



## *Industry Thoughts*

### THE DEFENSE INDUSTRY AND AEROSPACE & DEFENSE ETFs

The National Defense Authorization Act that recently passed the House of Representatives and will presumably be passed by the U.S. Senate is a milestone inasmuch as it represents a shift away from large platform costly appropriations and a turn towards new technologies, such as space-based warning systems, cyber warfare, smaller autonomous unmanned platforms, artificial intelligence, machine learning, hypersonics, which is flight at speeds above Mach 5, and directed energy.

The new defense budget also includes \$9.6 billion in appropriations for cyber warfare. Within all of the service allocations, military software is being given far more emphasis and funding. There are only a handful of publicly traded companies involved in this business, including Leidos Holdings, Inc. (LDOS), Science Applications International Corporation (SAIC), and CACI International, Inc. (CACI).

There is also a \$235 million allocation in the budget towards directed energy. A directed energy weapon is one that could damage or destroy a target with highly focused energy. That could be in laser or microwave form, or it could mean particle beams. A laser weapon would have incredible accuracy since the laser is essentially light. A beam of light is unaffected by gravity, windage, or Coriolis force. This latter phenomenon is a force on a mass in a rotating system perpendicular to the direction of motion. Coriolis force is the reason a moving object in the northern hemisphere is deflected to the right and in the southern hemisphere it is deflected to the left. Lockheed Martin is the leader in directed energy technology.

The new defense budget greatly enhances research in areas that could become high expenditure programs for most of the defense companies. Moreover, some of the technologies, such as hypersonics, have quite significant civilian applications.

Yet, there are only eight aerospace and defense ETFs, and of the eight only three have over a billion dollars in assets under management. The largest, the iShares U.S. Aerospace & Defense, has \$5.56 billion of AUM.

This area is not well-researched. There is a lot of weapons-ordering. The defense budget is up, but the orientation is away from the large-platform expensive equipment and weapons. That is not necessarily bad for the defense industry, even for the largest defense contractors. They will just get different kinds of business.



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