Group Macro Pitch:

Long Global X Defense Tech ETF (NYSE Arca: GXSHLDN)

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Capital Markets Club

Market Overview

The Aerospace and Defense market size is around **1T USD**, and is projected to grow **2.15% CAGR through 2029**

Aerospace and Defense Sector Overview

- A&D encompasses 3 major subsectors: commercial aviation, defense and military aviation, and space exploration
- Major players include Northrop Grumman, Raytheon, Boeing, General Dynamics, BAE Systems, Palantir, L3Harris
- North America dominates the market, encompassing 55.3% of global revenue in 2024

Aerospace and Defense ETFs

28

A&D ETFs
traded in U.S.

31B

Total AUM for
A&D ETFs

Top 5 ETFs by AUM: iShares A&D, Invesco A&D, Global X A&D, State Street SPDR S&P A&D, and Select STOXX Europe A&D

Drivers in Aerospace and Defense Industry

Govt. Budget Cycles, Defense Contracts

Geopolitical Tension, Conflict Premiums

Global Macro Trends in Other Industries

- Aerospace and Defense is reliant on macro factors more than broader market downturns
- Stable and predictable cash flows inhibit volatility

Market News and Trends

- Major global conflicts spurring new conflicts, however there is less market reactivity to geopolitical events compared to earlier 2025 trends (BlackRock Geopolitical Risk Index)
- Increased government spending as a result, emphasis on higher defense spending amongst developed countries to match highest spenders
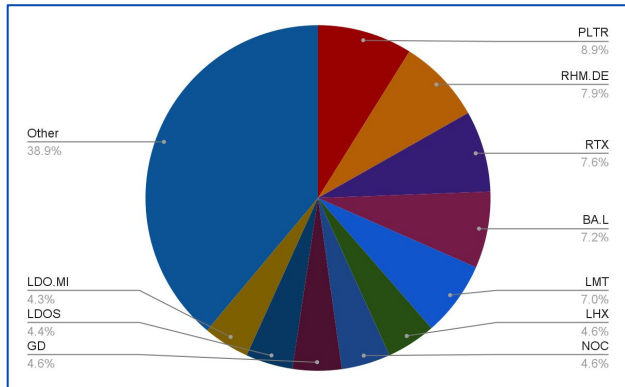- U.S. administration driving higher expectation for spending

Product Overview

SHLD is a Global X ETF that selects high-dividend, low-volatility defense stocks; **Price:** $62.91; **Shares Outstanding:** 77,240,000

SHLD Overview

- Tracks 43 S&P 500 stocks with the highest dividend yields
- Offers a ~4–5% dividend yield, more than 3× the S&P 500 average
- Allocates heavily to defense tech companies
- Historically show smaller drawdowns during volatility spikes
- Maintains lower volatility than SPY, resulting in smoother returns and stronger performance in late-cycle or risk-off markets

YTD Price Chart

+79% YTD

Pie Chart of Holdings

Holding	Percent
PLTR	8.9%
RHM.DE	7.9%
RTX	7.6%
BA.L	7.2%
LMT	7.0%
LHX	4.6%
NOC	4.6%
GD	4.6%
LDOS	4.4%
LDO.MI	4.3%
Other	38.9%

Top 6 Holdings

Enterprise data platform

Defense technology manufacturer

Aerospace defense conglomerate

Global defense contractor

Global defense giant

Defense technology integrator

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Macroeconomic Context

Global growth is slowing, volatility is rising, and capital is rotating into defensive, cash-generating equities—conditions where high-dividend, low-volatility strategies like SHLD historically outperform.

Nuclear Testing

- Number of nuclear-capable missile tests globally up 40%+ since 2021, driven by Asia and Eastern Europe
- Over 75 ballistic missile launches recorded in the last year alone across major nuclear states
- Countries with nuclear programs have increased military R&D budgets by 10–15% YoY (US and Russia recently tested)

