

Feb. 8, 2019

## ISRAEL EQUITY REVIEW & OUTLOOK

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### About BlueStar Indexes®

BlueStar Indexes is a leading provider of research and investment solutions for the Israeli capital markets. BlueStar has been producing monthly market updates on the Israeli market since 2012. In our *Israel Equity Review and Outlook* we provide data and insight on recent performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as technical analysis of our equity indexes.

The BlueStar Israel Global Index® (BIGI® or BLS & BLSTR INDEX on Bloomberg) is the broadest and deepest benchmark for Israeli equities trading worldwide in Tel Aviv, New York, London, Singapore and Australia. The VanEck Vectors Israel ETF (ticker ISRA) tracks BIGI® and is listed on the NYSE. In addition, Israel-domiciled investment vehicles tracking BIGI® are offered by Psagot and IBI.

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 like information technology, defense technology, clean technology and bio-technology. The BlueStar Israel Technology ETF (NYSE ticker: ITEQ®) tracks BIGITech®. In addition, there are two Israel-domiciled investment vehicles tracking BIGITech® managed by KSM/Excellence.

BlueStar also maintains five additional Israel Equity Indexes (BIGI® -TIM, IGEL, IDEI, BIGI® -SD and BIGI® -SV), one Israel Government Bond Index (BIGUSD), and nine Global Thematic/Tech Equity indexes. Approximately US\$410 million in index-tracking assets are benchmarked to BlueStar Indexes as of end-August 2018.

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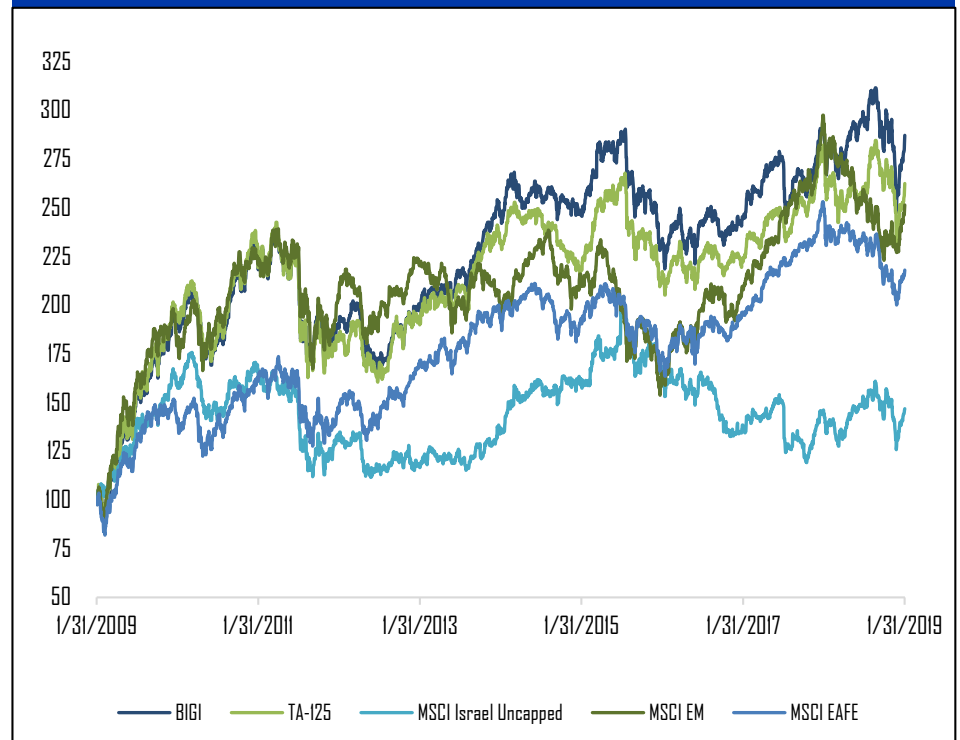
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## ISRAELI TECH STOCKS NEAR ALL-TIME HIGHS AFTER STRONG RECOVERY FROM DECEMBER MELT-DOWN; ISRAEL LEADING ALL MAJOR MARKET INDEXES IN 2019

### Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), outpaced all major market indexes in January, posting a solid 10.68% gain. BIGI®, now nearly recovered from the December sell-off, extended its 2018 dominance against MSCI EAFE by an additional 4.09% YTD.
- Israeli technology stocks, as defined by The BlueStar Israel Global Technology Index™ (BIGITech®), bounced back strongly in January, erasing December woes, with an impressive 11.48% return to lead global tech markets YTD.
- BIGI® outperformed the local TA-125 Index by 1.53% in January, as the TA-125 has missed out on the performance of some of Israel's top foreign-listed technology companies.
- After a sharp bounce off the long-term support lines, the technical outlook for BIGI® is currently neutral; BIGITech® is well poised to resume an upward trend in 2019.

