

March 23, 2023

Israel For The Long-Term Investor: An Update On Recent Events

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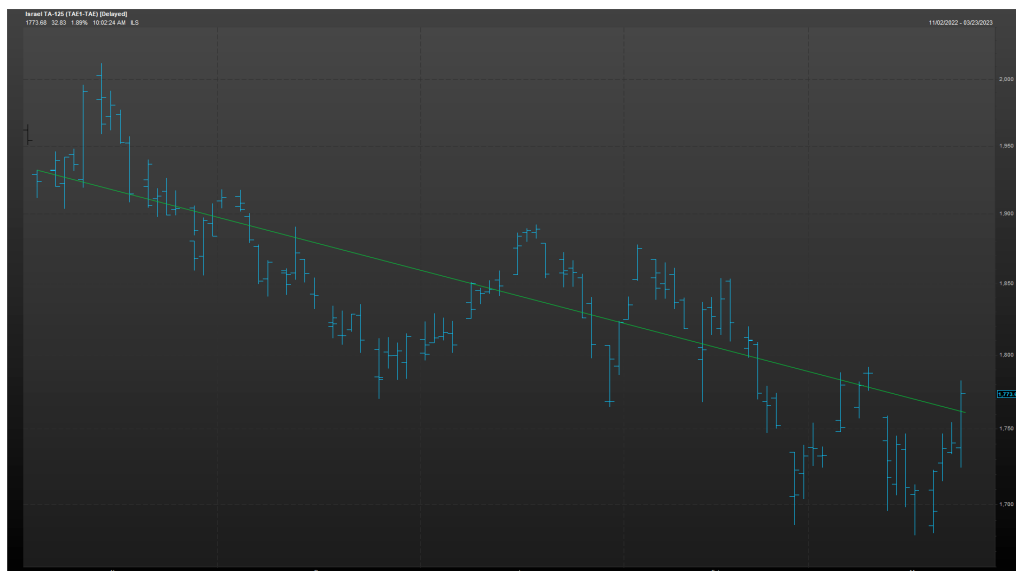
The current Israeli market has been underperforming other developed markets this year primarily due to uncertainty in the political environment. We believe this instability has created an interesting opportunity for long-term investors in this dynamic market.

The concerns began back in November 2022 when the election brought to power the most far right government in Israel's history. The effect was to bring into power some cabinet members that are controversial figures. Despite his legal woes, Benjamin Netanyahu took over as prime minister once again and was forced to bring into his cabinet provocative figures in his coalition.

Additionally, the markets have reacted most negatively in Israel to a proposed judicial reform package from this new government that would upend the way Supreme Court justices are chosen and would allow judicial rulings to be overturned by a mere simple majority of parliament. While many suggest some judicial reform is needed, the current bill has few supporters outside the coalition. There has been a significant outcry internally in Israel (protests and violence has risen significantly), the international community, and other observers which worry about the path of democracy in Israel if this judicial reform law is passed as currently written. Some analysts suggest the bill could be watered down or removed from consideration given its broad opposition.

As a result, you can see in the charts below, the TA-125 Index, the Israeli Shekel, the valuation of the market and bond yields have all corrected significantly due to this political uncertainty.

TA-125 Index since the election November 2, 2022:



Source: Factset

The Israeli Shekel has fallen to its lowest level since the start of the Covid pandemic in early 2020 and is now the most attractive versus the U.S. Dollar in the last three years:



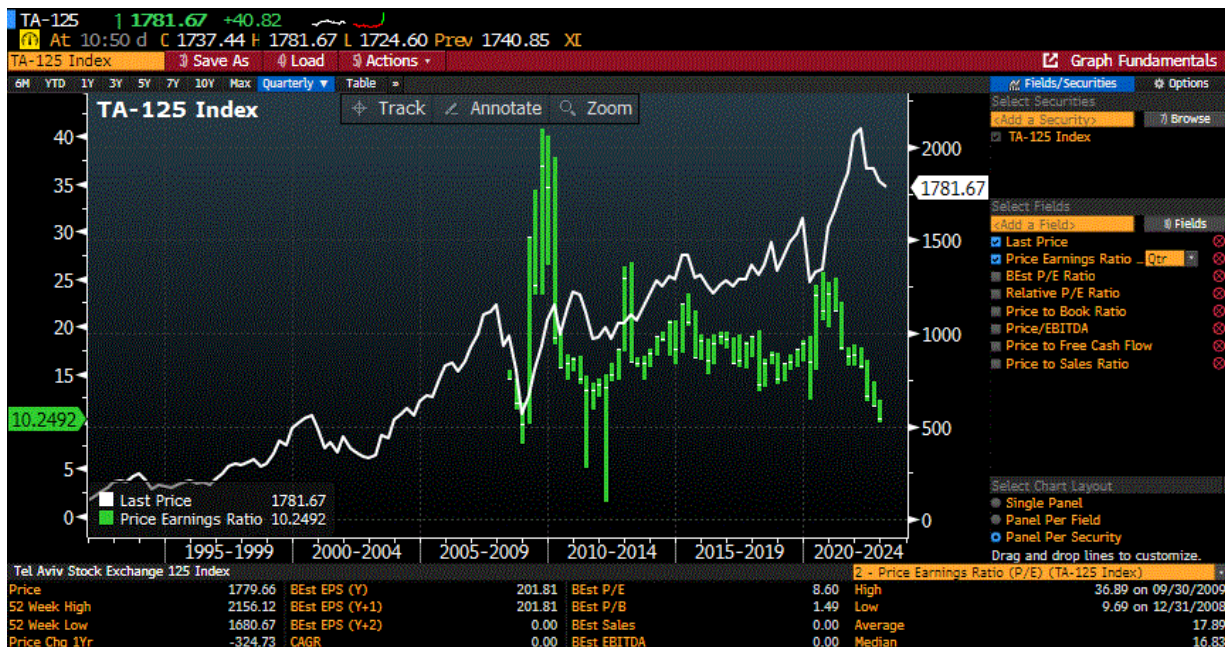
Source: Factset

The Israeli government bond yield spread (yellow line) has blown out to its highest versus U.S. Treasuries in the last five years, showing a similar spike to that seen at the start of Covid in March 2020:



Source: Bloomberg

Lastly, as can be seen on the Bloomberg chart below, the P/E ratio (green line) of the Israeli market (TA-125 Index) is close to its lowest point in the last 15 years, hovering below 11x P/E:



Source: Bloomberg

Conclusion

While there is much political uncertainty with the judicial reform bill being debated and the most right-wing government coalition in Israel's history, the markets already appear to have corrected to levels that account for this uncertainty. This may be a good opportunity for long-term investors albeit with the background that this political uncertainty remains an ongoing risk.

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