Retirement News Highlights

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State Officials, Pensions Buy Up Israel Bonds Amid War in Gaza

While the allocations are usually small and symbolic, purchasing these securities make sense for now, though that could change if the conflict escalates, industry players said.

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As the Israel-Hamas war rages on, U.S. state treasuries and public pensions have signaled support for Israel by buying its sovereign bonds. These bonds have proven to be credible investments in the past, but that could change should the conflict implicate the wider region.

Just this month, Oklahoma Treasurer Todd Russ and Texas Comptroller Glenn Hegar announced they were purchasing Israel's bonds. Texas bought $45 million of the bonds, atop an October purchase of $20 million, bringing the state's total holdings to $140 million, according to a Nov. 2 press release. Oklahoma purchased $10 million in bonds, bringing its total holdings to $62.5 million, Russ' office announced the same day. Both officials' offices declined to comment further.

Officials from several states, including New York, Texas, Ohio, Florida and Illinois purchased about $150 million in Israel bonds in the days following Hamas' Oct. 7 attack on Israel, according to Bloomberg. New York State Common Retirement Fund bought $20 million, as per Bloomberg.

Since the Oct. 7 attacks, Israel has sold more than $1 billion in bonds in total, according to a Nov. 7 press release from the Development Corporation for Israel, also known as Israel Bonds. More than 15 U.S. state and municipal governments have invested in the bonds, including Florida, New York, Alabama, Arizona, Ohio, Illinois, Pennsylvania, and Indiana.

Public pensions have been less demonstrative, but many hold Israel bonds and see them as a worthwhile investment. The Florida State Board of Administration, which manages $241 billion in pension assets, has a "longstanding allocation" of $60 million to Israel bonds, and as of last month the system held $35 million in the bonds and was in the process of purchasing more to bring its holdings up to its target, said Deputy Executive Director Paul Groom in an email message.

The $63 billion Maryland State Retirement and Pension System had about $30 million in Israel bond holdings, said Chief Investment Officer Andrew Palmer at an Oct. 17 meeting.
However, these holdings had been a drag on the portfolio in the days following the Oct. 7 attack, and overall, the system's investment staff thought they were "high quality" and provided diversification to the system's government bond portfolio, Palmer added.

“We’re evaluating whether or not it makes sense to make additional investments,” he said, according to a live transcript of the meeting. “If they came [up] with a new issue, which would be new funds going to the state of Israel, we would seriously consider that, but right now we’re just buying bonds from somebody else, so it’s not really adding any money to Israel.”
A Maryland spokesperson did not respond to a query for more details on Maryland’s plans by press time. Israel has not issued new bonds since 2021, according to the Israel Bonds website.
Last month, all three major credit ratings agencies – Moody’s Investors Services, Fitch Ratings and S&P Global Ratings – cut Israel’s credit outlook, Bloomberg reported.

No fixed income managers who reported to Nasdaq eVestment had products that were exclusively dedicated to Israel bonds, so the flows into these kinds of securities would be hard to track. Of the 4,450 fixed income strategies that reported any details of their exposure to Israeli bonds, over 80% reported no exposure at all, and only 6.7% reported 1% or more, according to data provided by the firm. Of those products with 1% or more exposure, the average allocation was only 1.08%.

As of yesterday, Israel bonds generated a -2.90% one-year return, according to the S&P Israel Sovereign Bond Index, which tracks its local market value in the shekel, Israel’s currency. The price dipped just after the Oct. 7 attack, only to rebound and dip again at the end of last month before rallying so far in November. Over longer periods, the Israel index had outperformed S&P’s separate global developed sovereign bond index, according to the S&P website.

Israel bonds are a “very tried and tested” investment, so it is not surprising to see interest in them right now, especially with movement in their prices, said Mohammed Elmi, a vice president and senior portfolio manager with Federated Hermes.

“It’s tragic, but events like this create an opportunity in the market,” he said. “I’m not surprised at all that it’s on people’s radar, whether it’s in terms of support [for Israel], or whether it’s in terms of maybe buying an A or A+-rated sovereign [bond].”

Federated Hermes is “watching and waiting” in terms of its own allocations to see how the conflict plays out, and investors will have a lot of questions about what impact the conflict will have on Israel’s economy, Elmi added. Demand will likely jump in the internal and external markets if Israel issues more bonds, he said.

“I think on both sides,… there will be significant demand for Israeli sovereign credit,” he said.

Israel Bonds did not reply to queries about whether it planned to issue new bonds in the near future.