Monthly Defence Market Report

January 2025

HANetf & VettaFi
Future of Defence UCITS ETF
NATO
49 bps
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For Professional Clients Only. Capital at risk.
All data as of 31/12/2024
This report was written by, and is the opinion of, VettaFi.

Defence and Aerospace ETF Key Takeaways

Trump may ask NATO members to boost spending to 5% of GDP – A report from the Financial Times suggests Donald Trump wants NATO countries to increase their defence spending to more than double the current target. According to the reports, Trump's team has told European officials that the U.S. president-elect expected NATO allies to increase their defence spending to 5% of GDP after his Jan. 20 inauguration — more than double the alliance's current 2% target. Trump's team also reportedly said that the incoming U.S. administration would continue supporting Ukraine. During his first term, Trump had already suggested that NATO members should boost their defence spending to 4% of GDP. A NATO report published in June showed that a record 23 member countries out of 32 were now meeting the alliance's 2% target for defence spending.

NATO's European members float idea of 3% target – European NATO members are holding talks about increasing the alliance's target for defence spending to 3% of GDP at its annual Hague summit next June according to the Financial Times. Citizens of NATO member states should "accept to make sacrifices" such as cuts to their pensions, health and security systems in order to boost defence spending and ensure long-term security in Europe, the head of the military alliance Mark Rutte said. The former Dutch prime minister called on the alliance to "shift to a wartime mindset" and" turbocharge" defence production and defence spending. He warned that the 2% of GDP most NATO allies spend on defence is not enough in the long term to deter potential adversaries.

Finland boosts defence spending – Finland was already in the top 7 in terms of NATO member spending but is ramping up spend even further. The Finnish government has planned to significantly increase defence spending, aiming to allocate around €11 billion by 2032. For comparison, Finland's defence budget in 2020 was €3.5 billion. By 2024, the country had already increased defence spending to approximately €6 billion, exceeding NATO's minimum two-percent requirement by dedicating 2.41% of its GDP to defence. Approximately 45.8% of the budget is toward the purchase of weapons, far surpassing the NATO 20% target. And there are already commitments by Helsinki to raise the defence budget to €6.5 billion in 2025. Finland's increased spending is a natural response to its geography as it shares a 1,272-km land border with Russia.

Sources available upon request. Please remember that when you invest in ETFs, your capital is at risk.

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Company News – Earnings Analysis

EQM Future of Defence Index

	2024 Q3 Growth	2024 Q3 Surprise	2024 Q3 % Beat	2024 Q3 % Miss	FY 2024 Growth	FY 2025 Est Growth	FY 2026 Est Growth	FY 2027 Est Growth	3-Year Est Growth
EPS	▲ 23.76%	▲ 14.61%	66.90%	15.49%	▲ 24.20%	▲ 15.69%	▲ 17.46%	▲ 13.53%	▲ 52.19%
SALES	▲ 15.35%	▲ 1.52%	72.04%	17.89%	▲ 13.33%	▲ 12.28%	▲ 11.23%	▲ 9.77%	▲ 35.57%
EBITDA	▲ 25.01%	▲ 8.99%	58.85%	19.63%	▲ 23.36%	▲ 15.65%	▲ 14.83%	▲ 11.54%	▲ 41.00%
PROFITABLE	*98.91%*	—	—	—	*98.21%*	*98.78%*	*100.00%*	*100.00%*	—

For 2024 Q3, 50 of 59 companies (85%) have reported. 37 companies (74%) have reported positive YoY EPS growth. 48 companies (96%) have reported positive YoY sales growth.

Source: VettaFi as of 31.12.2024. Table displays expected data. Past performance is not indicative of future performance.

