



Israel-Hamas war leaves markets little moved.

Global markets have held their ground despite the surprise outbreak of war between Israel and Hamas.

Long-simmering tensions in the Middle East escalated to war following a surprise attack on Israel by Hamas. The initial market reaction to news of the Hamas attack was negative, as it tends to be when uncertainty arises. Oil prices jumped but remained below recent highs. Global financial markets were down slightly when markets opened on the first trading day following the attack, as measured by the MSCI World Index but have since recovered. While Israeli stocks fell significantly, the country represents less than 0.05% of the Index. In our view, the biggest concern is not the short bursts of market reactivity—it is the potential for larger geopolitical ramifications should the conflict expand to involve other countries.

Iran may be a flash point

The greatest risk to markets that we see is a potential escalation between Israel and Iran, should Israel strike in retaliation against Iran's suspected involvement in the Hamas attack. Oil prices typically react to geopolitical instability and would almost certainly rise should the conflict escalate. With oil prices still elevated from Russia's invasion of Ukraine and supply cuts from Russia and Saudi Arabia, additional price pressure would be a negative for the global economy.

There is also anxiety about whether China or other countries could take advantage of Israel-Hamas conflict to make aggressive military moves of their own against U.S.-allied nations. The dysfunction in the U.S. political system resulting in gridlock in Washington has already raised questions about how quickly the U.S. can provide support for Ukraine and Israel. Additional conflicts involving U.S. allies would further complicate the challenge.

Overall, there are plenty of opportunities for the situation to worsen both in terms of humanitarian and geopolitical concerns before it gets better, and we expect the war to last at least several weeks. That noted, from an economic perspective, regional armed conflict tends to be a relatively short disruption in terms of its impact on global financial markets.

Our portfolios

In terms of our portfolios, we are not making any significant strategic (long term) changes as a result of the war.

Exposure to Israel is minimal across our portfolios, as seen in Exhibit 1.

Exhibit 1: Exposure to Israel as September 30, 2023

Fund	Benchmark	Fund	Benchmark	Difference
International Equity Fund	MSCI EAFE Index (USD)	0.90%	0.69%	0.21%
Global Managed Volatility Fund	MSCI All Country World Index	0.82%	0.18%	0.64%
U.S. Large Company Equity Fund	Russell 1000 Index (USD)	0.13%	0.00%	0.13%

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