

THE WAVERLEY SERIES

ISRAEL

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

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ISRAEL — AT A GLANCE

Capital	Jerusalem (disputed; Tel Aviv is the financial and economic capital)
Remarkable capital markets resilience during active multi-front war	The Tel Aviv 35 index rose approximately 20% year-to-date by April 2026, building on a 51.6% rally in 2025, and gained around 1% over the two-month war with Iran specifically; the shekel gained nearly 7% against the US dollar year-to-date, adding about 4% during the war itself, even as global investors favoured the safe-haven dollar
Credit outlook improvement amid continued elevated risk premiums	Credit default swaps fell roughly 50% in late 2024 toward levels comparable to Peru, though they remained about 30% above pre-war levels; both Moody's and S&P revised Israel's credit outlook to stable from negative in late 2025 and early 2026
An IMF growth projection achieved through, not despite, war conditions	The IMF projects Israel's 2026 economic growth outpacing every G7 economy, a result independent analysis states was achieved entirely through military reserve call-ups, mass displacement, rising security costs, and war on multiple fronts simultaneously
A repeatedly revised growth forecast reflecting the conflict's shifting trajectory	Post-Gaza-ceasefire growth was initially projected at 5.2% for 2026, trimmed to 4.8% in early March as the Iran air war began, and further revised by the Finance Ministry to 3.3-3.8% depending on war-duration scenarios; the Bank of Israel's own 3.8% forecast reflected a 1.4 percentage point downgrade, while Q1 2026 registered negative growth of 9.5% annualised (2.5% quarterly)
A directly quantified, substantial true cost of war despite strong headline growth	The Bank of Israel estimates the first two years of war cost approximately 177 billion shekels (over USD 57 billion) in lost output, with the IMF's latest review placing the economy roughly 9% below its pre-war trend; independent analysis states directly that 'the boom is narrower than it looks'
A defence-heavy budget with direct political stakes	The Knesset approved a 699 billion shekel (USD 221 billion) defence-heavy budget, averting a snap election that non-passage would have triggered within 90 days; public debt has grown almost 20% in four years and is projected at 70.4% of GDP in 2026, rising further through 2028
Direct US financial support absorbing some war costs	The United States has helped Israel absorb part of the war's direct costs by financing weapons, replenishing interceptors, and reinforcing air defences
A genuine gap between aggregate strength and household-level hardship	Despite the strong aggregate economic performance, independent reporting titled 'Israel's Economy Is Thriving. Many Israelis Are Not' highlights that the benefits have not been evenly felt; 20.9% of the population lived below the national poverty line as of 2023
Governing framework	Prime Minister Benjamin Netanyahu, with Bank of Israel Governor Amir Yaron

Israel presents a genuinely remarkable economic paradox: capital markets have surged and credit outlooks improved even during an active, multi-front war involving Iran, Hamas and Hezbollah, with the IMF projecting 2026 growth outpacing every G7 economy. This aggregate strength coexists with a directly quantified,

substantial true cost of war, an economy the IMF places roughly 9% below its pre-war trend, a severe first-quarter 2026 contraction, and independent reporting documenting genuine, uneven household-level hardship beneath the strong headline numbers. Investors should read Israel as an economy whose institutional resilience and capital markets performance are genuinely exceptional, while recognising that this strength has been achieved through, rather than despite, sustained wartime conditions whose full economic and social costs remain only partially reflected in headline growth figures.

1. INVESTMENT & FDI

Direct US financial support for war-related costs, alongside improving credit ratings, have helped sustain investor confidence even as public debt continues rising sharply.

The United States has helped Israel absorb some of the war's direct costs by financing weapons, replenishing interceptors, and reinforcing Israel's air defences; this external support has been cited as a specific factor helping Israel's central bank and government hold the macroeconomy together during sustained conflict. Both Moody's and S&P revised Israel's credit outlook to stable from negative in late 2025 and early 2026, even as public debt has grown almost 20% in just four years amid substantially increased military spending, with debt projected at 70.4% of GDP in 2026 and set to rise further through 2028.

- **A specific, sourced external financing mechanism directly reducing Israel's own fiscal war burden:** the explicit citation of US weapons financing, interceptor replenishment and air defence reinforcement represents concrete, sourced evidence of a significant cost-sharing arrangement distinct from Israel's own domestic budget commitments.
- **A genuinely notable credit outlook improvement occurring during, rather than after, active conflict:** the specific Moody's and S&P stable-outlook revisions represent concrete, sourced evidence of rating agency confidence in Israel's fiscal management even without conflict resolution.
- **A rapidly rising public debt trajectory directly tied to sustained military spending:** the specific almost-20%-in-four-years debt growth figure, and the 70.4% of GDP 2026 projection with further increases through 2028, represents concrete, sourced evidence of a genuine, ongoing fiscal cost accompanying the credit outlook improvements.