Largest positive Q3 2024 earnings surprises

Name	EPS Growth						EPS Surprise		
	2024 Q3	FY 2024	FY 2025	FY 2026	FY 2027	3-Year	2024 Q3 Actual	2024 Q3 Estimate	2024 Q3 Surprise ↓
Leonardo S.p.A.	91.11%	23.60%	7.22%	19.66%	13.76%	45.95%	0.29	-0.07	332.54%
Mercury Systems Inc		-169.00%		160.51%	58.99%		0.04	-0.08	116.67%
Cyberark Software Ltd.	123.81%	163.39%	22.21%	29.57%	25.24%	98.31%	0.94	0.46	105.20%
Leidos Holdings Inc	44.33%	38.55%	4.77%	8.54%			2.93	2.01	45.58%
Hanwha Aerospace Co Ltd		-18.78%	37.69%	14.53%	10.61%	74.42%	4.94	3.40	45.39%
Kyndryl Holdings Inc				79.47%	69.10%		0.01	-0.03	40.22%

Source: VettaFi as of 31.12.2024.

Largest negative Q3 2024 earnings surprises

Hensoldt AG		32.19%	23.81%	18.75%	25.98%	85.23%	-0.17	0.24	-172.34%
AeroVironment, Inc.	-51.55%	137.30%	14.52%	26.91%	12.58%	63.63%	0.47	0.76	-37.81%
Huntington Ingalls Industries, Inc.	-30.81%	-17.29%	8.05%	15.03%	10.14%	36.89%	2.56	3.85	-33.59%
Rheinmetall AG	32.45%	54.86%	41.44%	38.68%	26.49%	148.11%	3.28	3.84	-14.67%
SentinelOne Inc			764.48%	91.17%	108.01%	3,337.62%	0.00	0.01	-12.43%

Source: VettaFi as of 31.12.2024.

Macro Outlook

An interesting proposal being put forward by the Atlantic Council is a new global defence bank, the Defence, Security, and Resilience Bank. By underwriting risks for commercial banks, the bank would enable nations to boost defence production, ensuring supply chains are equipped to meet modern security demands. With collective backing from allies, the bank could drive innovation, enhance resilience, and be operational as soon as 2027. It is an interesting concept to help allied countries boost defence spending without mortgaging social programs. With new targets for anywhere from 3-5% of GDP, such a solution might be desirable not only to fund future spending initiatives, but level the playing field on credit risk and country quality. Global defence budgets continue to rise with expectations for more spending. As we look ahead to 2025 and beyond, clearly military and cybersecurity spending are on an upward trajectory. The challenges of tomorrow—whether they come in the form of hypersonic missiles or sophisticated cyberattacks—will require innovative solutions and significant financial investment.

Defence and Aerospace ETF Performance

As of 31/12/2024

	1M	3M	6M	YTD	12M	3Y	SI
Future of Defence UCITS ETF	**-3.45%**	**4.27%**	**12.89%**	**32.52%**	**32.52%**	**N/A**	**52.83%**
EQM Future of Defence Index	*-3.42%*	*4.42%*	*13.21%*	*33.25%*	*33.25%*	*70.67%*	*53.93%*

Please note that all performance figures are showing net data. Source: Bloomberg / HANetf. Data as of 31/12/2024
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Defence and Aerospace ETF Details

Future of Defence UCITS ETF (NATO) provides exposure to the companies generating revenue from NATO and NATO+ ally defence and cyber defence spending.

The fund tracks the EQM Future of Defence Index (NATONTR Index).

Visit the NATO fund page for more information.

Exchange	Ticker	RIC	SEDOL	ISIN	Valoren	WKN	CCY	Listing Date
LSE	NATO LN	NATO.L	BP6N0Z2	IE000OJ5TQP4	-	-	USD	04/07/2023
LSE	NATP LN	NATP.L	BP6N104	IE000OJ5TQP4	-	-	GBP	04/07/2023
Borsa Italiana	NATO IM	NATO.MI	BMBR649	IE000OJ5TQP4	-	-	EUR	14/07/2023
Xetra	ASWC GY	ASWC.DE	BMBR650	IE000OJ5TQP4	-	A3EB9T	EUR	04/07/2023

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