

Executive Summary

1. The Israeli Defense Forces (IDF) remain on the brink of launching a ground invasion into Northern Gaza, but the order has not yet been given to proceed.	18-Oct-2023 26-Oct-2023 01-Nov-2023 14-Nov-2023 10-Dec-2023	Biden visits Israel ECB meeting FOMC meeting CPI print Egyptian elections
2. President Joe Biden travelled to Israel to express U.S. solidarity and try to de-escalate the situation.	12-Dec-2023	CPI print
3. We think an invasion will probably go ahead regardless. None of the actors asking Israel to delay have been able to provide any security guarantees.	13-Dec-2023 14-Dec-2023	FOMC meeting ECB meeting
4. The presence of two U.S. naval carrier groups in the Eastern Mediterranean should deter other actors (Hezbollah and other Iran-aligned militia) from launching a full attack on Israel.	13-Jan-2024 15-Jan-2024 23-Jan-2024	Taiwan Elections Iowa Republican primary New Hampshire Republican Primary
5. But broader escalation is not our base case. We continue to view the impact on global markets as limited to energy commodities.	06-Jun-2024 05-Nov-2024	European elections U.S. Elections
6. Even in the downside scenario of a regional escalation, we seriously doubt a “global recession” or “World War” would ensue as recent media headlines have been arguing.		

1. The situation on the ground

- Five days after its 24-hour ultimatum to Gazans to evacuate the north of the territory, Israeli ground forces have still not launched a ground invasion, though they have amassed on the border.
- U.S. President Joe Biden was in Israel today to showcase U.S. support while also trying to alleviate the humanitarian crisis in Gaza and de-escalate the situation more broadly.
- He succeeded partly in this goal when Israel announced earlier today that they would allow humanitarian aid to flow into Gaza.
- Meanwhile a substantial proportion of Gaza residents have been fleeing south, and a serious humanitarian crisis is unfolding in the enclave.
- Our sources indicate that both the U.S. and most regional actors are trying to dissuade Israel from launching its ground invasion, so that the humanitarian situation can stabilize.
- **We still view a ground invasion as the most likely scenario.** Israel’s stated objective is to “obliterate” Hamas’s military and political infrastructure—rendering it unable to govern Gaza moving forward.
- This cannot be accomplished without a ground assault including some form of occupation thereafter.
- Though few people in Israel are in favor of occupation as an end in itself, the terror attacks have made the destruction of Hamas an existential issue.
- Since no other regional or global actor has either the political willingness or the military capability to take on Hamas and secure the Gaza Strip, Israel will most likely have to take on the task itself.
- According to media reports, Israel has mobilized 360,000 reservists—a huge number and a significant disruption to the country’s economy.

- The most likely outcome is a long and protracted invasion, in which the IDF goes door-to-door to demilitarize Gaza and destroy Hamas's capability to govern.
- Part of this involves dismantling the intricate tunnel network that has facilitated the smuggling of arms and terrorists despite the longstanding Israeli-Egyptian blockade.
- As we have seen from recent wars, urban combat can be a very bloody endeavor.
- But bloody does not mean hopeless: to take an example from the recent media coverage, Fallujah was a brutal battleground, for example, but the U.S. still won.
- Though tragic, the situation in the Gaza Strip itself does not have many further escalatory pathways. The region remains sealed off, and Hamas lacks capabilities for rearming beyond its current supplies.
- If and when Hamas is eliminated, Israel could continue to occupy Gaza or reach some agreement with the Palestinian Authority ("an Israeli security contractor" as one of our sources put it) to gradually transfer power. UN agencies will likely continue to provide primary services as well.

2. Escalatory pathways

- Though the conflict in the South is likely to be contained in Gaza, escalatory pathways exist elsewhere.
- In the North, Iran-affiliated militia Hezbollah has in recent days been engaging in low-intensity artillery fire against Israeli positions across the Lebanese border—to which the IDF has been responding in kind.
- To protect Israel's northern flank, the U.S. has sent two carrier strike groups, the USS Gerald R. Ford and the USS Dwight D. Eisenhower to the area.
- Their presence is intended to deter any further offensive moves against Israel by actors other than Hamas.
- Our sources suggest that the U.S. has both the means and the political will to engage in heavy coastal bombardment of Lebanon, should Israel's military position be threatened.
- In reality, Hezbollah's military capabilities are relatively limited. Our sources suggest that they cannot cross over into Israel as Hamas did so they would have to rely on rockets and artillery.
- Given Israel's defensive capabilities, including the Iron Dome system, rockets would inflict limited damage while inviting a devastating response—first by Israel and, if necessary, by the United States.
- In our view, the presence of overwhelming military force should be enough to deter Hezbollah from engaging in a serious manner, closing off that escalatory pathway.