Geopolitical Risk Is Rising

35
Active Conflicts Worldwide

7%
Global Defense Spending Increase YoY

40-60%
Increase in Shipping Costs since 2023

Rates Stay High and Volatile

20-30%
Bond Volatility (MOVE Index) above 2022 levels

3%
Eurozone Inflation, slowing ECB's ability to cut

4.75-5%
Expected U.S Policy Rate Through 2025

Investors Are Rotating Into Defense Companies

- Global military spending hit a record ~$2.4 trillion in 2024, up 7% YoY, the fastest pace since the 1980s
- NATO members added ~$140B in new annual defense commitments to hit 2% of GDP spending target
- Defense equities have outperformed the S&P 500 by ~5–8% during major geopolitical tensions, benefiting from long-term government contracts
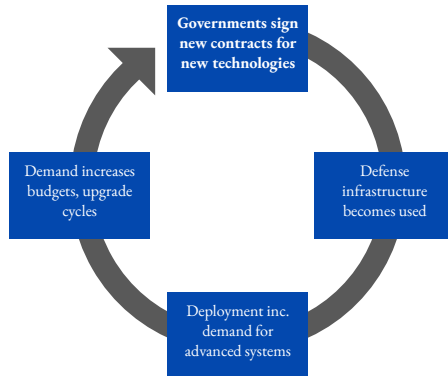
Thesis

Cyclical defense platform lifetimes and replacement, defensibility against macro and market volatility, and stable, predictable cash flows from multi-year contracts position SHLD to strengthen. Through going long SHLD, we seek to capture appreciation as governments shift away from traditional defense towards technology.
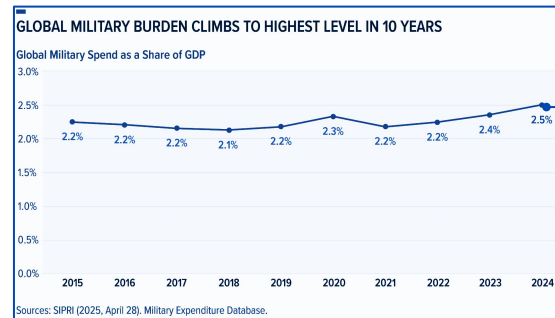
Key Thesis Drivers

1. Cyclical Platforms Create Network Effect

- Governments are reallocating toward modernization rather than legacy hardware, increasing demand for software solutions; SHLD is composed of mostly defense tech companies innovating new defense solutions
- "Network Effect" where one government's adoption of newer, advanced systems pushes others to follow to stay competitive

Government Repurchase Cycle

- Governments sign new contracts for new technologies
- Defense infrastructure becomes used
- Deployment inc. demand for advanced systems
- Demand increases budgets, upgrade cycles

Record High Defense Spending as a % of GDP

GLOBAL MILITARY BURDEN CLIMBS TO HIGHEST LEVEL IN 10 YEARS

Global Military Spend as a Share of GDP

Year	Value
2015	2.2%
2016	2.2%
2017	2.2%
2018	2.1%
2019	2.2%
2020	2.3%
2021	2.2%
2022	2.2%
2023	2.4%
2024	2.5%

2.5%

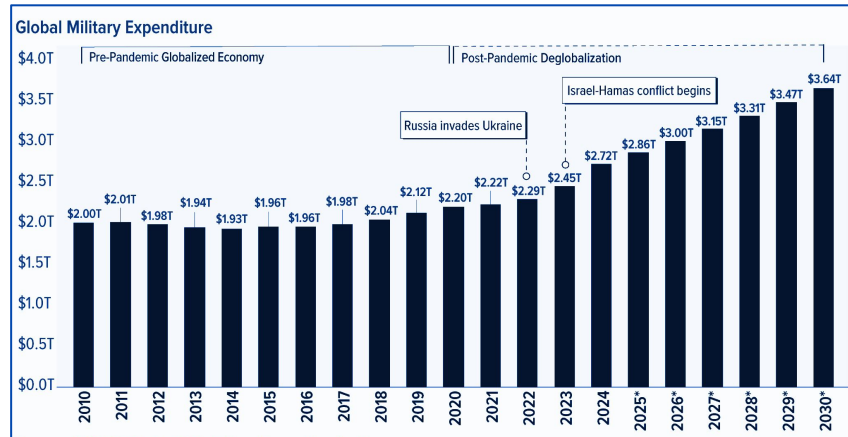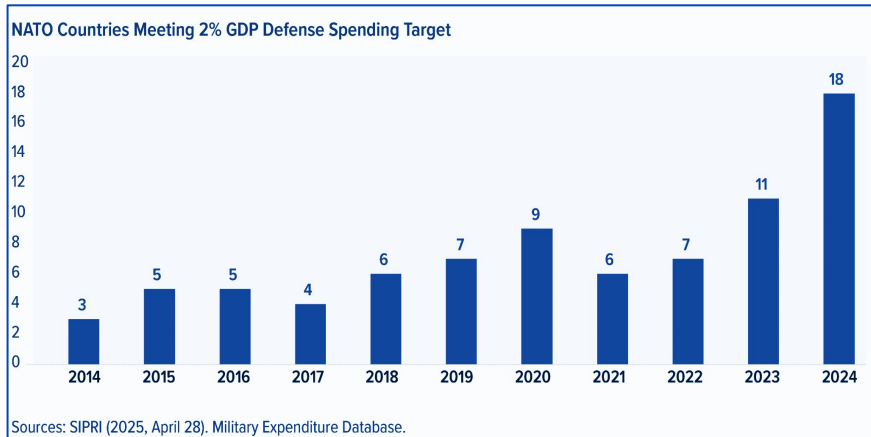Sources: SIPRI (2025, April 28). Military Expenditure Database.

