expect a US Recession by the Middle of Next Year," August 22, 2022.

Chart 6. Annual Performance of the Israeli ETFs and American Stock Indices.

Years	EIS	ISRA	ITEQ	IZRL	S&P500	MSCI USA	NASDAQ
2008	-36.30%				-30.43%	-30.67%	-30.35%
2009	81.24%				26.46%	27.14%	45.32%
2010	15.30%				15.06%	15.45%	18.02%
2011	-32.72%				2.11%	1.99%	-0.83%
2012	8.74%				16.00%	16.13%	17.45%
2013	18.28%	18.69%			32.39%	32.61%	40.12%
2014	-1.68%	0.47%			13.69%	13.36%	14.75%
2015	7.78%	-1.45%	-4.25%		1.38%	1.32%	6.96%
2016	-3.98%	-5.25%	3.83%		11.96%	11.61%	8.87%
2017	12.78%	15.05%	27.56%		21.83%	21.90%	29.64%
2018	-4.83%	-7.04%	-0.32%	-6.16%	-4.38%	-4.50%	-2.84%
2019	20.93%	26.77%	37.62%	21.75%	31.49%	31.64%	36.69%
2020	12.02%	28.21%	59.93%	34.12%	18.40%	21.37%	44.92%
2021	22.84%	10.09%	-7.98%	-3.55%	28.71%	26.97%	22.18%
2022	-27.04%	-25.75%	-30.36%	-38.61%	-18.11%	-19.46%	-32.54%
2023	-2.52%	-6.04%	-6.36%	5.48%	13.07%	13.53%	27.11%

The 2008 performance is from March 31, 2008, to December 31, 2008. EIS was launched on March 26. The 2023 performance is for January 1, 2023, to September 30, 2023.
Sources: Refinitiv and Beyond Borders Investment Strategies, LLC.

7. Valuations: The positive thing about the bad recent ETF performance of all Israeli ETFs is that their valuations have become less expensive and, as a result, more attractive. I believe the valuations became very attractive even before the ETF prices declined after the Hamas attack. After the attack, they fell even more *(see Chart 1 for the ETF performance after the Hamas attack on October 7).*

I used valuations for two indices to approximate the valuations of all four ETFs. I unofficially benchmarked EIS and ISRA to the MSCI Israel Index because IBES valuation estimates for the 'official' benchmarks used by the ETF providers – the MSCI Israel Capped Investable Market Index and BlueStar Israel Global Index – have not been available in the Refinitiv database. [65] The MSCI Israel Index is a broad-based index that can serve as a make-up benchmark for the broad-based EIS and ISRA.

On September 30, 2023, the Price-to-Earnings (Next 12 Months) ratio – or P/E ratio – for the MSCI Israel Index was 9.3 times versus the 5-year average of 11.1 *(see Chart 7).* The current ratio was lower than the 5-

[65] "IBES" stands for the Institutional Brokers' Estimate System.

year average by 16.4%. On September 30, 2023, the MSCI Israel Index's Price-to-Sales (Next 12 Months) ratio – or P/S ratio – of 2.2 was 6.9% lower than the 5-year average of 2.3. On October 27, 2023, the Price-to-Earnings (Next 12 Months) ratio for the MSCI Israel Index dropped even further – to 8.3, or 25.2% below the 5-year average. On October 27, 2023, the Price-to-Sales (Next 12 Months) ratio dropped to 1.9, or 17.6% below the 5-year average.

Investors would realize attractive returns if the current valuations were to expand to the 5-year average valuation levels. If the P/E ratio grew from 8.3 (October 27) to 11.1 (5-year average), the total returns would be 33.8%. If the P/S ratio were to expand from 1.9 to 2.3, the total returns would be 21.4%. The average of the total returns earned due to P/E and P/S ratio expansions would be 27.6% *(see Chart 7).*

For ITEQ and IZRL, I used valuations for the MSCI Israel Information Technology Index because IBES valuation estimates for the BlueStar Israel Global Technology and ARK Israeli Innovation Index – that the ETF providers benchmark their ETFs against – have not been available. Current valuation discounts are even more significant for the technology indices. On September 30, 2023, the P/E ratio for the MSCI Israel Information Technology Index was 22.7 versus the 5-year average of 30.2, making the current ratio 24.8% lower than the 5-year average. The P/S ratio of 5.1 was a whopping 26.6% lower than the 5-year average of 7.0. On October 27, 2023, the P/E ratio dropped to just 21.4, or 28.9% below the 5-year average. The P/S ratio declined to 4.9, was 30.5% below the 5-year average.