2. TRADE & BUSINESS

Israeli capital markets have delivered genuinely exceptional performance throughout the conflict period, even gaining during the two-month Iran war itself while global capital favoured safe-haven assets.

The Tel Aviv 35 index rose approximately 20% year-to-date by April 2026, building on a 51.6% rally in 2025, and gained around 1% over the course of the two-month war with Iran specifically; the broader Tel Aviv 125 index rose more than 17% over the same year-to-date period. The shekel gained nearly 7% against the US dollar year-to-date, adding about 4% during the war itself, even as investors globally flocked to the safe-haven dollar; Allianz Trade separately confirms the shekel strengthened 15% against the dollar and 1% against the euro in 2025, driven by stronger economic performance and a consistent external balance.

- **A genuinely exceptional equity market performance that continued even during the active war period itself:** the specific 1% gain in the Tel Aviv 35 during the two-month Iran war represents concrete, sourced evidence that Israeli capital markets did not merely recover after conflict but demonstrated resilience during active hostilities.

- **A notable currency strength defying the typical safe-haven capital flow pattern during conflict:** the shekel's specific gains during the war period, even as global investors favoured the dollar, represents concrete, sourced evidence of genuine, currency-specific confidence in Israel's economic management distinct from broader global risk sentiment.

3. MAJOR ECONOMIC DEVELOPMENTS

Israel's economy has achieved genuinely exceptional aggregate growth projections during an active, multi-front war, even as a directly quantified, substantial true cost of conflict and a severe first-quarter contraction illustrate that this boom is narrower than headline figures alone suggest.

The IMF projects Israel's 2026 economic growth outpacing every G7 economy, a result independent analysis states was achieved entirely through military reserve call-ups, mass displacement, rising security costs, and war on multiple fronts simultaneously; the analysis credits strong institutions and steady economic management, with a central bank and government that held the macroeconomy together under fire. Growth forecasts have been repeatedly revised as the conflict's trajectory shifted: Israel's economy grew 2.9-3.1% in 2025, dented by the war with Hamas in Gaza; following a Gaza ceasefire in October 2025, 2026 growth was initially projected at 5.2%, trimmed to 4.8% in early March 2026 just after the Iran air war broke out, as part of a revised state budget incorporating higher defence spending. However, the Iran war expanded significantly beyond initial expectations, with both countries reaching what was described as a stalemate without an off-ramp; the Finance Ministry subsequently revised its 2026 forecast to a range of 3.3-3.8% depending on war-duration scenarios, while the Bank of Israel's own 3.8% projection reflected a 1.4 percentage point downgrade. Bank of Israel Governor Amir Yaron told CNBC on 16 April 2026 that if regional conflicts are resolved, growth could rebound to 5.5% the following year; the Finance Ministry separately estimated 2027 growth of 5.3-6.1% depending on the length of the Iran and Hezbollah conflicts specifically. Israel's economy registered negative growth of 9.5% on an annualised basis in the first quarter of 2026, equivalent to a 2.5% quarterly contraction, according to Finance Ministry Chief Economist Shmuel Abramzon. The Knesset approved a defence-heavy budget of 699 billion shekels (\$221 billion), a step that specifically allowed Prime Minister Netanyahu's government to avert a snap election that non-passage would have triggered within 90 days. Despite the strong headline growth projections, the Bank of Israel estimates the first two years of war cost approximately 177 billion shekels, over \$57 billion, in lost output, with the IMF's latest review placing the economy roughly 9% below its pre-war trend; independent analysis states directly that 'the boom is narrower than it looks' and that 'Israel doesn't have the luxury of waiting for the war to end before it tends to what the war has cost at home.' Reflecting this uneven distribution of the war economy's benefits, 20.9% of Israel's population lived below the national poverty line as of 2023, and consumer prices are projected to register deflation of 1.5% in 2026.

- **A genuinely striking, directly sourced characterisation of growth achieved through, rather than despite, wartime conditions:** this specific framing represents a serious, credible analytical insight distinguishing Israel's growth story from a conventional resilience narrative, directly relevant to understanding its true underlying drivers.
- **A precisely documented sequence of forecast revisions tracking the conflict's genuinely unpredictable trajectory:** the specific progression from 5.2% to 4.8% to a 3.3-3.8% range represents concrete, sourced evidence of how directly and repeatedly the war's evolving scope has reshaped official economic expectations.
- **A severe, specific quarterly contraction directly complicating the broader strong-growth narrative:** the 9.5% annualised Q1 2026 contraction represents concrete, sourced evidence that Israel's war-time economic performance has not been uniformly positive across all reporting periods.

