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**Overview**

On October 7, militants from Gaza launched thousands of rockets into Israeli towns and breached the heavily fortified border fence with Israel. In Israeli territory, Hamas militants killed more than 1,400 people, including civilians and soldiers, and took up to 150 hostages. These attacks were unprecedented in terms of tactics and scale, marking the first time Israel faced such a significant terrorist attack on its own soil since the 1948 Arab-Israeli war. This operation in 1948, known as "Al-Aqsa Storm," was conducted by Hamas in response to what they saw as Israeli attacks on women, the desecration of the al-Aqsa mosque in Jerusalem, and the ongoing siege of Gaza. Hamas had been preparing for this attack for two years, and it resulted in a substantial loss of life on both sides, including civilians.

Israel responded swiftly to the attack, declaring war and launching “Operation Swords and Iron”. In the five days following the attack, Israel dropped over 6,000 bombs on the densely inhabited Gaza, causing significant fatalities in the region. On top of that, the Israeli Minister of Defense Yoav Gallant ordered a full blockade on Gaza, preventing electricity, fuel, food and water from entering the region. Two weeks following the initial attack from Hamas, Israel has signaled an acceleration of their offensive on Gaza with Minister Gallant saying the next stage of war will be a “deadly, multi pronged attack by air, sea and land”.

**Market Implications**

In the two weeks following the declaration of war, Israeli stocks have seen the worst of the declines with EIS (MSCI Israel ETF) down 15% in that timeframe. Their currency, the Israeli Shekel, has also seen a relatively large drop of 6% against the US dollar, making a new 5 year low against the dollar. Two sectors that saw gains following this news were the energy and defense sector. The aerospace and defense sector rallied as defense spending is expected to rise, while oil prices went up due to fears of supply restrictions from war in the Middle East. One lesser-known defense company, Kratos Defense and Security Solutions, was up 17% in the few days following the news. Kratos’ XQ-58A fighter jet became the first ever successful flight in a pilotless plane, benefitting from the secular trends of defense spending and artificial intelligence. For the general market, geopolitical conflict negatively impacts equities as tail risk becomes easily identifiable to investors.

In our Artificial Intelligence Primer, we identified Monday.com as a company facing potential headwinds from the proliferation of A.I. Their core project management software applications are likely to be automated in the future making their products expendable for their enterprise products. Since we released the primer on October 3rd, MNDY is down 15%, but not for the reasons we wrote about but instead for the fact they are headquartered in Tel Aviv, Israel. They have already announced that 5% of their 1,000 person workforce has been drafted into the military, with up to 20% volunteering additionally. While this company in particular may not be a compelling investment because of their secular headwinds from automation, other software companies that have seen significant sell-offs are starting to become intriguing investment opportunities. Considering most of these software companies are primarily exporters, the weakness in their currency could provide significant tailwind to top-line growth. Barring a supply-chain disruption from either a lack of labor or their facilities being attacked, the recent sell-off in these stocks might be overdone. One software company headquartered in Israel, CyberArk Software, has already regained all of its losses from October 6th.