

June 16, 2020

## ISRAEL EQUITY REVIEW & OUTLOOK – JUNE 2020

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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 flagship Israeli equity indexes, BIGI® and BIGITech®.

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, IGEI, IDEI, BIGI®-SD and BIGI®-SV), one Israel Government Bond Index (BIGUSD), more than 20 Regional and Global Thematic/Tech Equity indexes, and the BlueStar-TzurGilboa Israel Equity Hedge Fund Index. More than US\$800 million in index-tracking assets are benchmarked to BlueStar Indexes as of end-May 2020.

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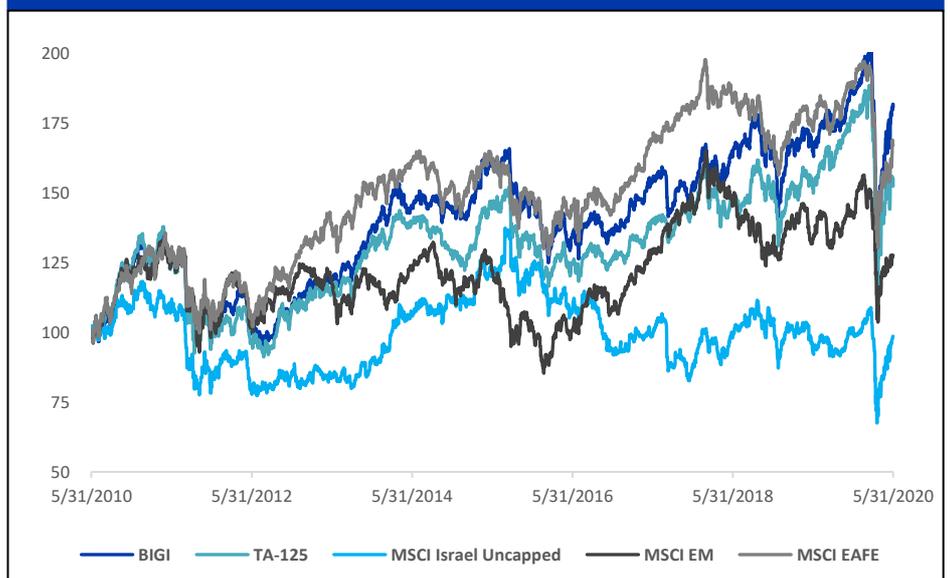
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## ISRAELI EQUITIES EXTEND LEAD VERSUS GLOBAL BENCHMARKS IN MAY; BLUESTAR ISRAEL GLOBAL INDEX® OUTPERFORMING MSCI EAFE BY 9.4% IN 2020 AS ISRAEL REOPENS FOR BUSINESS.

### Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), advanced 5.75% in May outperforming developed international equities, as measured by MSCI EAFE, by 1.33%. With a 2020 loss of 4.64%, BIGI is leading MSCI EAFE by 9.39% and MSCI EM by 11.32%, YTD.
- Israeli technology stocks, as defined by The BlueStar Israel Global Technology Index™ (BIGITech®), led global tech benchmarks with a 13.88% return in May, outperforming the Dow Jones US Tech and S&P Global Tech indexes by 6.43% and 7.30%, respectively. BIGITech achieved all-time-highs with this move.
- BIGI significantly outperformed the TA-125 Index of Israeli-listed stocks in May by 7.39%. BIGI now lead the TA-125 by 10.54% YTD.
- As yields continue to fall, Israel's government USD-denominated debt, as defined by the BlueStar Israel Government USD Bond Index hit new all-time-highs. From a relative yield perspective, Israel Government Bond are still attractive versus generic US Government and Israeli Shekel-denominated government debt.
- Israeli global equities continued their strong recovery in May, beating international equities handily. Despite the powerful rally, the long-term technical outlook for BIGI® remains bearish, though long-term support has been confirmed as well. Similarly, Israeli tech stocks, as measured by BIGITech® had an even more powerful surge from the late-March lows, notching all-time-high levels. BIGITech hit key resistance with this move, and has substantial downside at current levels. Long-term support levels for both BIGI and BIGITech are at or just below the March lows and if reached, could represent a compelling opportunity for strategic investors to accumulate Israeli global equities. (See detailed Technical Analysis on page 7.)