3. It's not a World War

- The key difference between, say, the outbreak of World War I and the situation we are in today is that there are few state actors or formal alliances directly involved on the Hamas side.
- Though effusive in its praise for the terrorist group in public, our sources suggest Iran does not have direct control over the group, although they do have closer ties than most state actors given that Iranian funding and support of Hamas has been substantial.
- Similarly, it is unclear that Iran is fully on board with the scale of the atrocities committed by Hamas militants, which have solidified Western support for Israel.
- All other regional states, including Jordan, Egypt, and Saudi Arabia, have been critical of Israel's response but have no interest in joining the conflict.

- Their focus is instead on controlling their domestic population and preventing any spillover into their territory. This is why Egypt is unwilling to receive large numbers of Palestinian refugees.
- Similarly, America's geopolitical adversaries, such as Russia and China, have been timid in their condemnation of the terror attacks for the simple reason that Israel is a U.S. ally.
- Some, particularly within the BRICS bloc, may also see an opportunity to ultimately position themselves as peacemakers—although we would consider Qatar a far more likely candidate for the role.
- But neither actor harbors any sympathies for Islamist terror either and would be highly unlikely to provide even indirect support to the Palestinian militant groups.
- In sum, the escalatory pathways are geographically limited and contained to non-state actors. It is very difficult to envision a World War, or any other of the hyperbolic scenarios thrown around, resulting from the current conflict.

4. The PR battleground

- As with any conflict of global significance, early perceptions of the combatants' conduct can have an outsize impact on public opinion and, by extension, the incentives structure for political leaders.
- This is especially the case for Israel and Palestine, where decades of conflict have led to deeply entrenched views and biases.
- For example, following the explosions at a Gaza hospital on Tuesday, Arab governments including U.S. ally Saudi Arabia [condemned](#) Israel for a “heinous crime committed by the Israeli occupation forces.”
- By Wednesday morning, it appeared increasingly likely that the explosion was due to an errant rocket [launched](#) by Palestinian Islamic Jihad—another Gaza militant group.
- Be that as it may, the immediate perception proved more important than the facts on the ground. King Abdullah II cancelled a planned summit of Arab leaders in Amman that would have included President Joe Biden, as well as Egyptian President Abdel Fattah el Sisi and Palestinian President Mahmoud Abbas.
- These perceptions seriously constrain Arab leaders' ability to take Israel's side in the conflict—or even to engage with the U.S. as the primary mediator.
- Support for the Palestinian cause at home is a consideration for Western leaders as well and there is a risk it will grow as the conflict continues to cause deaths and displacement among the civilian population in Gaza.
- This is a lesser problem for Biden (who still has to contend with the far-left wing of his Democratic Party) but more of an issue for European leaders, who have to consider a heightened risk of terror attacks, a substantial Muslim population, and an entrenched far-left that has a long history of criticizing Israel under all circumstances. (see below)
- Important though it is, we do not think the public opinion angle will stand in the way of full U.S. support for Israel, up to and including direct engagement with Hezbollah.
- Europe, by contrast, is less likely to provide direct support to Israel, though its diplomatic position will remain favorable to the Jewish state.

5. The European Way

- Unlike the U.S., which has already delivered military aid to Israel and deployed substantial military assets to the region, the EU has been much more reluctant to engage.
- This is not for lack of leadership—both European Commission President Ursula von der Leyen and German Chancellor Olaf Scholz have visited Israel in recent days and pledged their support, often to criticism at home.
- Rather, the European public has a diverse set of opinions on the matter—and some European leaders’ positions reflect this.
- Von der Leyen was criticized by Irish Taoiseach Leo Varadkar for “not taking a balanced stance.”
- Moreover, European leaders are wary of terror attacks on home soil. Homegrown Islamist terror has been a serious issue in Europe over the past decade, and escalation in the Middle East can lead to an increase in terrorist activities in Europe itself.
- This week, an attack in Belgium killed two Swedish soccer fans before the suspect was shot and killed by Belgian police. (there is some dark irony to this—Sweden being one of the few Western countries to recognize the State of Palestine)
- In France, a literature teacher was stabbed to death last week in the northern town of Arras.
- The Pew Center estimates about 9% of the French population is Muslim, and their sympathies are unlikely to lie with Israel even in the current conflict.
- Anti-Israel views routinely also find expression among the far left.
- Far-left La France Insoumise leader Jean-Luc Mélenchon already tried to take advantage of this by refusing to describe the Hamas massacres in Israel as “terrorist” attacks.
- The comments are leading to the dismantling of the left-wing NUPES alliance that also includes the Communists, Greens, and the Socialist Party.
- Although his government’s position is far more supportive of Israel, French President Emmanuel Macron has to take all this into consideration.
- Given U.S. security guarantees and direct engagement, France does not have to engage militarily to support the state of Israel—or to stake out an aggressive diplomatic position.
- We view Macron’s position as indicative of the median European leader: supportive of Israel in theory, but wary of antagonizing a Muslim minority at home or raising the risk of terror attacks on European soil. The consequence is limited to no military support for Israel.
- The one exception is the UK, whose military forces are being deployed to the Eastern Mediterranean in a supportive role.
- But once again, we expect the U.S. to remain the sole leader in the West’s diplomatic and military response to the crisis.



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