Once again, investors would realize attractive returns if the current valuations were to expand to the 5-average level. If the P/E ratio grew from 21.4 (October 27) to 30.2 (5-year average), the total returns would be 40.7%. If the P/S ratio were to expand from 4.9 to 7.0, the total returns would be 43.9%. The average of the total returns earned due to P/E and P/S ratio expansion would be 42.3% *(see Chart 7).*

Of course, these forecasts depend on the next 12-month estimates of the Earnings per Share (EPS) and Sales. If these estimates are expected to decline – even if the valuation ratios expand to the Average levels – the Indices' prices and prices of ETFs tracking them would not increase as much as when the EPS and Sales estimates are stable. The Indices' and ETFs' prices may even decrease depending on the magnitude of the EPS and Sales estimates' decreases and the valuation ratios' increases.

However, EPS and Sales estimates for the next 12 months for both Israeli indices stayed strong. Indeed, the MSCI Israel Index's EPS and Sales forecasts increased by 2.0% and 5.9% since the Hamas attack. [66] MSCI Israel Information Technology Index's EPS and Sales forecasts for the next 12 months also increased by 5.6% and 5.5% since the October 7 attack.[67]

[66] Refinitiv.
[67] Ibid.

Chart 7. Low Valuations Can Potentially Lead to Attractive Returns.

Indices	MSCI Israel Index			MSCI Israel Information Technology Index		
Valuations and Potential Returns	Price-to-Earnings (Next 12 Months)	Price-to-Sales (Next 12 Months)	Average Potential Returns	Price-to-Earnings (Next 12 Months)	Price-to-Sales (Next 12 Months)	Average Potential Returns
5-Year Average Valuations	11.1	2.3		30.2	7.0	
As of September 29, 2023						
Current Ratios	9.3	2.2		22.7	5.1	
Current vs. Average Valuations	-16.4%	-6.9%		-24.8%	-26.6%	
Potential Returns due to Valuation Expansion	19.6%	7.4%	13.5%	33.0%	36.2%	34.6%
As of October 27, 2023						
Current Ratios	8.3	1.9		21.4	4.9	
Current vs. Average Valuations	-25.2%	-17.6%		-28.9%	-30.5%	
Potential Returns due to Valuation Expansion	33.8%	21.4%	27.6%	40.7%	43.9%	42.3%

Source: Refinitiv and Beyond Borders Investment Strategies, LLC.

8. **Annual Management Fees:** The annual management fees of EIS and ISRA are almost identical – 0.58% and 0.59%, respectively *(see Chart 3).* ITEQ has the highest management fees, 0.75%, while IZRL has the lowest, 0.49%.

PART 4: LOOKING INTO THE FUTURE – CATALYST AND RISKS

1. **The Most Important Catalyst:** I do not believe the full recovery of the Israeli economy would happen before the end of the war with Hamas. The end of hostilities is likely to be a major catalyst for all four ETFs. However, investing before the war's end would allow investors to lower the pressure on Israeli companies to lay off their employees. It would also enable investors to buy ETFs at valuations that are currently lower than before the war and, hopefully, after it. Historically, buying stocks at lower valuations often led to attractive long-term returns. However, let me repeat a word of caution known by most investors already, *"Past performance is no guarantee of future results."*

2. **Some Risks to Investing in the Israeli ETFs**: Investing in the Israeli equity ETFs does not come without risks. I would treat these investment instruments as high-risk and potentially high-return investments. Some of the risks mentioned below – if realized – may lower the investment return potential of the Israeli ETFs.

   a. **Negative War Surprises May Lead to Lower Sales and Earnings Estimates and Stock Prices:** Many negative surprises may happen when a country is at war. These surprises may prolong the war and increase casualties, meaning that some employees may stay with the military longer than expected, and some may not return at all. These absences from corporations may result in continued disruptions to their operations. The disruptions can result in (persistently) lower sales and profits – and their estimates used in the valuation ratios, some of which were discussed in Part 3 – leading to lower prices of stocks and ETFs built from these stocks.

