

## **How WMI Protects Your Investments During the Pandemic**

For: Wise Money Israel Clients

Date: October, 2020

As we each grapple with the effects of the recent coronavirus pandemic, and its effects on the global economy, some of our clients have been asking us what Wise Money Israel believes about investing in Israel specifically at this time.

Wise Money Israel recognizes the heightened concern about whether it is wise to invest in equity markets around the world, especially with increased volatility in the U.S. markets due to the presidential elections and civil unrest concerns.

We are positive on the Israeli economy and future prospects for the nation. Israel has faced many crises in both ancient and modern times and has overcome. The people are strong and resilient. Wise Money Israel has found that by taking advantage of coronavirus-induced market volatility with strategically-timed investments, we have been able to wisely steward our clients' portfolios during this troubling time, beating the Israeli stock benchmarks by far last year and in 2020 as well.

The Israeli economy has definitely been stretched during this global plague. Israel was one of the first countries to lockdown back in March, 2020, and was able to care for those plagued by the corona virus well (with a very low death rate). Despite navigating well through the first part of the crisis, there is criticism here that the Israeli government re-opened too soon. There has also been concern over a lack of willingness of several sectors of the Israeli population to follow government health guidelines. As a result, Israel recently completed a second full lockdown due to an increased new active case rate. Israelis have now begun to see signs of hope that we've righted the ship, as the new case rate has decreased by 95% from peak.

Like other nations, due to the lockdown on travel, business activity and tourism, Israel's unemployment increased significantly. The Israeli coalition government is providing subsidies to companies and individuals that found themselves with significantly less revenue or out of work. Many companies put workers on unpaid leave as the government increased unemployment benefits.

Israel closed its borders to foreign visitors early, and has yet to reopen them, sending tourism industry personnel into what will likely be a year without work. Hotels, tour guides, and taxi drivers have seen a sharp drop in revenue.

As the economy slows down, and consumers spend less, the banking, real estate and energy sectors have taken the brunt of the blow. Public companies aren't providing as much forward

earnings guidance as in the past, given the many unknowns regarding the extent of the economic damage and timeline for returning to full functioning productivity.

But not all sectors declined. For example, publicly-traded Israeli technology companies and consumer staples (such as food production and distribution companies) flourished. Wise Money Israel has found opportunities to buy into these sectors to compensate for other underperforming sectors.

Similar to markets around the world, the stock and bond market indexes tumbled starting mid-February by 35%, but within 10 weeks had recovered 60% of the drop. Since May, the Israeli stock market has been in a roughly 10% trading range without a clear direction toward full recovery. Wise Money Israel therefore sees continuing opportunity to invest at this time in the Israeli economy and capital market, as there is still significant room to recover to pre-corona levels once a vaccine or effective treatment is released and/or Israel is able to consistently sustain a low new-case rate. As Israel went into the crisis with good economic statistics (low debt-to-GDP, low unemployment, etc.), for the mid- and long-term perspective, we believe now to be a good time to begin to more fully invest, or add new funds, into the Israeli market.

The good news is that capital markets generally factor in identifiable risks into current asset prices and stock indexes are one leading indicator of what the Israeli economy will look like in six to nine months. This explains the sharp decline of market indexes in March before the economic damage to the economy was apparent, as well as the nice (but choppy) recovery seen since then in stock prices (foreseeing perceived economic realities in Q2, 2021).

Also, governments around the world are pumping money into their respective economies, trying to stave off longer-term damage to the fundamentals of their economies. As a consequence, this prompt intervention has provided needed support for the financial markets, at least in the short term.

Israel is now walking through the first few phases of its exit-from-lockdown plans for a gradual return to normality and full employment over the next months. The world will also likely witness the U.S. FDA approval of one or more vaccines and therapies in the next quarter or so, providing further visibility into corporate earnings potential and their return to normal functioning.

Wise Money Israel recognizes all the above factors, and others, as we guide our clients through this turbulent time. Wise Money Israel does expect heightened volatility in stock markets around the world (especially the U.S. market) based on the U.S. election cycle and its aftermath. We believe that in three to six months this increased volatility will subside.

While Wise Money Israel is increasing somewhat the level of cash for some managed clients to take advantage of opportunities as they arise during that period, we are still bullish on the market long-term, believing that for the long-term investor, this is a time to be in the market as we start a new bull market business cycle.

Israel has of late been forging unprecedented new peace deals with surrounding Arab nations. The normalization of relations between Israel, United Arab Emirates and Bahrain (“the Abraham Accords”) last month represents the first recognition of Israel’s right to exist from Persian Gulf nations, and promises not only robust foreign relations, but also strong economic ties and mutual investment.

Various other Muslim nations, including Sudan and Saudi Arabia are increasingly willing to normalize relations with Israel and recognize the economic strength of the Jewish State. These states’ steps forward toward peace and security in the Middle East will likely spread to other Arab nations, opening up additional markets for Israeli products and services.

We predict increased research and development cooperation and innovation, which will facilitate increased investment into Israeli companies from these very wealthy Arab nations. These positive economic developments add to our optimism about Israel’s long-term financial future.

In summary, Wise Money Israel is aware of the continued concerns due to COVID-19 and lack of a proven vaccine to allow all nations to return to some form of normalcy. Wise Money Israel is also aware of the likely tumultuous time ahead in the next several months due to another corona infection wave, winter season effects, the U.S. elections and U.S. social unrest.

As long-term believers in the strength of the Israeli economy, we see these current headwinds as temporary and not causing permanent and irreparable damage to the Israeli economy and outlook.

Wise Money Israel is continually considering the investing landscape as we make prudent decisions to continue to provide our clients good returns without undue risk. We have seen our long-term perspective and approach pay off for our clients in 2020. Our recommendation to our clients therefore is, “stay the course” - it will be worth it.

In your service,



Evan Liberman  
CEO and Founder, Wise Money Israel