### BLUESTAR ISRAEL GLOBAL INDEX® TEN-YEAR RELATIVE PERFORMANCE ENDING May 30, 2020



## Israel Equity Market Performance

Israeli Equities, as defined by the BlueStar Israel Global Index® (BIGI®), gained 5.75% in May building on April's 11.95% surge. Year-to-date BIGI is ahead of MSCI EAFE by 9.39% and is in-line with the S&P 500. BIGI also extended its lead against the local TA-125 index in May by 7.39% and is outperforming YTD by 11.32%.

Israeli technology stocks, as defined by our BIGITech index, outperformed broad Israeli equity indexes in May with a gain of 13.88%. This follows a gain of 15.17% April for a total upswing of 31% since end the of March. BIGITech's relative performance against other global technology benchmarks in May was equally impressive. BIGITech outperformed the Dow Jones US Technology Index and the S&P Global 1200 Information Technology Index in May by 6.43% and 7.32%, respectively, 1.05% and 5.44% YTD.

Consumer Discretionary stocks, which was the top performing group in April with a gain of 30%, tacked on another 13.60% in May. While, Utilities and Information Technology stocks were the top performing sectors in May with gains of 15.57% and 14.08%, respectively.

Israel's pro-active and determined health policies to fight the Coronavirus have been highly-effective, and have included rigorous tracking of infected individuals via their mobile phones. As of this writing, Israel has suffered just under 300 deaths - substantially lower on a per-capita basis compared to the US and most countries in Europe.

In early May, the Israeli economy has begun a careful, well-planned, reopening, which continued into early June. As expected, the reopening created some spikes in the number of infected, but Israel remains vigilant, and has now restored some restrictions, especially regarding schools.

Israel opened its daycare centers, kindergarten and elementary schools in early May, and reopened all schools by May 18. This also created a few 'spikes' in Covid-19 cases, but as of this writing, the overall coronavirus situation is under control.

Furthermore, Israel has committed a total economic relief of more than NIS 100 billion, and has introduced rescue packages targeting major sectors of the economy, including key industries as well as its de facto national airline, El Al.

The markets' wild swings this year continue to pose challenges to forming an outlook for the remainder of the year. The strength of the Israeli market in 2020 YTD has been mostly attributable to the Information Technology sector which has proven, globally, to be resilient and in fact a beneficiary of the fall out of the Corona Virus pandemic. However, domestically-oriented sectors of the Israeli market are struggling to catch-up to the broader Israeli and global markets. The potential spike of new Corona virus cases poses a threat to the domestically-oriented sector in two main ways: 1) the probability that Israel will revert to episodic lock downs at some point in the future is increasing and 2) the ban on international travel to Israel is unlikely to be lifted soon which is quite problematic. We believe that the technology sector can continue to buoy the Israeli market over the coming weeks and months.

A majority of Israeli technology stocks are at the forefront of long-term secular growth trends in technology including: 5G communications, unified communications/cloud computing, online gambling software, and artificial intelligence/productivity software. The onset of the Corona Virus pandemic has shined a light on the importance of these sectors as our personal and work lives become more remote.

Finally, BlueStar's technical model which predicts the relative performance of globally and domestically oriented Israeli equities signaled a trend reversal in March (see chart on page 5). This indicates prospective future outperformance by Israeli domestic equities, which could also signal that volatility has peaked. While our Israel Domestic Exposure Index has underperformed dramatically since that signal was received, the chances of trend reversal increase as the relative performance gap widens.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	May Return (%)	2020 (%)
BIGI®	5.75	(4.64)
BIGITech®	13.88	10.10
MSCI Israel Uncapped	8.97	(1.22)
TA-125 INDEX	(1.64)	(15.18)
S&P 500	4.76	(4.97)
MSCI EM	0.77	(15.96)
MSCI EAFE	4.42	(14.03)
Israel Domestic Exposure	(4.53)	(20.96)
Israel Global Exposure	6.15	(3.74)
Israel Equity Hedge Fund Index	0.99	(3.75)

