

March 11, 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.

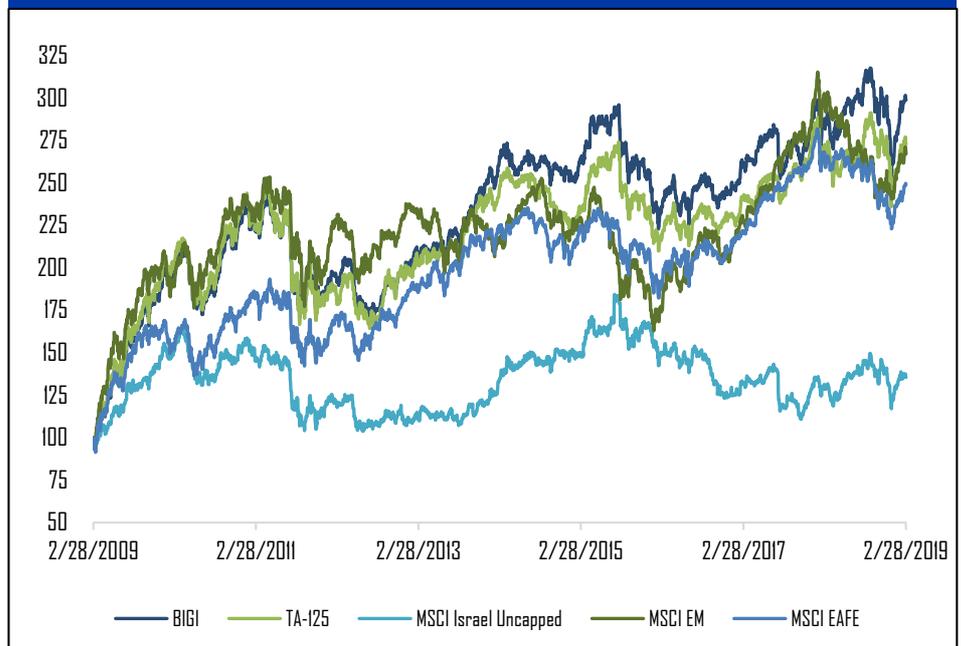
BlueStar also maintains five additional Israel Equity Indexes (BIGI® -TIM, IGEL, IDEI, BIGI® -SD and BIGI® -SV), one Israel Government Bond Index (BIGUSD), and nine Global Thematic/Tech Equity indexes. Approximately US\$410 million in index-tracking assets are benchmarked to BlueStar Indexes as of end-August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

## ISRAELI STOCKS MAINTAIN OUTPERFORMANCE VS. MAJOR MARKET INDEXES IN 2019; ISRAELI TECH HITS ALL-TIME HIGH; CYBER SECURITY, REAL ESTATE, AND A STRENGTHENING SHEKEL CONTINUE TO SHINE

### Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), continue to outpace all major market indexes in February, posting an additional 2.04% to an already impressive January. On a relative basis, BIGI® gave back 0.52% vs. MSCI EAFE, but leads developed international markets by 3.62% YTD.
- Israeli technology stocks, as defined by The BlueStar Israel Global Technology Index™ (BIGITech®), gained 4.75% in February, hitting a new all-time high. BIGITech's® 16.78% YTD performance leads global tech markets in 2019.
- BIGI® outperformed the local TA-125 Index by 1.98% in February, 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 earlier this year, BIGI's® technical outlook is currently neutral; BIGITech® confirmed January's support and continues its upward trend in 2019.

### BLUESTAR ISRAEL GLOBAL INDEX® TEN-YEAR RELATIVE PERFORMANCE ENDING FEBRUARY 28, 2019



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## Equity Market Performance Review

Israeli Equities, as defined by the BlueStar Israel Global Index, gained 2.04% in February, building on January's positive momentum. Israeli equities were led higher by the Information Technology and Industrial sectors while Health Care pulled back and Israeli Telecom stocks continued to fall sharply.

Israeli equities are still outpacing all other major market categories in 2019, with relative outperformance against the S&P 500, MSCI EAFE, and MSCI EM of 1.46%, 3.62%, and 3.94% respectively.

After a relatively strong January, Israeli technology stocks, as defined by BIGITech® - the BlueStar Israel Global Technology Index – marginally underperformed Developed and Emerging technology sectors in January with a gain of 4.75% compared to the Dow Jones US Tech Sector Index and the S&P Global 1200 Information Technology Index, which added 5.34% and 5.89%, respectively. Israeli tech stocks are still leading other global tech sector indexes in 2019 YTD.

Last month we pointed out two trends that we found constructive: the rebound in the ILS – USD exchange rate and the performance of the Israeli Real Estate sector. These trends continued through February as the Shekel gained another 1.5% on the Dollar and home prices gained 0.2% while the number of transactions in the housing market continued to increase.