   b. **Israel's War with Hamas May Turn into a Regional War With an Iran-Led Terrorist Coalition:** The war between Israel and Hamas, in my opinion, should be viewed through a broader Middle East prism. As a behind-the-scene mastermind, the current regime of Iran – via its Islamic Revolutionary Guard Corps (IGRC) - is fighting Israel and the West through the *'Axis of Resistance'* coalition that includes such Iranian proxies as Hamas, Hezbollah, and Yemen's Houthis. The IGRC, Hamas, and Hezbollah are designated as the Foreign Terrorist Organizations (FTO) by the US Department of State. [68] In February 2021, for humanitarian reasons, the Biden administration took the Houthis off the list, to which the Trump administration added them in a last-minute decision on January 19, 2020, one day before the end of its term. [69] The designation *"froze any US-related assets of the Houthis, banned Americans from doing business with them and made it a crime to provide support or resources to the movement."* [70] The Biden administration realized it might have made a mistake by taking the Houthis off the FTO list and has been considering the reversal of its decision since January

[68] The US Department of State: Bureau of Counterterrorism, "Foreign Terrorist Organizations." Downloaded on October 27, 2023.
[69] Joseph Stepansky, Al Jazeera, "Biden Administration Ends Trump-Era Houthi 'Terrorist' Designation, February 16, 2021.
[70] Ibid.

2022 – long before the current war – after Houthis' deadly missile attack on civilian targets in the United Arab Emirates (UAE) that ended in the loss of three human lives. [71]

Current Iranian leaders understand that if Iran enters the war, Israel may be forced to use the nuclear option due to Iran's much larger territory and sizable arsenal distributed all around the country. This understanding makes Iran's open participation in the war against Israel unlikely. Instead, Iran has been inciting Hamas, whose members have been willing to die as cannon fodder in the war against Israel. Iran has been controlling Hamas by arming and financing the outfit and training its members. [72] Iran also supports Hamas' corrupt billionaire leaders, who get Hamas foot soldiers – most from poor families – into a killing frenzy from safe and luxurious homes in Qatar and Turkey, where the leaders 'bravely' live with their families during this and previous wars that Hamas started against Israel. [73]

According to the Voice of America article, *"Iran Appeared to Coordinate Closely with Hamas Ahead of Assault on Israel, Observers Say," "Iranian Foreign Minister Hossein Amir-Abdollahian held an extended meeting with the leaders of Hamas and Palestinian Islamic Jihad, a smaller Gaza-based militant group, in Beirut on September 1, according to Iran's state-approved agency Tasnim. "Both sides laid emphasis on the need for the liberation of Palestine from Israeli occupation," the report said."* [74] More recently, Osama Hamdan – Hamas' representative in Lebanon – traveled to Tehran for the Islamic Unity Conference, where he spoke about *"the need for all Islamist parties to do everything in their power to liberate Al-Quds [Jerusalem]," a euphemism for destroying Israel."* [75] In the weeks leading to the Hamas attack on Israel on October 7, the Quds Force – *"one of the five branches of Iran's Islamic Revolutionary Guard Corps specializing in unconventional warfare and military intelligence operations"* – provided specialized combat training to roughly 500 terrorists from Hamas and Palestinian Islamic Jihad. [76] [77]

Hezbollah and Yemen's Houthi rebels may try to interfere in the war on the side of Iran's fellow proxy – Hamas. The Houthis – a primarily Shia Muslim tribal force fighting under a slogan that shows the peace-loving nature of the group, *"God is great, death to the US, death to Israel, curse the Jews, and victory for Islam"* – have already launched several rockets at Israel. [78] On October 20, the Pentagon said the USS Carney, a destroyer ship stationed in the northern Red Sea, intercepted three cruise

