Monthly Defence Market Report

March 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 28/02/2025
This report was written by, and is the opinion of, VettaFi.

Defence and Aerospace ETF Key Takeaways

European defence names soar – The shares prices of European defence names have soared on the expectation of higher spending as the UK and France take the lead on a peace deal for Ukraine without the U.S. Companies such as Britain's BAE Systems, Germany's Rheinmetall, Sweden's Saab, France's Thales, and Italy's Leonardo all traded up considerably after U.S./Ukraine negotiations fell apart. In aggregate, the European defence sector is up over 60% YTD. Investors expect big increases in European defence budgets stoked by fears the U.S. role in European defence will diminish and that the U.S. could withdraw from NATO entirely under the new Trump Administration. Analysts at JPMorgan said the events of the past two weeks had "turbocharged" their thesis of a European "rearmament cycle", with leaders seeking to make more of their military equipment and import less from the U.S. They have raised price targets by an average of 25%.

EU spending targets to increase with new financing rules in place – In conjunction with the UK and France's decision to provide security guarantees to Ukraine and work toward a peace plan, the UK has committed to an increase to 2.5% of GDP by 2027 and French President Macron has called on Europeans to increase their annual defence spending to 3% of GDP. European Commission President Ursula von der Leyen announced in February that EU fiscal rules will be updated to allow countries to spend more on defence without being constrained by specific debt and deficit targets. In addition, the EU is looking at additional funding for defence at the EU level, including through flexibility in the use of structural funds and adaptation of the EIB mandate. Von der Leyen is expected to present "concrete measures" in terms of defence financing in the coming days which will be discussed by EU leaders on March 6.

Defending Europe without the U.S. – could NextGenerationEU be utilized? – In a recent report entitled "Defending Europe without the U.S.," Brussels-based think tank Bruegel calculated that Europe could need "300,000 more troops and an annual defence spending hike of at least 250 billion euros in the short term to deter Russian aggression." One key question is whether the EU will go so far as to agree to common borrowing for defence projects. The bloc decided to take that unprecedented step in 2020 in the wake of the pandemic (known as NextGenerationEU) and some member states believe this model should be replicated for defence spending. According to Goldman Sachs, EU leaders could "repurpose" the outstanding financial capacity from the NextGenerationEU funds for defence as a stopgap measure and then look at a new program, which "could provide stable funding shielding defence spending from idiosyncratic national factors."

Will the U.S. leave NATO? – While Elon Musk thinks the U.S. should leave NATO, before he became Secretary of State, Marco Rubio made such an action harder. Congress passed a law requiring a vote to approve any U.S. withdrawal from NATO. Under the 2023 law championed by Rubio, any NATO withdrawal requires either the approval of 2/3rds of the US Senate or a separate act of Congress. Given that many GOP lawmakers remain staunch NATO backers, it's extremely unlikely Trump could muster such a large majority.

Company News – Earnings Analysis

EQM Future of Defence Index

	2024 Q4 Growth	2024 Q4 Surprise	2024 Q4 % Beat	2024 Q4 % Miss	FY 2024 Growth	FY 2025 Est Growth	FY 2026 Est Growth	FY 2027 Est Growth	3-Year Est Growth
EPS	▲ 21.50%	▲ 11.55%	53.71%	6.47%	▲ 31.23%	▲ 12.95%	▲ 19.39%	▲ 16.25%	▲ 56.33%
SALES	▲ 16.71%	▲ 3.54%	52.26%	8.53%	▲ 14.03%	▲ 13.51%	▲ 11.51%	▲ 10.68%	▲ 44.29%
EBITDA	▲ 25.49%	▲ 9.61%	45.21%	12.44%	▲ 25.11%	▲ 16.67%	▲ 15.28%	▲ 13.05%	▲ 54.52%
PROFITABLE	*99.41%*	—	—	—	*98.48%*	*99.41%*	*99.41%*	*100.00%*	—

For 2024 Q4, 41 of 60 companies (68%) have reported. 28 companies (68%) have reported positive YoY EPS growth. 37 companies (90%) have reported positive YoY sales growth.

Source: VettaFi as of 28.02.2025.