One of this year's best performing sub-sectors globally has been cyber security. In February, the two best-performing Israeli stocks belonged to cyber security companies Forescout Technologies and CyberArk Software. In fact, all of February's top-ten performing Israeli stocks were in high-tech sectors.

In our view, the biggest risk and indicator for a sustained recover from December 2018's lows is the semiconductor space. Beginning in Q4 last year we have asserted the view that the market likely needs to see one or two more quarters of financial results from semiconductor stocks for us to trust any rally. While semiconductors in general have lead the market higher in 2019, we still believe that risks of missed earnings and/or lower guidance is high as we look forward to the Q1 2019 reporting season.

In February three of the top-ten performing Israeli stocks were semiconductor-related. Camtek is a small cap stock that offers semiconductor manufacturing and quality assurance equipment. Camtek rose 21.5% in February on strong earnings. Mellanox rose 15.02% on continued takeover rumors, strong earnings and secular tailwinds in the form of the company's participation in machine learning, cloud computing and 5G cellular technologies. Finally, Tower Semiconductor rose 20.42%. Tower is a custom semiconductor manufacturer and, of the three, we feel is at most risk of a pullback if earnings and forecasts in the overall semiconductor industry come in below expectations.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Feb. Return (%)	2019 (%)
BIGI	2.04	12.94
BIGITech	4.75	16.78
MSCI Israel Uncapped	(0.77)	11.22
TA-125 INDEX	1.66	10.96
S&P 500	3.21	11.48
MSCI EM	0.22	9.00
MSCI EAFE	2.56	9.32
Israel Domestic Exposure	2.64	9.62
Israel Global Exposure	0.73	14.29

Sources: BlueStar Indexes, Bloomberg LP

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Feb. Return (%)	2019 (%)
BIGITech	4.75	16.78
Dow Jones US Tech	5.34	14.91
S&P Global 1200 Info Tech	5.89	13.71
MSCI EM Tech	2.32	11.59

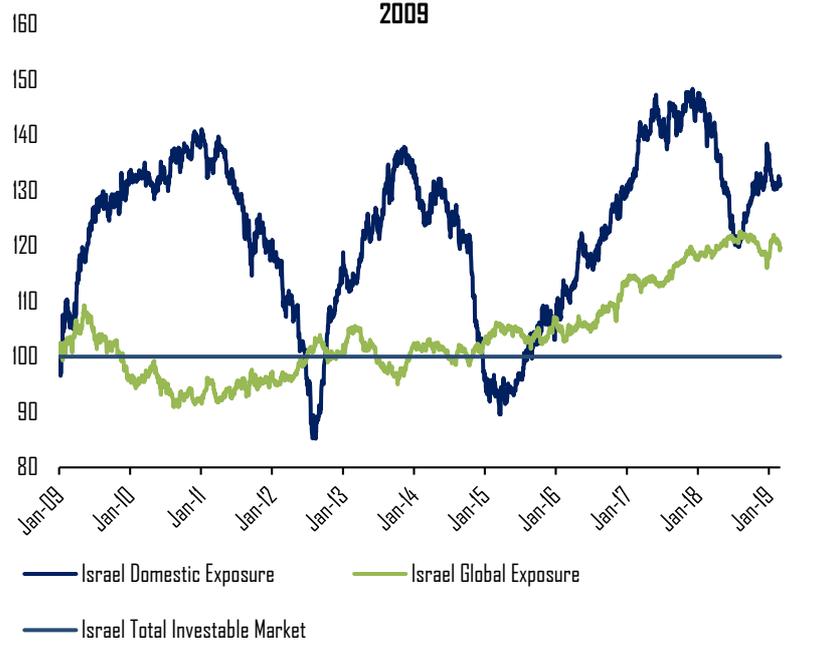
TOP AND BOTTOM BIGI PERFORMERS: FEB. 2019			
Positive Contributors (%)		Negative Contributors (%)	
Forescout Technologies Inc	36.20	Bezeq The Israeli Telecom Co	(17.84)
Cyberark Software	25.08	Cellcom Israel Ltd	(10.70)
Camtek Ltd	21.54	Partner Communications Co	(7.43)
Tower Semiconductor Ltd	20.42	Amdocs Ltd	(4.61)
Liveperson Inc	19.13	Urogen Pharma Ltd	(3.81)
Kornit Digital Ltd	16.91	Electra Ltd	(1.68)
Kamada Ltd	15.77	888 Holdings Plc	(0.98)
Mellanox Technologies Ltd	15.02	Electra Consumer Products 19	(0.93)
Enlight Renewable Energy	14.97	Paz Oil Co Ltd	(0.92)
Intec Pharma Ltd	13.52	Elco Ltd	(0.67)

SECTOR PERFORMANCE: FEB. 2019	
Information Technology	7.45
Industrials	5.29
Consumer Discretionary	5.06
Energy	4.28
Real Estate	4.20
Consumer Staples	1.98
Utilities	(0.90)
Communication Services	(1.88)
Financials	(2.01)
Materials	(2.51)
Health Care	(9.27)

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

## Economic Update and Market View

**IEEI Performance Relative to Israel Total Investable Market Index Since 2009**



The Bank of Israel in February 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.