[71] Jonathan Landay, Reuters, "Biden Says Administration Mulling Re-Designating Yemen's Houthis a Terrorist Group," January 20, 2022.
[72] Brad Lendon, CNN, "Hoe Does Hamas Get Its Weapons? A Mix of Improvisation, Resourcefulness and a Key Overseas Benefactor," October 12, 2023.
[73] Jumada Al-Alkhirah, Asharq Al-Awsat, "8 Hamas, 'Islamic Jihad' Leaders Leave Gaza to Live Abroad," January 14, 2022.
[74] Michael Lipin, The Voice of America (VOA) News, "Iran Appeared to Coordinate Closely with Hamas Ahead of Assault on Israel, Observers Say," October 8, 2023.
[75] Ibid.
[76] Summer Said, Dov Lieber, and Benoit Faucon, The Wall Street Journal, "Hamas Fighter Trained In Iran Before Oct. 7 Attacks," October 25, 2023.
[77] Wikipedia, "Quds Force." Downloaded on October 27, 2023.
[78] Wikipedia, "Houthi Movement." Downloaded on October 27, 2023.

missiles and several drones that had been launched by the Houthi forces and targeted Israel. [79] In a move inconceivable before the Abraham Accords peace treaties between Israel and several Arab nations (the UAE, Bahrain, Morocco, and Sudan), which nudged Saudi Arabia and Israel to start their peace negotiations, Saudi Arabia intercepted a cruise missile that the Houthis shot at Israel. [80]

Israel also had to move tens of thousands of its troops to its northern border after Hezbollah, translated as *"The Party of God"* – another Shiite ally of Iran – shot an anti-tank missile into Israel, and its terrorists tried to cross the border from south Lebanon on October 11, just four days after the Hamas attack. [81] So far, Israel has been able to protect the north of the country from another invasion and kill a surprisingly high number of the Hezbollah terrorists. The death toll shook the terrorists who lost so many fighters in a relatively contained conflict. As of October 31, Hezbollah – which is considered the strongest of Iran's "Axis of Resistance" anti-Israel and anti-West coalition – in less than a month lost 47 terrorists, or almost 20% of the group's cumulative losses during the full-blown war between Hezbollah and Israel in 2006. [82] During that war, which started after the terrorists kidnapped two Israeli soldiers from Israeli territory, Hezbollah lost 263 members. [83]

As with the risk of negative war surprises, the regionalization of the war may prolong it, leading to lower corporate sales and profits. In addition, the regionalization of warfare may have multiple ramifications, with higher global oil prices at the top of the list. Israel, which imports most of its energy, may be hit by higher energy costs that can increase inflation inside and outside the country. The Bank of Israel would potentially be forced to raise interest rates to fight inflation, which may slow corporate growth and lead to lower corporate revenues, profits, and stock prices.

c. **Hamas' Strategy of Hiding Behind Civilians and Waiting for International Public Outcry to Make Israel Leave Gaza May Turn Successful Again:** Israel and Hamas fought each other during 13 out of 18 years since Israel left Gaza on September 22, 2005. [84] The wars or hostilities took place in 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2014, 2018, 2019, 2021, 2022, and 2023, some years several times per year. [85] Most of the conflicts followed the same pattern. Hamas would attack first by kidnapping and/or killing Israeli soldiers, shooting rockets into Israel, or organizing cross-border attacks into Israel. Israel would respond to these attacks by air strikes or ground invasions. Unfortunately, there would be casualties among Gaza's civilians as casualties are a part of any war,

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79 Emily Olson, National Public Radio (NPR), "Pentagon Says It Shot Down Yemen Missiles That May Have Been Headed Toward Israel," October 20, 2023.
80 Jacob Magid, The Times of Israel, "Saudi Arabia Intercepted Houthi Missile Headed Toward Israel – Report," October 24, 2023.
81 Laurence Richard, Fox News, "Israel Responds to Hezbollah Attack from Lebanon Deploying 'Tens of Thousands' to Northern Border," October 11, 2023.
82 Laila Bassam and Tom Perry, Reuters, "Lebanon's Hezbollah Works to Curb Hefty Losses in Israel Clashes, Sources Say," October 31, 2023.
83 Ibid.
84 Israel's Ministry of Foreign Affairs, "Israeli Missions around the World: Israel's Disengagement from Gaza and North Samaria (2005)." Downloaded on October 27, 2023.
85 Wikipedia, "Gaza-Israel Conflict." Downloaded on October 27, 2023.

especially in such a densely populated place as Gaza, where, in addition, many civilians are used as '*human shields.'*

Obviously, the casualty numbers are higher in a territory that does not have a single bomb shelter. [86] The lack of protection for civilians is not an oversight on the part of Hamas, which has not forgotten to build miles and miles of tunnels during 18 years in power where its members – but not civilians – can hide from Israeli strikes during wars. Having high civilian casualties is a part of Hamas' survival strategy. Under the pressure of the international public opinion concerned over civilian deaths in Gaza, Israel would pull the troops out of Gaza before they had time to eradicate Hamas. As a cowardly bully that starts a fight and then hides behind others – often causing their deaths – Hamas has survived war after war. And the cycle of violence in Gaza and around it has continued.

