

# ISRAEL MARKET REVIEW AND OUTLOOK Q1 2026



## Israeli Equities Surge to New Highs as Growth Outlook Improves

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### About the BlueStar Indexes®

The BlueStar Indexes® were launched in 2011 by BlueStar Global Investors, a research-driven provider of indexes and financial data. BlueStar®'s Indexes were acquired by MarketVector Indexes™ ("MarketVector") in August 2020 and are now continued as a sub-brand of MarketVector.

BlueStar Indexes® produced updates on the Israeli market since 2012. In this Israel Equity Review and Outlook we provide data and insight on the performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as data on our flagship Israeli equity indexes, BIGI® and BIGITech®. In general, we provide an outlook on key economic, geopolitical, and domestic political developments.

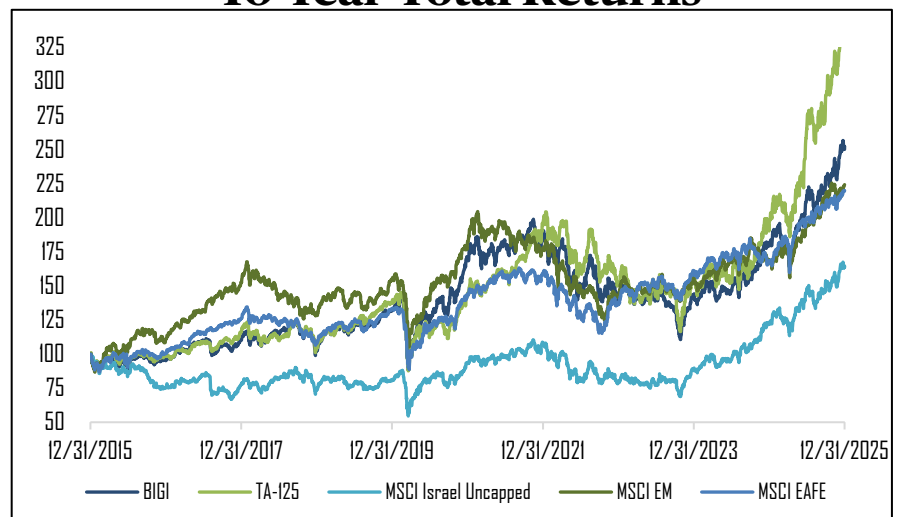
The BlueStar® Israel Global Index (BIGI® or BLS & BLSTR INDEX on Bloomberg) is the broadest and deepest benchmark for Israeli equities trading. BIGI® is tracked by an NYSE-listed ETF, as well as an Israel-domiciled index fund.

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 such as information technology, defense technology, clean technology, and bio-technology. BIGITech® is tracked by an NYSE-listed ETF. In addition, there are two Israel-domiciled investment vehicles tracking BIGITech® managed by KSM.

### Highlights:

- Israeli stocks, tracked by the BlueStar® Israel Global Index (BIGI®), ended 2025 up 38.63%, while Israeli technology stocks (BIGITech®) posted a 14.34% gain.
- Launched in Q4 2025 to track Israel's defense sector, the MarketVector™ Israel Defense Industries Index (MVIDI) ended the year up 150.25%.
- The BOI's Monetary Committee cut the policy rate to 4.0% on January 5, 2026, marking the start of an easing cycle as inflation pressures cooled.
- Annual inflation was 2.4% (November CPI), down after a 0.5% monthly decline, and the Bank noted expectations for a temporary uptick in December followed by a move back toward the midpoint of the 1–3% target range.
- The BOI Research Department now estimates GDP grew 2.8% in 2025 and forecasts 5.2% growth in 2026 and 4.3% in 2027, assuming the ceasefire continues and conditions remain relatively calm.
- Labor-market constraints remain, but the BOI highlighted early easing in supply restrictions, including improved participation/employment rates, fewer reserve-duty absences, and slower wage growth in the business sector, while noting supply constraints should unwind only gradually.
- The shekel strengthened materially since the prior decision, up 3.1% vs. the USD, 1.5% vs. the EUR, and 2.2% in nominal effective terms, which the BOI cited as part of the backdrop to moderating inflation.
- The Tel Aviv Stock Exchange (TASE) moved to a Monday to Friday trading schedule in the first week of January. This long-awaited move is meant to better align Israeli local stock and bond trading with global capital markets

### 10-Year Total Returns



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# Israel Equity Market Performance