### BLUESTAR ISRAEL GLOBAL INDEX® TEN-YEAR RELATIVE PERFORMANCE ENDING JANUARY 31, 2019



## Equity Market Performance Review

Israeli Equities, as defined by the BlueStar Israel Global Index, gained 10.68% in January, representing a near-full recovery from December's sell-off. The rebound, while broad-based, was led by Israeli Health Care, Real Estate, and Financial stocks, and came despite a sharp sell off in Israeli Telecommunication Services stocks.

Israeli equities are outpacing all other major market categories in 2019, with relative outperformance against the S&P 500, MSCI EAFE, and MSCI EM of 2.67%, 4.09%, and 1.92%, respectively.

Similar to the broad Israeli equity universe, Israeli technology stocks, as defined by BIGITech® - the BlueStar Israel Global Technology Index - outperformed other Developed and Emerging technology sectors in January with a gain of 11.48% compared to the Dow Jones US Tech Sector Index and the S&P Global 1200 Information Technology Index, which gained 9.08% and 7.38%, respectively.

Two trends that we find constructive are the rebound in the ILS – USD exchange rate and the performance of the Israeli Real Estate sector. Both are signs of overall stability in Israel's economy and markets.

Israeli Real Estate stocks lost 8.84% in Q4 2018. In January, this group surged by 11.16% placing it 1.3% above the September 2018 high. The best-performing stocks in this sector were: Gazit Globe, Blue Square Real Estate, Bayside Land Corp., and Azrieli Group. With the exception of Gazit Globe, each of these stocks derive at least two-thirds of their revenue from within Israel.

What is most encouraging is that each of those companies operate in different segments of the Israeli Real Estate market including super markets, malls, office buildings, and residential properties, including high-end residential buildings. We view the performance of this sector as a testament to the health of the overall Israeli economy and a result of favorable long-term demographic trends in Israel.

On the other hand, Israeli telecommunications stocks have been in a secular down-trend since the end of 2010 when the government allowed new competitive forces to enter the market. The end of this downturn, unfortunately, is not in sight. In January, Israel's largest Telecommunication Services companies, Bezeq, Partner and Cellcom, lost 17.84%, 7.43%, and 10.70%, respectively. Each company's drop happened for somewhat different reasons but overall, because of the strength of Israeli labor unions, it is very difficult for these companies to reduce costs in response to declining or stagnant revenues. Profitability thus suffers, as do shareholders.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Jan. Return (%)	2019 (%)
BIGI	10.68	10.68
BIGITech	11.48	11.48
MSCI Israel Uncapped	12.08	12.08
TA-125 INDEX	9.15	9.15
S&P 500	8.01	8.01
MSCI EM	8.76	8.76
MSCI EAFE	6.59	6.59
Israel Domestic Exposure	6.80	6.80
Israel Global Exposure	13.47	13.47

Sources: BlueStar Indexes, Bloomberg LP

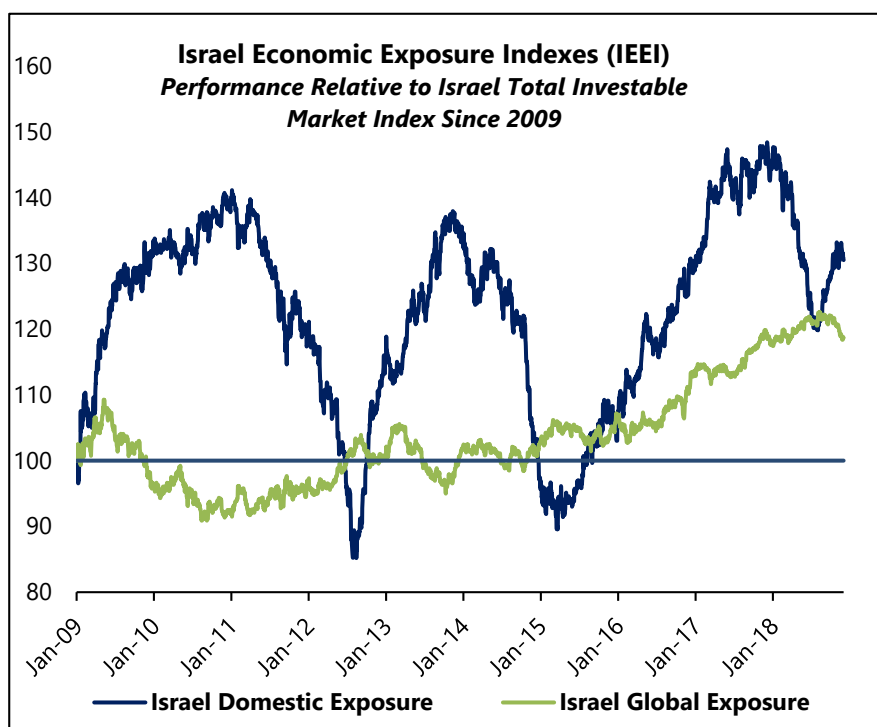
ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Jan. Return (%)	2019 (%)
BIGITech	11.48	11.48
Dow Jones US Tech	9.08	9.08
S&P Global 1200 Info Tech	7.38	7.38
MSCI EM Tech	9.06	9.06