Hamas has been known for widely using civilians as *'human shields'* during this and previous conflicts *(see the title of the report "Hamas' Use of Human Shields in Gaza" by the NATO Strategic Communications team in the footnote).* [87] In a complete cuckoo bird moment of total abdication of any responsibility for Gazan civilians at the end of October 2023, one of Hamas' billionaire leaders based in the safety of Qatar, Mousa Abu Marzouk**,** said that Hamas terrorists have been building underground tunnels only for themselves and that it was the responsibility of the United Nations and Israel (!!!) to take care of Gaza's civilians. [88] [89]

As Hamas, cuckoo birds are known for putting their eggs in other birds' nests, abdicating their responsibility for the safety of the next generation. Hamas went one step further than cuckoo birds by not only abdicating its responsibility for Gazan civilians but also by starting conflicts and hiding behind civilians, thus putting them in grave danger. Hamas terrorists – adult men – hide behind civilians, including women, children, and the elderly. Hamas has been known for putting its tunnels and weapons under apartment buildings, mosques, and hospitals. Currently, its headquarters is under the Al-Shifa Hospital. [90] Hamas has built tunnels with an estimated total length of 150 to 300 miles in which only they can hide. However, it has not built a single bomb shelter for civilians. [91] [92]

If the IDF soldiers, who try to eliminate Hamas terrorists, unintentionally kill *'human shield'* civilians in 2023, Hamas and its supporters in the West are likely to use the tragedy to blame Israel – rather than Hamas – for starting the war and for the 'collateral damage' victims. If the governments of the Western

[86] Laura Strickler, NBC News, "It's Like Being Underwater: What Israeli Soldiers Will Face Inside the Labyrinth of Hamas Tunnels," October 23, 2023.
[87] NATO Strategic Communications (StratCom), "Hamas' Use of Human Shields in Gaza." Downloaded on October 27, 2023.
[88] Israel Ministry of Foreign Affairs, Facebook Post, "Hamas Leaderships' Net Worth," October 30, 2023.
[89] The Middle East Media Research Institute (MEMRI) TV Videos, "Hamas Official Mousa Abu Marzouk: Gaza Tunnels Were Built to Protect Hamas Fighters, Not Civilians," October 27, 2023.
[90] TBN Israel, YouTube, "Breaking: IDF Uncovers Proof of Hamas Headquarters under Shifa Hospital," October 28, 2023.
[91] Laura Strickler, NBC News, "It's Like Being Underwater: What Israeli Soldiers Will Face Inside the Labyrinth of Hamas Tunnels," October 23, 2023.
[92] Yahya Abou-Ghazala, CNN, "In Gaza, Palestinians Have No Safe Place from Israel's Bombs," October 12, 2023.

countries succumb to the pressure from Hamas and its sympathizers, they may push for a ceasefire that would allow Hamas to regroup and attack Israel again at the time of its choosing. Hamas' official Ghazi Hamad stated on the Lebanese LBC TV that Hamas would continue attacking Israel – the same way the terrorists attacked it on October 7 – again and again until Israel is annihilated. [93]

The ceasefire before Hamas' destruction may prolong the conflict between Israel and Hamas, making all the sacrifices during the current conflict meaningless. Hamas terrorists would simply reappear from their underground hiding holes as the murderous demons of the underworld. They would be ready to rape, torture, and kill people in horrible ways or kidnap anybody – men, women, children, and the elderly – and bring them to the hell of their underground lairs deep inside the Earth. In business terms, prolonging the conflict without eliminating its root cause – Hamas – would likely lower Israeli corporate sales, profits, and equity valuations and lead to Shekel depreciation versus the US Dollar. All of these negative phenomena may persist as long as the danger from Hamas is not eliminated. Of course, these developments would likely lower the returns of the Israeli equity ETFs.