Israeli equities extended their rally as BIGI® finished 2025 up a stellar 38.63%, with domestically oriented names far ahead of exporters: Israel Domestic Exposure +88.74% vs. Israel Global Exposure +19.78%. The TA-125 gained 32.84% YTD, outpacing global benchmarks (S&P 500 +17.88%, EM +33.57%, EAFE +31.89%). BIGITech® rose 14.34% YTD, lagging the broader market. Launched in Q4 2025 to track Israel's defense sector, the MarketVector™ Israel Defense Industries Index (MVIDI) ended the year up 150.25%.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON	
Benchmark	2025 YTD (%)
BIGI®	38.63
BIGITech®	14.34
TA-125	32.84
SPDR S&P 500 ETF Trust	17.88
iShares Emerging Markets ETF	33.57
iShares EAFE ETF	31.89
Israel Domestic Exposure	88.74
Israel Global Exposure	19.78
Israel Defense Industry	150.25

Israel's strong equity performance has increasingly diverged from the still-bumpy real-economy normalization. The Bank of Israel notes that supply constraints are easing, but only gradually, helped by fewer reserve-duty absences and some moderation in labor-market tightness, yet capacity frictions remain meaningful in labor-intensive sectors (notably construction and services). Against that backdrop, the BOI is now leaning more supportive: on January 5, 2026 it cut the policy rate to 4.0% as the inflation environment moderated (2.4% y/y in November) and the stronger shekel helped restrain imported-price pressures.

Another related angle is the currency and risk-premium channel. The BOI has highlighted that the shekel's appreciation and a calmer financial backdrop can materially reduce inflation and ease overall financial conditions, even without large moves in the policy rate. If geopolitical stability proves durable, a lower risk premium could reinforce this dynamic which will support capital inflows, improve funding conditions for startups, and help the BOI maintain (or extend) a gradual easing schedule while keeping inflation expectations anchored.

TOTAL RETURN BY SECTOR (BLSTR): Q4 2025	
Sector	Total Return
Utilities	90.44
Financials	74.32
Industrials	46.43
Energy	44.55
Health Care	32.70
Communication Services	31.08
Real Estate	30.86
Consumer Staples	16.39
Information Technology	5.33
Materials	2.23
Consumer Discretionary	(30.26)

On a sector level, Utilities and Financials generated the highest total return of the quarter while Materials and Consumer Discretionary lagged. This reflects the rotation toward defensive, rate-sensitive sectors, and domestically oriented themes that we have been witnessing over the past few quarters.

TOP AND BOTTOM TOTAL RETURN BY NAME (BLSNTR): Q4 2025	
Name	Total Return
NEXT VISION STABILIZED SYSTE	303.12
MENORA MIVTACHIM	217.65
PHOENIX FINANCIAL LTD	202.91
OPC ENERGY LTD	187.31
HAREL INSURANCE	186.86
NOVOCURE LTD	(56.61)
KORNIT DIGITAL LTD	(53.54)
WIX.COM LTD	(51.58)
MOBILEYE GLOBAL INC-A	(47.59)
ODDITY TECH LTD-CL A	(45.72)

On an index-constituent basis, NextVision Stabilized Systems stood out among the top contributors to BIGI®'s quarterly gains, supported by strong momentum in the Israel defense sector. Demand remained elevated for stabilized electro-optical payloads which are mostly used across UAVs, drones, and armored vehicles.

Israel's defense sector is built around a tight lab-to-field loop. Real operational demand accelerates prototyping, testing, and deployment, and successful systems often become export products. That dynamic has helped drive Israel's defense exports to record levels.

