



Global Economic Impact of the Attacks on Israel

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With the news of the stunning attacks on Israel by Hamas terrorist forces, we once again face a war of undetermined proportions in the Middle East. This was an evil act that targeted civilians. The tragedy here cannot be exaggerated, nor can Israel's need to respond. As human beings, we must mourn the victims, acknowledge the loss, and help them recover. We cannot forget that this is our first obligation.

As investors, though, we have to go further and evaluate what this means for the global economy and financial markets. There is real concern that Israel's response to the attacks could result in a wider war, disrupting not just the immediate area but also energy markets, which would have worldwide effects. This is a realistic fear; similar things have happened before. But this time around, despite the human tragedy, I believe there are likely to be fewer economic and market effects around the world. Let's explore the key factors and why they may be less likely to cause a global impact.

Energy. Major suppliers of oil and natural gas, though they are in the same geographic area as Israel, are not yet affected by the conflict, and it seems unlikely any expansion would cause a large impact. Oil prices are down over the past 30 days, despite a small surge in the aftermath of the attacks, suggesting markets are not worried. This lack of concern makes sense because other sources, including the U.S., can step up if supply from the Middle East is interrupted. Supply had been a major consideration in past Middle East conflicts; it's much less of a factor now.

Geopolitics. The Arab countries have generally disengaged from the Palestinian issue, and Saudi Arabia had been exploring direct ties with Israel. (The disruption of this

exploration may have been a key motive for the attacks.) There don't appear to be a strong desire by most countries for a war, which means diplomacy will have a chance to work. Hamas is primarily supported by Iran, a Shia country, whereas many Arab countries are primarily Sunni, which could make Arab support for a war unlikely for religious reasons. Finally, with Iran in the mix, Arab countries may have real reasons not to help an Iranian initiative. In my view, there aren't many reasons for these nations to widen the conflict; there are lots of reasons for them to try to resolve it as quickly as possible.

None of this is meant to minimize the tragedy. From an economic perspective, the impact on the rest of the world will likely be limited and short lived. As human beings, we can and should mourn the victims. As investors, this is something to watch but not something that should cause panic.

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Sincerely,

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