d. **The Israeli Currency May Depreciate:** As I mentioned above, the Bank of Israel managed to limit the fall of the Shekel to less than 5% by promptly announcing that it would sell up to $30 billion of its foreign currency reserves and provide additional liquidity of up to $15 billion through swap market mechanisms to shore up support for the Israeli Shekel during the war. [94] Israel's reserves of more than $200 billion - nearly 40% of the country's GDP that the Bank built starting in 2008 - seem to negate the risk of the currency collapse. [95] But, once again, if the war lasts much longer than expected, the Bank of Israel would have to use more of its considerable but not unlimited resources to maintain Shekel's stability. Dramatic lowering of the foreign currency reserves may lead to Shekel's depreciation against the US Dollar and the ETF returns declining in USD terms.

e. **A Global Recession May Lower Global Economic Growth and Israeli Exports:** I often start with this risk when I analyze countries that are not at war. But when analyzing the Israeli ETFs at this time, I put this risk as the last one in this report because the war risks may impact the ETFs more. Nevertheless, the global recession risk is important. If global growth slows in 2023 and 2024, Israeli exports may be at risk, potentially leading to lower corporate sales, profits, and stock prices of Israeli companies.

Exports are important for Israel, with the country deriving 13.1% ($64.1 billion) of its GDP ($489.7 billion) from them. [96] [97] While Israel exports its goods to over a hundred countries, the shares of three

[93] The Middle East Media Research Institute (MEMRI) TV Videos, "Hamas Official Ghazi Hamad: We Will Repeat the October 7 Attack until Israel is Annihilated," October 24, 2023.
[94] Steven Scheer and Ari Rabinovitch, Reuters, "Bank of Israel to Sell $30 Billion of Forex to Stabilize Shekel Amid Gaza War," October 9, 2023.
[95] Ibid.
[96] The Observatory of Economic Complexity, "Israel Exports – 2021." Downloaded on October 27, 2023.
[97] The International Monetary Fund, "World Economic Outlook," "Gross Domestic Product, Current Prices," October 5, 2023.

importers stand out: the US – 26.5%, Eurozone – 24.5%, and China – 7.9%. [98] None of the three will likely experience fast economic growth during the rest of 2023 and 2024. The IMF projects that the unimpressive inflation-adjusted growth of the US in 2023 – 2.1% - will slow to just 1.5% in 2024. [99] However, the US economic growth probably looks attractive to our European colleagues. In the Eurozone, the economy is expected to grow by a measly 0.7% in 2023 before 'accelerating' to just over one percent - 1.2% to be exact - in 2024. [100] The exports of Israeli companies may be negatively impacted by such low economic growth in the jurisdictions responsible for 51% of Israeli exports.

The economic growth of China – Israel's third-largest export destination – is forecasted to be 5.0% in 2023 and 4.1% in 2024. This growth seems impressive compared to the US and Eurozone. However, it pales in comparison with the annual average growth of 6.2% that China registered during the decade from 2013 to 2022. [101] Nevertheless, China may be responsible for a more significant portion of Israeli exports by the end of 2024. The title of the Newsweek article, *"China Targets Israeli Technology in Quest for Global Dominance as US Frets,"* explains the reasons for this conclusion. [102]

I hope the information on the Israeli ETFs was helpful to you. Please let me know if you have questions about them or any other topic related to global investing using single-country ETFs. Thank you.

Best regards,
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Disclosures: This report should not be construed as investment advice. Please do your own research to determine whether the Israeli ETFs – EIS, ISRA, ITEQ, and IZRL – or any other investment instruments mentioned in this report are appropriate for your investment portfolios and, if so, their respective portfolio weights. Beyond Borders Investment Strategies, LLC holds investment positions in EIS and ISRA. BBIS does not have any profit-sharing agreements with any of the ETF providers.

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[98] The Observatory of Economic Complexity, "Israel Exports – 2021." Downloaded on October 27, 2023.
[99] The International Monetary Fund, "World Economic Outlook," "Gross Domestic Product, Current Prices", October 5, 2023.
[100] Ibid.
[101] Ibid.
[102] Didi Kirsten Tatlow, Newsweek, "China Targets Israeli Technology in Quest for Global Dominance as US Frets," August 10, 2022.