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	May Return (%)	2020 (%)
BIGITech®	13.88	10.10
Dow Jones US Tech	7.45	9.05
S&P Global 1200 Info Tech	6.58	4.66
MSCI EM Tech	(1.18)	(10.57)

TOP AND BOTTOM BIGI PERFORMERS: MAY 2020			
Positive Contributors (%)		Negative Contributors (%)	
Wix.Com Ltd	69.96	Delek Group Ltd	(41.18)
Fiverr International Ltd	66.00	Hadera Paper Ltd	(30.41)
Liveperson Inc	56.43	Forescout Technologies Inc	(25.72)
Batm Advanced	51.28	Naphtha Israel Petroleum Crp	(24.25)
Kornit Digital Ltd	40.92	Energean Oil & Gas Plc	(19.47)
Enlight Renewable Energy	29.18	Alrov Properties And Lodging	(18.76)
Solaredge Technologies Inc	27.16	Brack Capital Properties Nv	(18.72)
Varonis Systems Inc	25.86	Nawi Brothers Ltd	(18.45)
Nova Measuring	24.51	Delta-galil Industries	(18.37)
Maytronics Ltd	23.44	El Al Israel Airlines	(17.23)

SECTOR PERFORMANCE (%): MAY 2020	
Utilities	15.57
Information Technology	14.08
Consumer Discretionary	13.60
Communication Services	8.32
Health Care	8.14
Industrials	4.83
Consumer Staples	(0.15)
Materials	(3.61)
Financials	(4.01)
Real Estate	(9.07)
Energy	(15.12)

Sources: BlueStar Indexes, Bloomberg LP

# Israel's Aggressive Response to COVID-19 has Delivered Impressive Results

## Israel's Preparedness and Resilience

Israeli coronavirus cases were approximately 18,900 as of this writing on 14 June, with approximately 15,300 citizens fully recovered. There have been 300 fatalities to-date. While the deaths and serious illnesses are tragic, Israel has demonstrated a proactive and aggressive response to the coronavirus that places it in the top tier of countries in managing and containing the pandemic.. In contrast, Italy had 17x more deaths per capita, the US 11x and similarly-sized Belgium 25x the number of deaths per-capita

- Israel's public health and medical response to COVID-19 was ahead of the curve compared to the US and many European countries – closer in approach to that of Taiwan and South Korea with a forward-leaning 'policies. As Israel has begun to open up schools, businesses and cultural activities, it has continued to deploy sophisticated testing, contact tracking and compliance techniques.
- The complete shutdown of Israeli economy hit key industries hard, especially tourism, retail and aviation. Israel's unemployment rate has soared, from approximately 3.9% just before the crisis to 27.6% at end-April and around 22% at end-May as businesses reopen. The Israeli government's employment service estimates that unemployment could be back below 10% by August, and close to 6% by year end, if a 'second wave' of the coronavirus is avoided.

## Massive Rescue Package: Economic Stabilization Plan of more than NIS 100 Billion and Support for Key Sectors

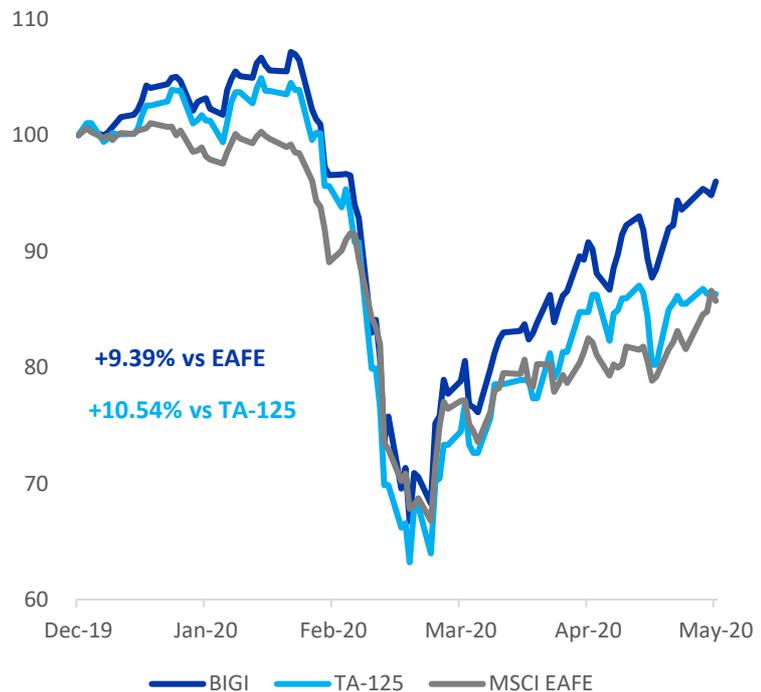
Israel's outgoing Minister of Finance Moshe Kahlon presented a NIS 80 billion aid package for Israeli businesses and the self-employed on March 30. This represents approximately 6% of Israel's pre-crisis GDP.

