

Israeli-Gaza Conflict

Geopolitical Issue, But Not a Credit Event

October 10, 2023

The surprise air, ground and sea attack on Israel on October 7 by the Gaza-based terrorist group Hamas has prompted a declaration of war by Prime Minister Benjamin Netanyahu. Hamas has killed hundreds and abducted dozens of Israeli civilians and soldiers. Israel has responded by increasing airstrikes on the Gaza strip and cutting off the area from food, fuel and other supplies. Hamas' threat to harm or execute Israeli hostages may complicate Israel's counteroffensive.

In February 2022 we noted that, despite the potential global economic effect of Ukraine's defensive against the Russian attack of the country, the financial credits in which we held at the time had little direct exposure to Ukraine and Russia. More specifically we stated that "the Russian invasion of Ukraine should not have a material, direct adverse effect on European banks." Our call has been right thus far.

Similarly, while we essentially have no direct exposure to the Middle East including Israel, there could be second or third order economic effects (*e.g.*, interest rate and oil price volatility) if the war persists for an extended period. **But even in that scenario we believe there should be limited material impacts on our bank, insurance and nonfinancial investments, based on Spectrum's disciplined selection of high-grade names in advanced economies.**

The Israeli-Hamas conflict may exacerbate geopolitical risks, like G7 tensions with China and Russia, as Iran is believed to be a supporter of Hamas.

It appears that this will not end soon. As relevant details materialize over time, we should be able to provide more comprehensive information, specific to our portfolio investments.

Our thoughts are with those affected by the violence.

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