

# Monthly Defence Market Report

September 2023

## HANetf & EQM Indexes

### Future of Defence UCITS ETF

NATO

49 bps

IE0000J5TQP4

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For Professional Clients Only. Capital at risk.

All data as of 31/08/2023

This report was written by, and is the opinion of, EQM Indexes.



## Defence ETF Key Takeaways

**Global Military Expenditures Continue to Rise** – According to a newly released report, global military expenditures grew to a record \$2.2 trillion in 2022, accounting for 2.2% of global GDP. While much of that spending has been driven by NATO's 13% increase in spending in response to Russia's attack of Ukraine, the Middle East also experienced a 3.2% rise as Saudi Arabia returned to the list of top 5 military spenders, spending \$75 billion in 2022. The global defence market is growing at a CAGR of 7.9% and the boom in spending is likely to continue, benefiting large defence companies like Raytheon and Lockheed Martin. China remains the second largest military spender after the U.S., with much of its spending sourced internally.

**NATO Defence Spending Surging to \$1.1 trillion USD** – The U.S. and NATO allies have embarked on a campaign to build up military preparedness and modernize its capabilities. These efforts have been further galvanized by the rising threat created by Russia's invasion of Ukraine 18 months ago. But while NATO's overall defence spending has surged this year to \$1.1 trillion, up from 1.05 trillion in 2022, most of the alliance's now 31 member states are still behind in meeting the 2% of GDP target. According to NATO's latest report, only 11 countries will meet the 2% target based on 2023 estimates. However, all the NATO members are on target to meet NATO's target that 20% of expense expenditures be spent on military equipment.

**New Member Finland to Hit NATO 2% Spending Target** – As one of NATO's newest members, Finland plans to spend 2.3% of its GDP on defence next year. Finland's defence spending was already on the increase prior to its joining of NATO, as it replaced its aging fleet of F/A- 18 combat jets with F-35 fighters. But Finland joining the alliance in April, represented a huge historic security policy change in response to neighbouring Russia's 2022 invasion of Ukraine. Finland plans to spend 6 billion euros on defence in 2024. It has also been spending money on aid to Ukraine, with a total value of military equipment donations totalling 1.3 billion euros as of last week.

**Germany Walks Back Plan on NATO Spending Target** – The German government has retreated on its plan to commit itself to meeting NATO's 2% target on an annual basis, instead pledging to meet the target on average over a 5-year period. This walks back Chancellor Olaf Scholz's original pledge in a speech on February 17, 2022. The latest announcement has drawn criticism from other NATO member countries.

**NATO Updates Commitment to Cyber Defence** – At the 2023 NATO Summit in Vilnius, NATO endorsed a new concept to enhance the contribution of cyber defence to NATO's overall deterrence and defence posture, and launched NATO's Virtual Cyber Incident Support Capability (VCISC) to support national mitigation efforts in response to significant malicious cyber activities. The concept will further integrate NATO's three cyber defence levels – political, military and technical – ensuring civil-military cooperation at all times through peacetime, crisis and conflict, as well as engagement with the private sector, as appropriate.

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

## Macro Outlook

The combined defence spending of European NATO members has increased 18.1% between 2010 and 2022, as the burden sharing gap with NATO and the U.S. has shrunk significantly. The U.S. no longer accounts for three quarters of NATO's defence spending as that number has dropped to only a little more than two thirds. The number of NATO countries expected to meet 2% GDP target by next year is 19 and by 2026 that number is expected to increase to 24. At those levels of compliance, three quarters of the alliance will meet the target in less than three years, with only 3 countries (Canada, Iceland, and Luxembourg) still lacking a plan to reach the target. While getting to a fairer distribution of responsibilities within NATO is taking some time, the burden share for Ukraine is a different story, with Europe committing more aid to Ukraine than the U.S. While the U.S. has provided the majority of the military aid, Europe has stepped in with the bulk of humanitarian aid. Despite concerns that Western unity would not hold up over time, it does indeed seem that the burden of the conflict has been shared equitably, providing a runway for Western cooperation in the future.

## Defence 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	IE0000J5TQP4	-	-	USD	04/07/2023
LSE	NATP LN	NATP.L	BP6N104	IE0000J5TQP4	-	-	GBP	04/07/2023
Borsa Italiana	NATO IM	NATO.MI	BMBR649	IE0000J5TQP4	-	-	EUR	14/07/2023
Xetra	ASWC GY	ASWC.DE	BMBR650	IE0000J5TQP4	-	A3EB9T	EUR	04/07/2023

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