Largest positive Q4 2024 earnings surprises

Name	EPS Growth						EPS Surprise		
	2024 Q4	FY 2024	FY 2025	FY 2026	FY 2027	3-Year	2024 Q4 Actual	2024 Q4 Estimate	2024 Q4 Surprise ↓
Hanwha Aerospace Co Ltd		143.52%	-31.12%	19.25%	6.01%	-12.93%	30.72	6.30	387.47%
Lig Nex1 Co Ltd		16.86%	15.36%	35.63%	44.43%	125.97%	2.30	0.90	156.61%
Mercury Systems Inc		-169.00%		132.63%	60.60%		0.07	-0.05	117.78%
Varonis Systems Inc	-33.33%	-13.89%	-49.07%	124.42%	78.78%	104.36%	0.18	0.14	30.47%
Kratos Defense & Security Solutions, Inc.	8.33%	16.67%	3.07%	39.92%	15.68%	66.84%	0.13	0.10	27.73%
Palantir Technologies Inc	75.00%	64.00%	31.66%	25.97%	35.50%	124.74%	0.14	0.11	26.11%
Kyndryl Holdings Inc				67.98%	69.54%		0.51	0.41	25.04%
Fortinet Inc	45.10%	45.40%	3.72%	12.19%	13.05%	31.56%	0.74	0.61	22.02%
BlackBerry Ltd.	100.00%		-76.67%	328.56%	80.00%	80.00%	0.02	0.00	21.57%
Tenable Holdings Inc	64.00%	61.25%	16.74%	16.64%	24.73%	69.85%	0.41	0.34	20.00%

Source: VettaFi as of 28.02.2025.

Largest negative Q4 2024 earnings surprises

Rapid7 Inc.	-33.33%	50.00%	-21.99%	9.29%	9.56%	-6.59%	0.48	0.50	-3.37%
Kongsberg Gruppen ASA	19.43%	30.76%	24.61%	21.15%	13.65%	71.57%	0.74	0.76	-3.72%
Hensoldt AG	128.22%	38.39%	16.44%	20.62%	27.29%	78.78%	1.40	1.46	-4.15%
Saab AB	12.20%	17.67%	34.74%	22.53%	18.15%	95.07%	0.24	0.26	-5.66%
Huntington Ingalls Industries, Inc.	-54.35%	-18.22%	0.13%	18.08%	14.35%	35.20%	3.15	3.38	-6.81%
Ducommun Incorporated	120.59%	186.84%	11.09%	24.71%	28.48%	77.98%	0.75	0.81	-7.88%
Rocket Lab USA Inc.							-0.10	-0.09	-13.73%
Parsons Corporation	13.04%	34.16%	14.76%	10.06%	15.36%	45.71%	0.78	0.91	-14.60%
Korea Aerospace Industries Ltd.	-90.50%	-29.52%	52.57%	43.71%	13.31%	148.44%	0.09	0.39	-75.41%

Source: VettaFi as of 28.02.2025.

Macro Outlook

The U.S. was the dominant military power in NATO, committing about 70% of its capabilities and command. The U.S. has more than 100,000 troops deployed in Europe and NATO has relied on the U.S. for key capabilities such as planes refuelling mid-air, moving troops or supplies via aircraft, and military mobility. The U.S. also provides the bulk of nuclear weapons, as well as significant intelligence, logistics, and reconnaissance tools. And it has always been seen as a group leader. The Supreme Allied Commander for Europe, the top military leader in NATO has always been an American and Americans are in most senior NATO roles.

The U.S. had warned a decade before Trump that Europe would need to step up defence while the U.S. focused on the Indo-Pacific region amid rising competition with China. Russia's invasion of Ukraine shifted the focus back on Europe, but Trump's actions over the last few weeks have caused a dramatic "European rethink". With the U.S. seemingly siding with Russia, Europe has become more united in its resolve to achieve independence from the U.S. While Greece, Norway and others have voiced concerns, Denmark announced a major increase in defence spending. The UK also announced a hike on spending cutting foreign aid to fund the extra £13bn a year.

Regardless of whether the U.S. remains in NATO, all of this appears to point to a "long term shift" in the global security order, with the U.S. no longer being viewed as the same ally that it once was. Whether that trend can be reversed in the future under a new Administration, remains to be seen.

Source: TMXVettaFi. Additional sources available upon request.

Defence and Aerospace ETF Performance

As of 28/02/2025

	1M	3M	6M	YTD	12M	3Y	SI
Future of Defence UCITS ETF	**4.67%**	**8.74%**	**16.88%**	**12.62%**	**31.55%**	**N/A**	**72.12%**
EQM Future of Defence Index	*4.71%*	*8.87%*	*17.17%*	*12.73%*	*32.24%*	*81.20%*	*73.51%*

Please note that all performance figures are showing net data. Source: Bloomberg / HANetf. Data as of 28/02/2025
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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	CCY	Listing Date
LSE	NATO LN	NATO.L	BP6N0Z2	$	2023-07-04
LSE	NATP LN	NATP.L	BP6N104	£	2023-07-04
Xetra	ASWC GY	ASWC.DE	BMBR650	€	2023-07-04
Borsa Italiana	NATO IM	NATO.MI	BMBR649	€	2023-07-14
SIX	NATO SE	NATO.S	BRXJS97	₣	2024-01-11
BMV	NATON MF	-	BPGN7K6	MX$	2024-02-26
Euronext Paris	NATO FP	NATO.PA	BQRGHW3	€	2024-02-22

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