The government had already allocated NIS 10 billion for the crisis and is now allocating another NIS 10 billion to the Ministry of Health. An additional NIS 20 billion is being added as a social and welfare safety net for salaried employees, the self-employed, small businesses and the elderly, NIS 32 billion is being allocated to support large corporations and NIS 8 billion was allocated to stimulate the economy when it reopens.

The aid package includes major assistance for the self-employed and small businesses, tax refunds to the self-employed and small businesses and municipal tax relief for businesses that have been hit by the crisis. In addition, the package was increased by another NIS 20 billion in early May, with measures to improve the efficiency of the economy, including accelerated infrastructure projects, digitization of public services and improvement of online health services.

In early June, the Finance Ministry – now headed by former Transportation Minister Israel Katz – proposed a US\$400 million rescue package for Israel's El Al airlines; US\$250 million in loans, and the rest envisioned as new share issuance, of which the government might be the buyer of last resort, leading to *de facto* nationalization.

### BLUESTAR ISRAEL GLOBAL INDEX® 2020 YTD Relative Performance



## Bank of Israel Quantitative Easing and Record US Dollar Global Bond Issuance

The Bank of Israel - Israel's Central Bank – has been proactive in supporting the economy, through aggressive QE and record purchases of local currency government bonds.

The Ministry of Finance took advantage of Israel's investment grade credit rating and took two bold steps of tapping global markets for additional funding. First, in March, just three months after its traditional foreign currency bond offering. Through global banks, the government issued three series of bonds: \$2 billion over 10 years at 2.75% annual interest; \$2 billion over 30 years at 3.875% annual interest; and \$1 billion over 100 years at 4.5% annual interest. Second, in late-April, the Finance Ministry issued a first-ever public bond issue in Asian markets, a 40-year US Dollar-denominated bond with a 3.8% coupon. The success of these two sovereign bond issues during a time of market turmoil further solidifies Israel's global profile with institutional investors, and demonstrates their confidence in the Israeli economy.

## The BlueStar Israel Government USD Bond Index

The relative attractiveness of Israeli government debt compared to US bonds fell slightly in May but still remains compelling as the yield to maturity (YTM) on the **BlueStar Israel Government USD Bond Index** (with an average of 5 years to maturity) stands at 1.22%, while the generic US government 5-year bond has a YTM of 0.28%, and the YTM on Shekel-denominated Israeli government debt is at 0.22%.

### ISRAEL AND GLOBAL SOVEREIGN DEBT COMPARISON (Maturity-Matched)

Benchmark	YTM (%)	Duration
BlueStar Israel Government USD Index	1.22	4.77
US Government Generic 5 Year Bond	0.28	3.98
Israel Government Generic 5 Year Bond (NIS)	0.22	3.38

