Credit Summary: State of Israel

Overview

The recent ratings from S&P Global Ratings and Moody's reflect increasing concerns about Israel's creditworthiness due to heightened geopolitical risks. The ongoing conflicts with Hezbollah and the escalation of military activities in Gaza have led to a significant downgrade in Israel's ratings.

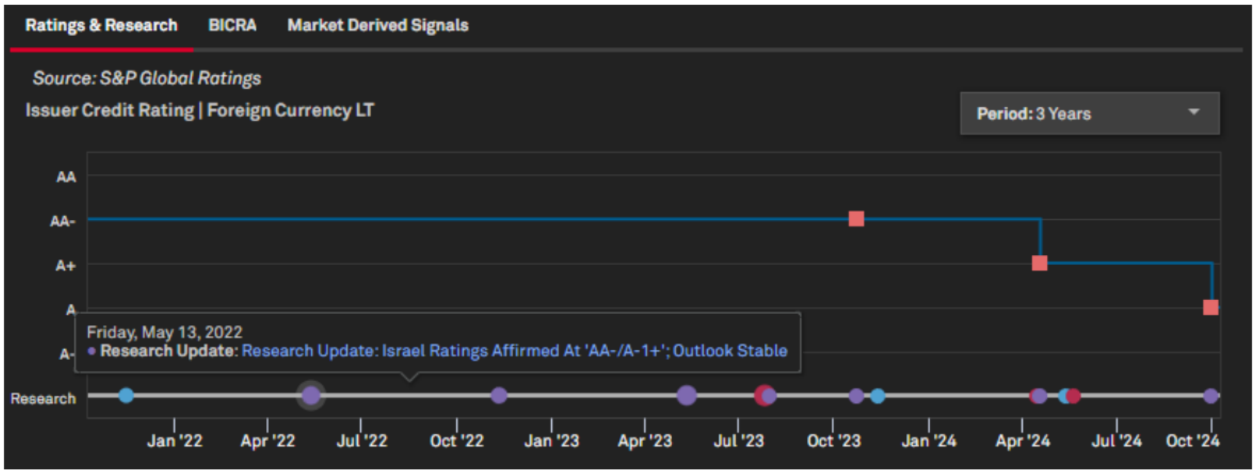
Portfolio Holdings Update

Base Original	Description	Coupon Rate	Final Maturity	Duration	Convexity	Base Market Value	Settle Date
$ 5,000,000	Israel Govt.	2.33%	1/1/2025	0.231	0.002	$ 4,973,320.00	1/15/2020
$ 5,000,000	Israel Govt.	2.48%	1/1/2025	0.231	0.002	$ 4,975,010.00	1/15/2020
$ 7,000,000	Israel Govt.	2.03%	5/1/2025	0.547	0.006	$ 6,909,567.00	5/15/2020
$ 5,000,000	Israel Govt.	1.35%	2/1/2026	1.281	0.023	$ 4,824,270.00	2/1/2021
$ 5,000,000	Israel Govt.	1.92%	10/1/2026	1.900	0.046	$ 4,805,550.00	10/15/2021
$ 5,000,000	Israel Govt.	2.07%	10/1/2026	1.894	0.046	$ 4,789,150.00	10/15/2021
$ 10,000,000	Israel Govt.	5.40%	11/1/2026	2.736	0.091	$ 10,000,000.00	11/1/2023
$ 10,000,000	Israel Govt.	2.83%	1/1/2030	4.737	0.260	$ 9,441,100.00	1/15/2020
$ 52,000,000	---	**2.85%**	**10/10/2026**	**2.026**	**0.079**	**$ 50,717,967.00**	---

S&P Global Ratings Update

On October 1, 2024, S&P Global Ratings downgraded Israel's long-term foreign and local currency sovereign credit ratings from **'A+' to 'A', with a negative outlook**. The short-term ratings were affirmed at 'A-1'. The primary reasons for this downgrade include:

- Increased security risks due to the escalation of conflict with Hezbollah and recent military activities in Gaza.
- Delayed economic recovery with revised real growth forecasts of 0% for 2024 and 2.2% for 2025.
- Widening fiscal deficits driven by increased defense-related spending.



Economic Impact

The conflict has significantly influenced Israel's economy:

- Real GDP growth is expected to stagnate at 0% in 2024, recovering slightly to 2.2% in 2025.

- The fiscal deficit is projected to widen to 9% of GDP in 2024, reducing to 6% in 2025.

Security and Geopolitical Risks

S&P highlights the following security risks:

- Increased risk of retaliatory rocket fire from Hezbollah and other Iranian proxies.
- Potential broader economic impacts from heightened security threats.

Outlook

The negative outlook reflects the risks to Israel's growth, public finances, and balance of payments due to the intensifying conflict. S&P may further downgrade Israel's ratings if the conflicts continue to spread or if a wider regional war involving Iran becomes more probable.

Moody's Rating Action

On September 27, 2024, Moody's downgraded Israel's long-term local and foreign-currency issuer ratings from **A2 to Baa1, maintaining a negative outlook**. Key factors for this downgrade include:

- Intensified conflict with Hezbollah and increased geopolitical risks.
- Weakened economic growth prospects and public finances.

Economic Forecast

Moody's revised its growth forecast for Israel:

- Real GDP growth is projected at 0.5% for 2024 and 1.5% for 2025.
- Budget deficits are expected to be around 7.5% of GDP in 2024 and 6% in 2025.

Institutional and Governance Concerns

Moody's also noted:

- Increased domestic political risks and social tensions.
- Delays in key governmental and judicial appointments.

Outlook

The negative outlook by Moody's reflects persistent downside risks. A severe escalation with Hezbollah or a broader conflict involving Iran could lead to further downgrades. Conversely, a durable cooling of military conflicts could stabilize the outlook.

Conclusion

Both S&P Global Ratings and Moody's have downgraded Israel's credit ratings due to heightened security risks and weakened economic prospects. The outlook remains negative, reflecting the ongoing uncertainties and potential for further escalations in the region. It is crucial for Israel to manage these risks effectively to stabilize its ratings and support future economic recovery. Considering these recent developments our recommendation is to hold our positions and allow for the $17M to roll off in the first half of 2025 and the $20M maturing calendar year 2026. The hold on adding more bonds will allow the team to maintain ongoing credit surveillance for this very fluid situation.