2. Defense Resilience Against Market Volatility

- Defense offers rare long-cycle visibility, as ~70% of U.S. defense spending is pre-committed annually
- Global military tech budgets are rising ~6–8% YoY, driven by AI, autonomy, secure comms, and cybersecurity
- Defense industry as a whole is mostly separated from traditional economic cycles as it does not directly face consumers and is not impacted as much by rates

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Key Thesis Drivers cont.

Multi-Year Contracts and Predictable Revenue

- Multi-year procurement pipelines improve revenue visibility
- % of GDP spent on defense relatively stable for U.S., leading global spending on defense at 997B in 2024
- Europe is shifting towards re-armament to decouple its defense from U.S. support, spurring high investment.
- U.K. signs multi-billion dollar deals with defense companies, signalling distancing from U.S. dependency
- U.S. pressure on NATO partners to meet 2% GDP target pushes increased defense tech spending to match technological advancements of other countries' defense ecosystems

NATO Countries Meeting 2% GDP Defense Spending Target

Year	Count
2014	3
2015	5
2016	5
2017	4
2018	6
2019	7
2020	9
2021	6
2022	7
2023	11
2024	18

Sources: SIPRI (2025, April 28). Military Expenditure Database.

Global Military Expenditure

Pre-Pandemic Globalized Economy | Post-Pandemic Deglobalization

Israel-Hamas conflict begins
Russia invades Ukraine

Year	Expenditure
2010	$2.00T
2011	$2.01T
2012	$1.98T
2013	$1.94T
2014	$1.93T
2015	$1.96T
2016	$1.96T
2017	$1.98T
2018	$2.04T
2019	$2.12T
2020	$2.20T
2021	$2.22T
2022	$2.29T
2023	$2.45T
2024	$2.72T
2025*	$2.86T
2026*	$3.00T
2027*	$3.15T
2028*	$3.31T
2029*	$3.47T
2030*	$3.64T

Risks

Global Conflict De-escalation

- Russia/Ukraine and Israel/Hamas conflicts catalyzed A&D space to reach new highs as increased spending and aid from U.S., other major defense spenders gave boost to traditionally stable industry
- Uncertainty on U.S. administration actions against Venezuelan cartels, Houthi attacks, involvement in Ukraine, resulting in uncertainty on U.S. allocations

Geopolitical Risk Premiums Fully Reflected

- Strong defense-tech rally already reflects conflict-driven spending; limited upside remains if geopolitical tensions stabilize or de-escalate.
- Rapid rate cuts could rotate capital toward long-duration growth stocks vs. stable defense

Exposure to Overheated AI Valuations

- Elevated AI-driven premiums across Palantir and smaller AI-exposed names create vulnerability to sentiment cooling in potentially overvalued, overheated AI markets; SHLD avg. P/E is 31, driven by AI companies' P/E
- Valuation compression in broader AI sectors could spill into defense-tech, pressuring high-multiple names despite strong contracting fundamentals
- Palantir, BigBear.ai, BlackSky, Red Cat, Mercury Systems, Kratos are vulnerable to this risk

Mitigants to Risks

1 **Global De-escalation** Governments shifting to proactive modernization, sustaining long-term demand; SHLD has global defense tech as well, thereby mitigating dependence on singular de-escalation events

2 **Conflict Premiums Priced In** Strong multi-year backlogs and diversified global budgets anchor fundamentals, limiting downside even if risk premiums partially unwind

3 **Overheated AI Valuations** Defense AI adoption is utility-driven, not speculative, limiting downside if AI valuations cool; in the case of defense companies, governments must adopt new tech as it is fundamentally better

Trade Mechanism

Buy SHLD ETF

6-12 Month Horizon

Capture continued budget increases, modernization cycles, and persistently high geopolitical tensions

Catalysts to Monitor

New Nato Spending Commitments

U.S Defense Budgets and Line Items

Missile Testings and Regional Conflicts

Quarterly Earnings from SHLD Constituents

Thank You For Listening!