Sources: BlueStar Indexes, Bloomberg LP

### BLUESTAR ISRAEL GOVERNMENT USD BOND INDEX

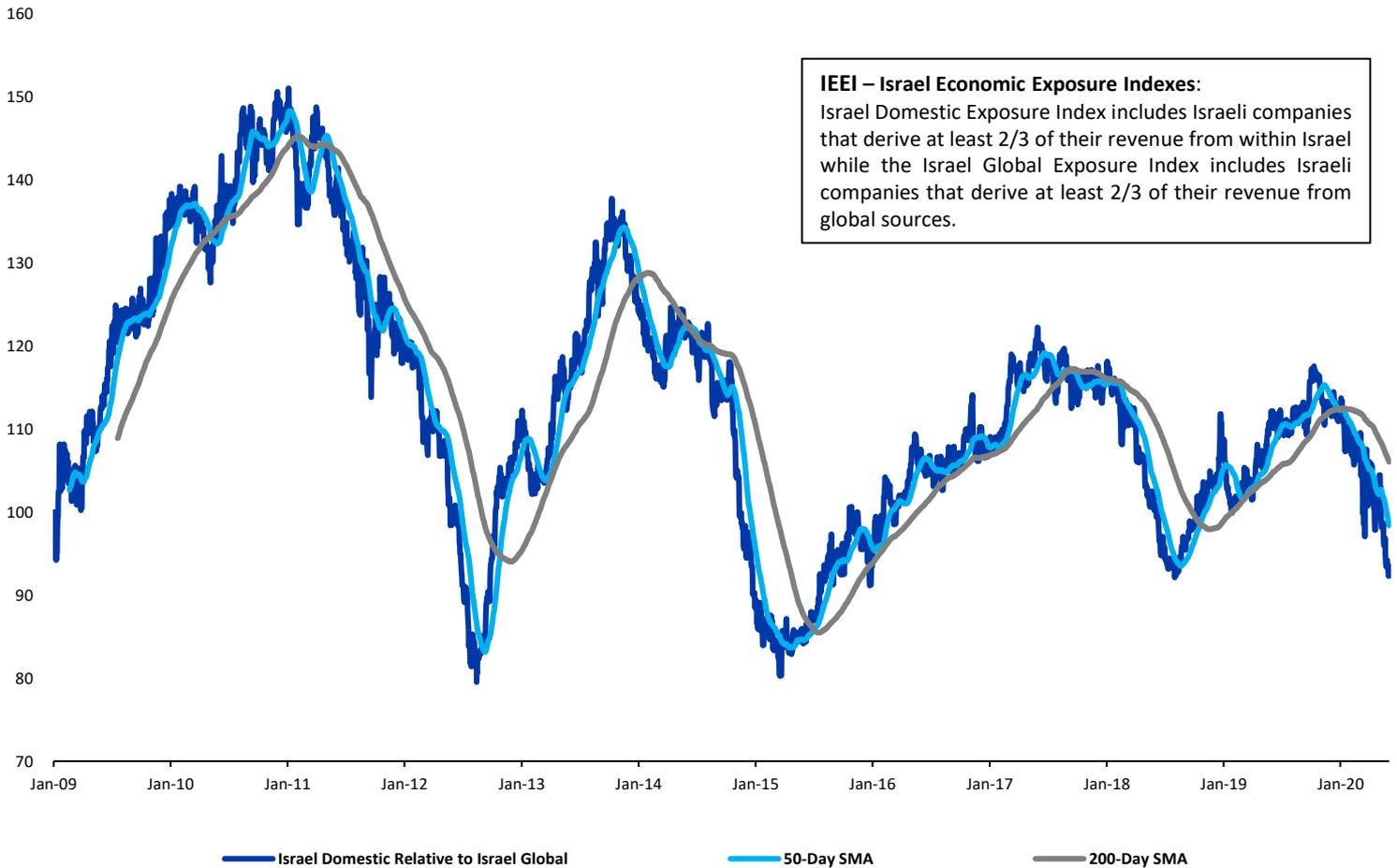


Sources: BlueStar Indexes, Bloomberg LP

As previously mentioned, appetite for Israeli sovereign debt is strong, even amidst an unprecedented global economic crisis. Both the March and April bond issuance was oversubscribed, and included substantial new allocations from sophisticated institutional investors and sovereign wealth funds. The US\$9 billion in proceeds from this issuance will help fund Israel's large COVID-19 emergency economic response package. Interestingly, Israel joins just two other nations (Canada and Australia) in successfully floating Century Bonds, a true test of the market's view of long-term risk.

With a highly-conservative Debt:GDP ratio of approximately 60% heading into the crises, Israel has substantial capacity for a stimulative fiscal policy without putting at risk the strong domestic and global investor confidence in its government debt. This is a positive for Israel's recovery, as an additional domestic and global bond sales will be necessary to support further measures if the scope of the current rescue package proves ineffective.