TOP AND BOTTOM BIGI PERFORMERS: JAN. 2019			
Positive Contributors (%)		Negative Contributors (%)	
Compugen Ltd	58.99	Bezeq The Israeli Telecom Co	(17.84)
Protalix Biotherapeutics Inc	56.27	Cellcom Israel Ltd	(10.70)
Biolinerx Ltd-spons Adr	50.93	Partner Communications Co	(7.43)
Redhill Biopharma Ltd	49.55	Amdocs Ltd	(4.61)
Novocure Ltd	46.36	Urogen Pharma Ltd	(3.81)
Pluristem Therapeutics Inc	45.92	Electra Ltd	(1.68)
Stratasy Ltd	41.75	888 Holdings Plc	(0.98)
Audiocodes Ltd	41.70	Electra Consumer Products 19	(0.93)
Safecharge International	34.39	Paz Oil Co Ltd	(0.92)
Arotech Corp	31.68	Elco Ltd	(0.67)

SECTOR PERFORMANCE: JAN. 2019	
Health Care	28.12
Utilities	11.26
Real Estate	11.16
Financials	9.84
Information Technology	8.62
Industrials	7.81
Consumer Staples	6.94
Energy	6.31
Consumer Discretionary	4.24
Materials	3.44
Communication Services	(10.70)

\*Source: BlueStar Global Investors LLC; Currency-Adjusted returns in dollar terms

## Economic Update and Market View



The Bank of Israel in January left its policy interest rate unchanged at 0.25%. Inflation in Israel has remained slightly above the lower band of the target range of 1%-3% and is expected to remain stable over the near term. Looking out further, rising real and nominal wages in Israel are expected to push the inflation rate higher toward the mid-point of the target range.

Israel's Central Bureau of Statistics' first estimate of full year 2018 GDP growth came out at 3.2%, despite relatively slower growth in the second and third quarters. Because the economy is at or near full employment it seems that a rate of GDP growth just above 3% is roughly the economies long-term growth rate.

A bubble in Israel's real estate market was a key concern heading into the second half of 2017, and in 2018 there was a contraction in home prices. Thankfully, there was a soft landing in Israel's real estate market, and home prices appear to have stabilized as growth in supply in slowing and demand is still rising.

The biggest risk to the Israeli economy comes from the prospect of a global slow down in economic growth. However, if we draw on Israel's experience during other periods of slowing global growth, we will see that Israel's economy is somewhat insulated from global shocks due to favorable demographic trends, prudent monetary and fiscal policy, effective supervision of banking activity, and an emerging energy sector.

### ISRAEL ECONOMIC DATA

	2016	2017	2018*	2019*	2020*
<b>Real GDP (%y/y)</b>	3.9	3.5	3.2	3.3	3.0
<b>CPI (%y/y)</b>	-0.5	0.2	0.9	1.3	1.6
<b>Current Account (% of GDP)</b>	3.8	2.8	2.0	1.9	2.0
<b>Budget Balance (% of GDP)</b>	-1.9	-1.8	n/a	-2.9	-2.5
<b>Headline Short-Term Interest Rate</b>	0.10	0.10	0.25	0.69	1.50

Israel Central Bureau of Statistics, FactSet

## Technical Analysis (as of February 4, 2019)

**Israel Global Equities (BIGI®)  
Performance Since 2007**



The technical outlook for Israeli Global Equities broke down in December once the lowest set of red trend lines were breached. Traders who were able to quickly stop out after that break would have been well-advised to re-enter at the green support lines which have been included in our charts since late 2015.

Despite a sharp bounce off the long-term support lines, which began on December 24 and lasted through the beginning of February, the technical position for BIGI® is still somewhat precarious. We believe the most likely case will be a consolidation between those long term support lines and the lower set of upward sloping resistance lines. Even if we have a further rally in February and March, there are several layers of significant resistance that will likely contain the index well below its Autumn 2018 high.

For now our technical outlook remains neutral. Our outlook would turn bearish if key support at the double green line is broken or the index reaches the resistance lines around 275/280 drawn on the chart. On the other hand, we would like to see another pull-back and sharp recovery to establish a new support line for us to turn positively bullish on Israeli equities.

**BlueStar Israel Global Technology Index (BIGITech™) Performance Since 2006**



As was the case throughout most of 2018, the technical outlook for Israeli technology stocks remains more bullish - even after the sharp Q4 2018 correction.

Israeli technology stocks broke out to new all-time highs in late 2017 and still remain above that breakout level. The first check on this rally came in December 2018, when the steep red trend lines were broken. However, we can see that in December the index fell to a natural support area just above the 2017 breakout level before rallying sharply in January.

This indicates that Israeli technology stocks have consolidated their gains, tested support and are poised to resume an uptrend in 2019. In the meantime, investors can use the second and third support lines as 'back-up' for a bullish long-term view.

## Disclosures

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