In 2018 globally-oriented Israeli stocks outpaced domestically-oriented stocks by a wide margin as the Shekel remained relatively weak and fears of a global economic slow down only began to emerge late in the year.

In June we called for a reversal of this relative performance trend and in December we predicted that Domestically-oriented stocks would continue to catch-up in 2019. So far in 2019, global Israeli stocks have outperformed domestic Israeli stocks though domestic stocks began to close the gap in February. We expect that the Shekel and real estate markets will continue to strengthen which will have positive ripple effects throughout the domestically-oriented sectors of the economy. Therefore, we believe that domestically-oriented Israeli stocks in sectors like consumer staples, financials, energy and real estate will continue to build off February's relatively strong performance.

### 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

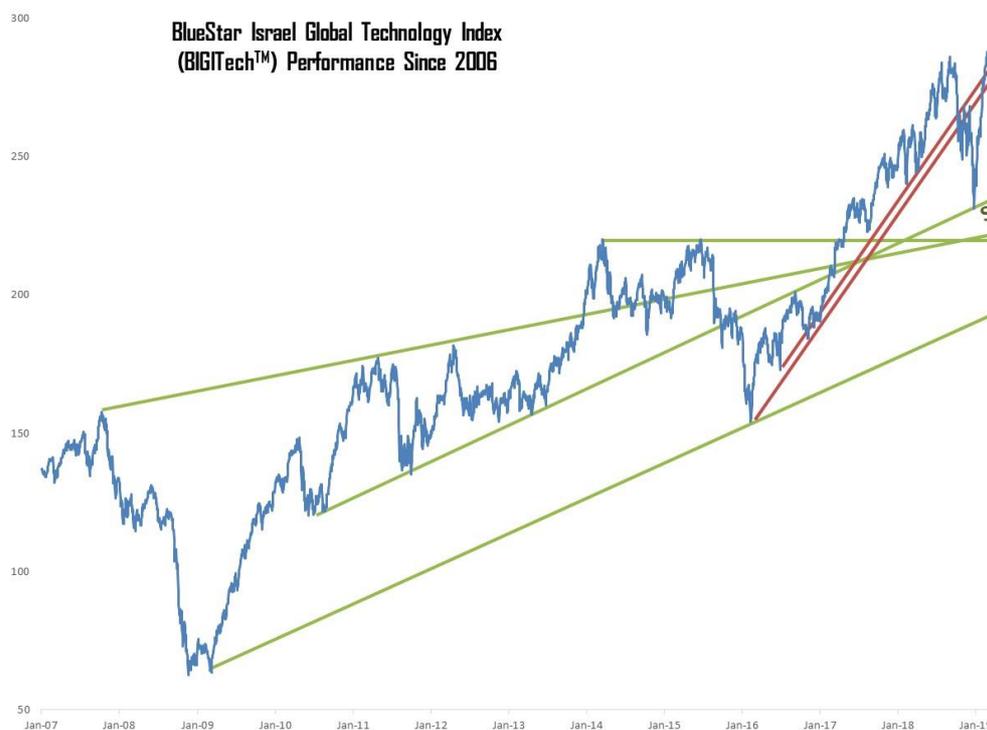
## Technical Analysis (as of February 4, 2019)



The technical outlook for Israeli Global Equities is cautious. BIGI broke down in December once the lower set of trend lines were breached.

Despite a sharp bounce off the long-term support lines, which began on December 24, and lasted into late 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. 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 (approximately at the 245 level) is broken or if the index reaches the resistance lines around 310/320 drawn on the chart. On the other hand, we would welcome another pull-back and to confirm and thus establish a new support line for us to turn bullish.



Israeli technology stocks as measured by BlueStar's BIGITech index achieved all time highs during late-February/early-March 2019.

This confirms that BIGITech tested support and is poised to resume an uptrend in 2019, after a sharp bounce from the major support area just above the 2017 breakout level (approximately 220-225)

After such a sharp rebound, it should be expected that Israeli Tech Stocks would consolidate their gains, and perhaps correct back below the 240 level. We believe that multiple levels of support, from 210-230 will hold in any sharper correction, and that long-term investors should look to accumulate Israeli Technology Stocks in the coming months.

## Disclosures

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