### IEEI Relative Performance Since 2009

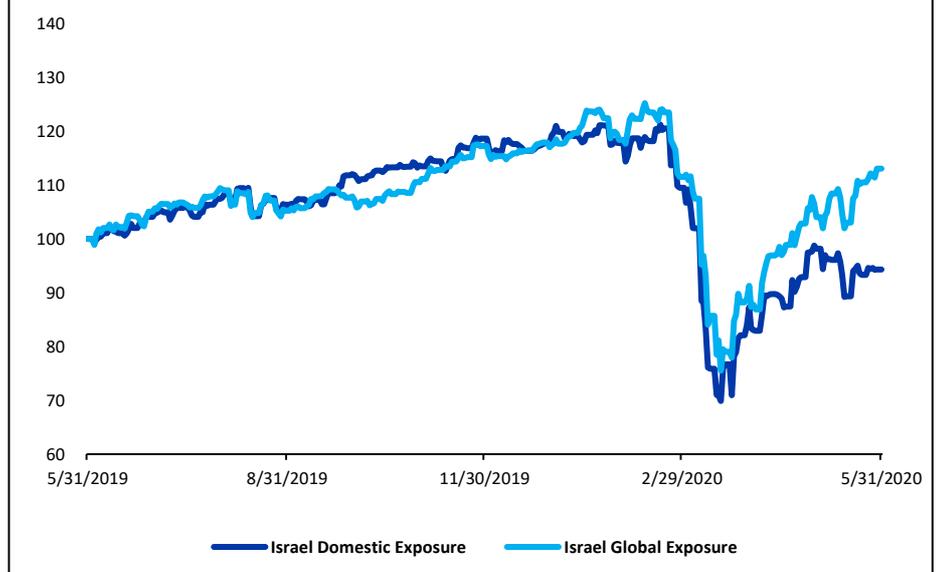


In mid-August 2019 our quantitative rotation model signaled that globally-oriented stocks (IGEI) would outperform domestically-oriented stocks (IDEI). In March we received a confirmation signal that this trend would soon reverse.

While in March we were hard pressed to believe that domestically-oriented stocks and sector could outpace global sectors like technology in the short-term, the widening performance gap increases the chances of medium-term outperformance going forward. Our model predicts long-term, not short-term inflection points.