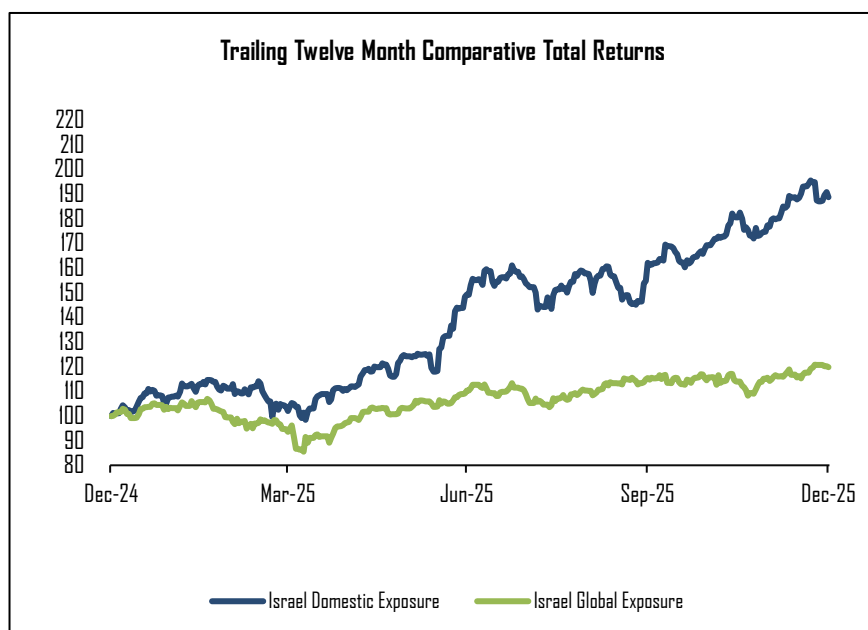
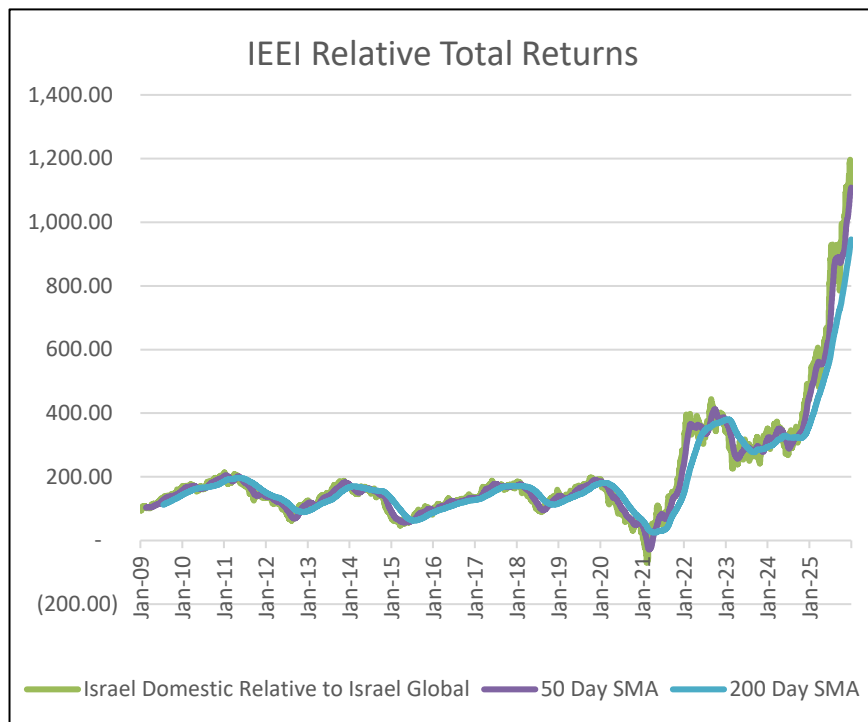
# Economic Dispersion and the BlueStar® Israel Economic Exposure Indexes

The BlueStar® Israel Domestic Exposure Index continued to lead its Global Exposure counterpart over the most recent quarter, reflecting meaningful differences in sector mix and how each index captures Israel's economic performance and sectors.

Domestically-oriented companies have remained comparatively resilient as conditions have stabilized, helped by a firmer local financial backdrop and improving confidence in a normalization of activity.