- **A direct, quantified accounting of the war's true economic cost, presented by the central bank itself:** the specific 177 billion shekel, over \$57 billion, lost-output estimate represents concrete, sourced evidence of a substantial economic cost existing in parallel with, rather than resolved by, the strong headline growth figures.
- **A direct, credible independent conclusion explicitly naming the narrowness of the apparent economic boom:** the explicit 'boom is narrower than it looks' characterisation, from an analysis specifically examining the war's cost to ordinary Israelis, represents an important, sourced caution against reading Israel's strong aggregate figures as evidence of broadly shared economic benefit.
- **A specific, quantified poverty rate representing a genuine structural concern within an otherwise high-income, advanced economy:** the 20.9% national poverty line figure represents concrete, sourced evidence of significant income distribution challenges that predate, and persist alongside, the current wartime economic conditions.

4. MAJOR PROJECTS & INFRASTRUCTURE

Air defence infrastructure reinforcement, supported directly by US financing, represents Israel's most significant current wartime infrastructure priority.

- **Air defence and interceptor infrastructure:** described in Section 1, this US-financed reinforcement represents Israel's most immediate and significant current infrastructure priority given the active multi-front conflict.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; Israel's economic developments are tracked primarily through Bank of Israel and Finance Ministry forecast updates, IMF reviews, and credit rating agency actions described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

The Knesset's approval of the 699 billion shekel defence-heavy budget represented the year's most significant formal event, carrying direct political as well as fiscal consequences.

- **Knesset budget approval:** described extensively in Section 3, this vote represented the definitive formal fiscal event of the period, directly determining both Israel's 2026 spending trajectory and the government's political survival.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Direct US military-financial support, alongside continued IMF and credit rating agency engagement, define Israel's most consequential current international economic relationships.

- **United States:** described extensively in Section 1, direct American financing of weapons, interceptors and air defence reinforcement represents Israel's most consequential current bilateral relationship amid the ongoing conflict.

- **International Monetary Fund:** described in Section 3, the Fund's growth projections and pre-war-trend assessment represent a significant, ongoing multilateral analytical relationship directly shaping external understanding of Israel's economic trajectory.
- **Moody's and S&P:** described in Section 1, these agencies' credit outlook revisions represent significant, independent validation of Israel's fiscal management during the conflict period.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Military reserve call-ups and mass displacement, cited directly as growth drivers, also represent genuine private-sector workforce and operational disruptions requiring direct business attention.

Independent analysis attributes Israel's aggregate growth performance specifically to military reserve call-ups, mass displacement, and rising security costs; while these factors have contributed to headline economic activity, they also represent genuine, ongoing workforce availability and operational disruptions for private-sector businesses navigating sustained wartime conditions.

- **A direct, sourced link between wartime workforce disruption and the private-sector operating environment:** the specific citation of reserve call-ups and mass displacement as growth contributors simultaneously identifies concrete, sourced sources of ongoing operational disruption that businesses in Israel must directly navigate.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Given the active, multi-front conflict and its directly quantified economic costs, this briefing identifies capital markets and currency exposure, rather than new project-level investment, as Israel's most concretely observable current investment dynamic.

- **Tel Aviv equity market exposure:** described in Section 2, this represents Israel's most concretely documented current investment channel, having demonstrated genuine resilience through active conflict.
- **Shekel-denominated currency exposure:** described in Section 2, the currency's specific strength during the war period represents a further, currently observable market dynamic distinct from conventional project-based investment.
- **Post-conflict resolution upside:** described in Section 3, Governor Yaron's specific 5.5% growth rebound projection contingent on regional conflict resolution represents a concrete, sourced, though conditional, future investment consideration.

SUMMARY ASSESSMENT

Israel presents a genuinely remarkable economic paradox: capital markets have surged and credit outlooks improved even during an active, multi-front war involving Iran, Hamas and Hezbollah, with the IMF projecting 2026 growth outpacing every G7 economy.

This aggregate strength coexists with a directly quantified, substantial true cost of war, an economy the IMF places roughly 9% below its pre-war trend, a severe first-quarter 2026 contraction, and independent reporting documenting genuine, uneven household-level hardship beneath the strong headline numbers.

Investors should read Israel as an economy whose institutional resilience and capital markets performance are genuinely exceptional, while recognising that this strength has been achieved through, rather than despite, sustained wartime conditions whose full economic and social costs remain only partially reflected in headline growth figures.