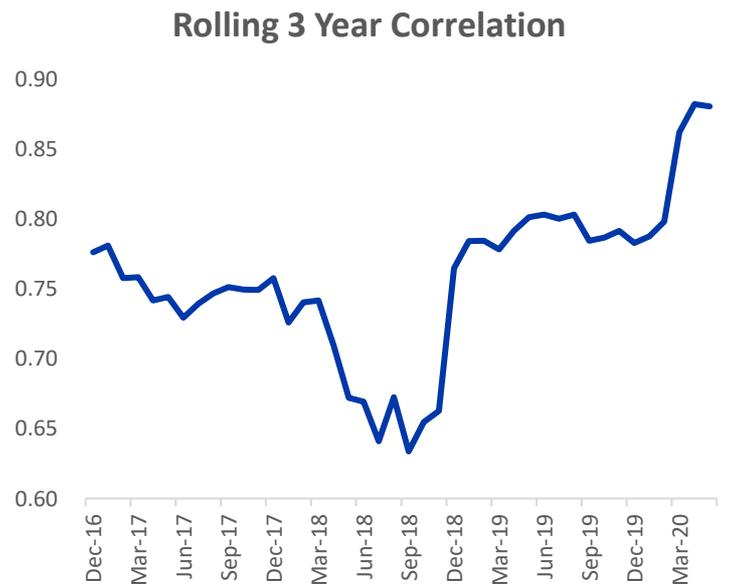
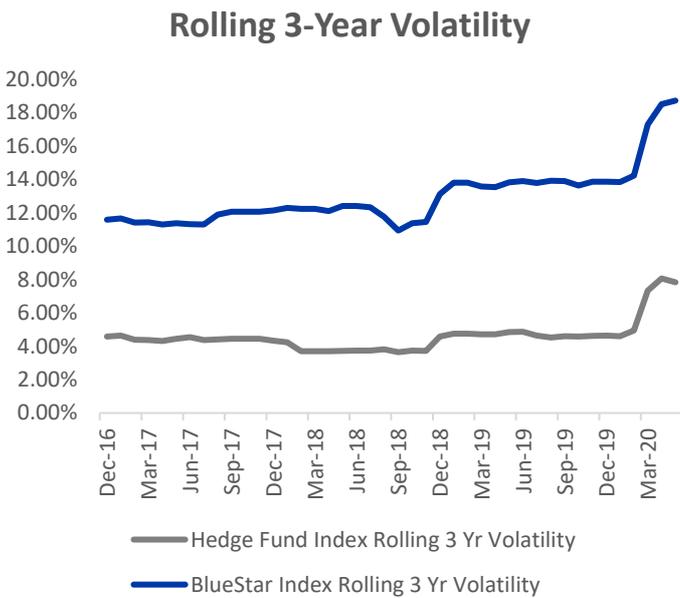
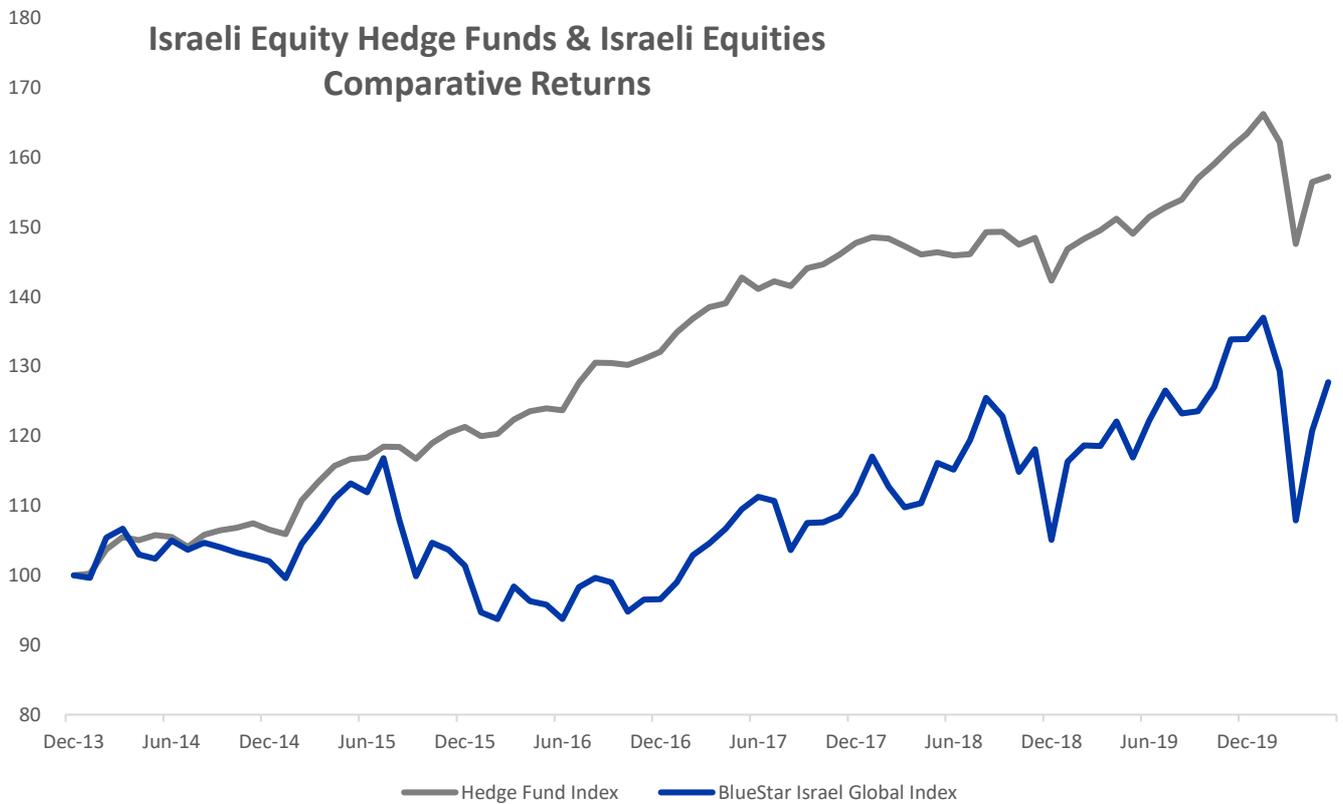
Specifically, we feel that while valuations in global sectors have corrected upwards, domestically-oriented sectors have not and we think that with time this will be corrected.

