The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

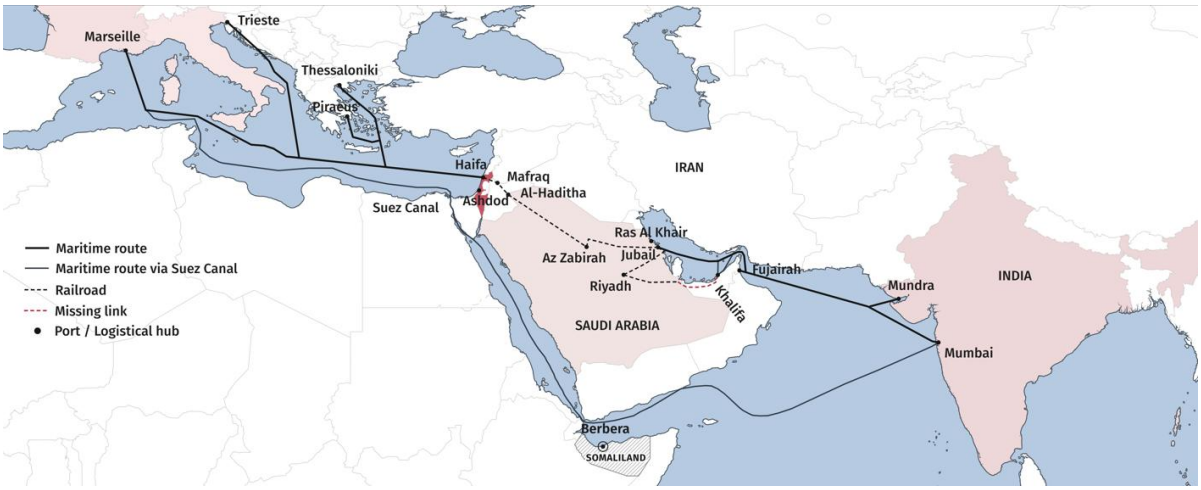
Israeli elections without a strategic reset

28 October 2026

While no bloc appears to have secured a majority in the Israeli elections, the next government is unlikely to change the country's strategic direction, including its policy towards Iran and Palestinian statehood. That stance could constrain cooperation with Arab countries, limiting Israel's influence as a regional middle power.

ISRAEL PLAYS A PIVOTAL ROLE THE INDIA-MIDDLE EAST-EUROPE ECONOMIC CORRIDOR (IMEEC)

IMEEC IS A MARITIME, ROAD AND RAILROAD ECONOMIC CORRIDOR AND AN ALTERNATIVE TO THE ROUTE VIA SUEZ



Source: The Investment Institute by UniCredit

THE CONTEXT

According to preliminary results of the Israeli parliamentary elections – the first since the catastrophic Hamas-led attack on 7 October 2023 – with 60.2% of votes counted this morning, no bloc has secured the 61 seats needed to form a majority in the Knesset. According to Haaretz, Benjamin Netanyahu's Likud is expected to emerge as the largest party (28 seats). His bloc also includes two ultra-orthodox parties Shas (7 seats) and United Torah Judaism (8), as well as the religious nationalist Otzma Yehudit (7) and Religious Zionism Party (6), for a total of 56 seats.

The opposition's "change bloc", led by former IDF chief of staff Gadi Eisenkot, is projected to win 48 seats. It comprises Eisenkot's Yashar (21 seats), centre-right B'Yachad (11), secular nationalist right-wing Yisrael Beiteinu (8) and centre-left The Democrats (8). The Arab parties Joint List and United Arab List are together projected to win a combined 16 seats. Voter turnout reached 77.7% by 10pm, the highest figure at that stage since 1999. President Isaac Herzog is expected to assign the candidate with the most support in the newly elected Knesset the responsibility of forming a government, though the law gives him considerable discretion. While the vote may appear to be a referendum on Netanyahu, its consequences are likely to extend beyond domestic politics. The outcome could also have important geoeconomic implications, although Israel's status as a strong middle power in the region will not change under a new government.



THE DATA

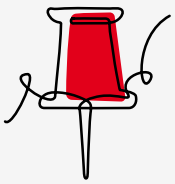
Israel plays the role of a regional middle power through number of channels, including military and intelligence capabilities, technological innovation, regional diplomacy, strategic partnerships and geoeconomic connectivity. The latter can be illustrated by Israel's role in the India-Middle East-Europe Economic Corridor (IMEEC), announced in 2023 and backed by the EU, Germany, France, Italy, the UAE, Saudi Arabia, India and the US (see Chart). The IMEEC is intended to connect India with Europe via the Middle East, with the port of Haifa playing a key role. It would combine maritime connections with rail links through the UAE, Saudi Arabia, Jordan and Israel. The corridor represents a competing project to the International North-South Transport Corridor (INSTC) – a transport and logistics network linking India with Russia and Europe via Iran – and to China's Belt and Road Initiative. Moreover, Israel sought to strengthen its position as a regional power by recognising the Republic of Somaliland in December 2025, becoming the first UN country to do so. This relationship could extend Israel's strategic reach towards the Bab el-Mandeb chokepoint.



OUR VIEW

Israel's macroeconomic backdrop remains solid, characterised by robust economic growth and low inflation. The Bank of Israel expects GDP to grow by 3.4% this year and 5.1% next year, with inflation rising only moderately from 1.5% to 2.1%. However, the new government faces a number of challenges. From an economic perspective, it will need to cope with a serious housing affordability problem in the country. Moreover, the nation is deeply divided, something which has been reflected in the close election outcome, and a major task for the new government will be to unite it. A government led by Eisenkot's bloc might, however, launch an inquiry into the 7 October 2023 massacre, which could fuel fresh tensions within society, while a Netanyahu government would most likely mean a continuation of its policy of settlement expansion in the West Bank and belligerent stance towards Iran. In particular, the latter increases the risk of renewed escalation across the region, with potentially adverse consequences for global energy supplies and economic growth. The new government is unlikely to make fundamental changes to Israel's security doctrine or accept Palestinian statehood. This in turn could affect the country's role as a regional middle power, particularly where that role depends on cooperation with Arab countries.

The IMEEC project is one such example. Its viability is of key geoeconomic importance for Western countries, as the corridor could reduce supply-chain dependence on Iran and Russia, while it draws India closer to the West. The IMEEC could also offer an alternative to transit through the Suez Canal, as Houthi attacks on vessels crossing the Bab-el-Mandeb Strait have repeatedly caused severe disruption on the route. As such, the corridor could strengthen Israel's role as a middle power by making it a strategic bridge between India, the Gulf and Europe. However, this ambition remains conditional on regional security, and the normalisation of relations with Saudi Arabia and other Gulf states, while the conflicts with Iran and the Palestinians remain unresolved.



OTHER THINGS TO NOTE

Fed on hold, wating for September

We expect the Fed to keep interest rates unchanged today. This is likely to be only a pause, with the FOMC remaining on track for a December hike. For further details on the upcoming FOMC meeting, see our Fed Preview – October pause, December hike.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
12:30	UK	Autumn budget 2026	-	-	-	-
14:45	CA	Bank of Canada announces key rate (%)	-	2.25	2.25	2.25
19:00	US	Federal funds target rate (upper bound, %)	-	4.00	4.00	4.00
29 October						
08:00	SW	Real GDP (% qoq)	3Q	0.2	-	1.6

Source: Bloomberg, The Investment Institute by UniCredit

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