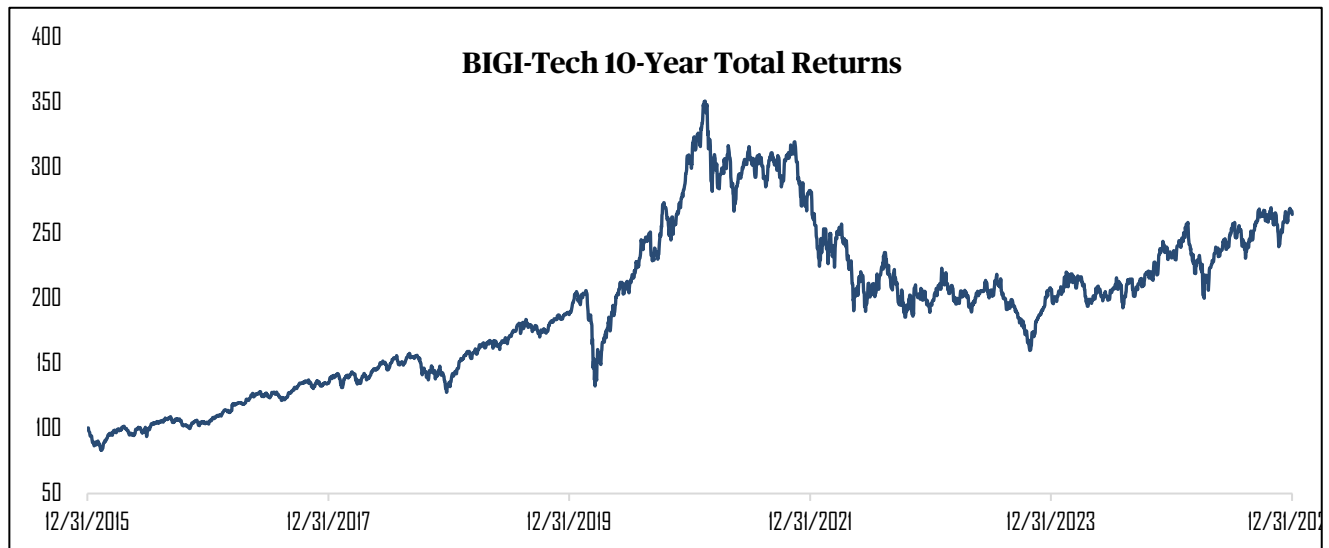
*It is well worth remembering how quickly that relationship can flip.* In Q4 2023, the Domestic Exposure Index initially fell more sharply than the Global Exposure Index following the October 7 shock, as markets repriced sectors most tied to local demand and operating conditions, particularly Financials, Real Estate, and other domestically-linked industries. Even then, the gap narrowed markedly by quarter-end as investors differentiated between near-term disruption and longer-run earnings capacity.

Over the past year, we've emphasized that relative performance between "domestic" and "global" exposures can remain noisy, especially when military/security developments, policy signals, and risk appetite shift quickly. That dynamic persisted last quarter: headline-driven volatility and changes in perceived risk premium continued to influence the balance between locally exposed cyclicals and globally oriented growers. Currency movements also remained an important swing factor. The Shekel's strength relative to the USD and EUR has generally been supportive for Shekel-denominated assets and domestic-facing balance sheets, while also shaping inflation dynamics and financial conditions. These are the factors that can tilt the relative performance between Domestic and Global exposures from quarter to quarter.



# BlueStar® Israel Global Technology Index

Although the BlueStar Israel Global Technology Index (BIGITech®) underperformed BIGI®, the index continued its upward momentum, finishing the year up 14.34%. Leadership came from large-cap defense and cybersecurity names such as Elbit Systems, CyberArk, and Check Point Software.



Several factors supported BIGITech® over the most recent quarter. Israeli tech funding showed firmer momentum relative to earlier periods, helping reinforce confidence in the private-market pipeline and the durability of the innovation ecosystem. At the same time, elevated demand for defense, dual-use, and cyber capabilities continued to favor Israeli exporters and companies positioned in cybersecurity and AI infrastructure. Financial conditions also became a more constructive backdrop: less pressure from discount rates improved the setup for longer-duration growth assets. The global AI buildout continued to drive demand across semiconductors, data-center exposure, and cloud software: segments that are well represented within BIGITech®.

## BIGITech® Top Holdings as of Dec 31<sup>st</sup> 2025

Sector	Weight (%)
ELBIT SYSTEMS LTD	8.65
CYBERARK SOFTWARE	7.20
CHECK POINT SOFTWARE	7.06
TOWER SEMICONDUCTOR	5.41
NICE LTD - SPON ADR	4.76
AMDOCS LTD	4.47
JFROG LTD	4.37
NOVA LTD	3.70
ORMAT TECHNOLOGIES INC	3.51
MONDAY.COM LTD	3.40

**Check Point Software Technologies** was a key contributor last quarter. Revenue climbed to \$678 million (+7% YoY), and calculated billings jumped 20% YoY to \$672 million, pointing to healthy underlying demand. Profitability also held up well, with operating income of \$282 million (a 42% margin) and EPS of \$3.94 (+75% YoY), helped in part by a one-time tax benefit. Cash generation remained a bright spot too, with \$241 million in operating cash flow (including a one-time tax payment).

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