### Trailing Twelve Month Comparative Total Returns



\*Sources: BlueStar Indexes, Bloomberg LP

## The BlueStar–TzurGilboa Israel Equity Hedge Fund Index (data as of May 31, 2020)



## Technical Analysis (Chart data as of May 7, 2020)



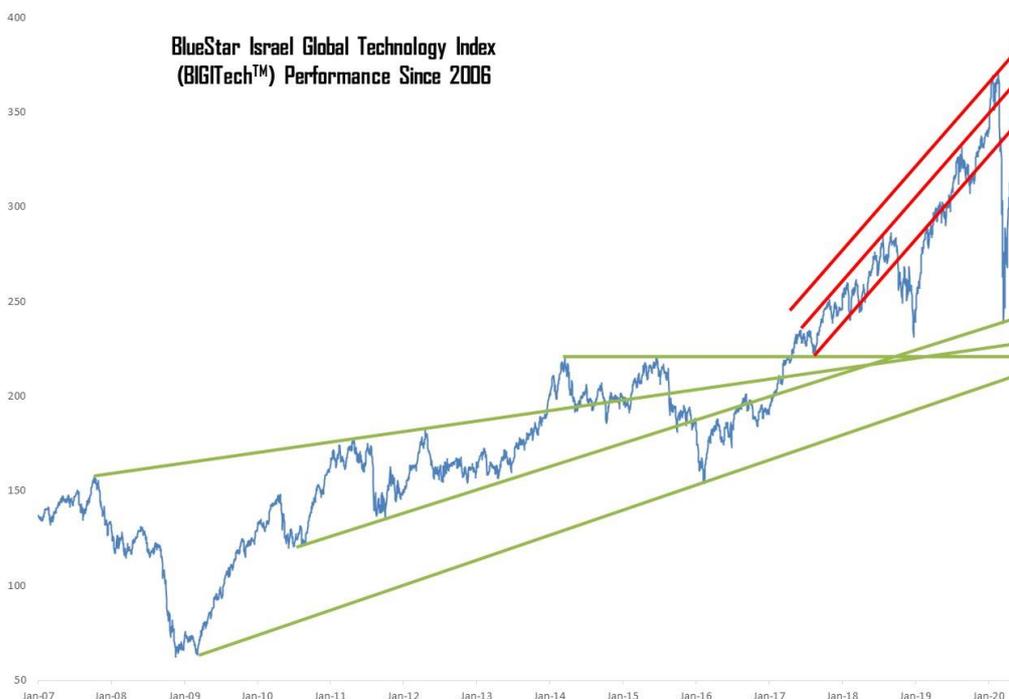
### BlueStar Israel Global Index®

Israeli Global Equities - as measured by BIGI® - recovered sharply from the steep drop in late-February and March, surging above the previous support line from 2009 to early 2020 ("Resistance Area 1" on chart).

The rally went further than we expected, but it is not sustainable in our view.

We now anticipate heavy resistance at or just above the 325 level in BIGI, and very strong support at the higher of the two double green lines which held in late 2018 (as well as in 2015 and 2016), currently at around the 245/250 level.

### BlueStar Israel Global Technology Index™



Israeli technology stocks - as measured by BlueStar's BIGITech® index - continued their powerful recovery from their March drop, having found strong support at the late 2018 lows at 225/230. This surge far-exceeded our initial target, but BIGITech hit the upper 'speed line' at the 375 level and we continue to expect heavy resistance at or just above current levels. We also anticipate substantial volatility as the economic impact of the coronavirus pandemic continues to shake the global economy and markets.

Investors who believe in the fundamental case for Israeli Technology Stocks should assess the long-term support levels which held in late-March & early-April, and consider accumulating positions only at lower levels, ideally below 300.

## Disclosures

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