



Implications of the Tensions in the Middle East

Events in Israel

Over the weekend, the Hamas militant group invaded Israel. The surprise attack was initiated by large-scale missile bombardment, which evolved into infiltration of Israeli cities by land, sea, and air. Israeli PM Netanyahu has declared war against Hamas and Israel Defense Forces have counter attacked Gaza. In total, more than 1,100 people, which included many civilians, were killed in Israel and Gaza. In our opinion, the event highlights the delicate nature of Middle Eastern and Global diplomacy. As a result, we expect higher domestic and international defense spending.

Global Defense Spending Implications

The US provides Israel with \$3.3 billion of Foreign Military Financing annually, and an additional \$500 million for missile defense spend. Further, in 2022, Israel spent \$23.4 billion on defense, which was up sharply from 2017, when the country spent \$19.3 billion. With these dynamics in mind, we anticipate increased United States Foreign Military Financing to Israel. Additionally, Israel is likely to grow defense spending at a higher rate than the 3.9% CAGR over the last five years. All signs point to higher global defense spending given the heightened risks globally. For better context as it relates to global defense spending, NATO currently spends about \$1.26 trillion on defense annually, an increase from \$980 billion in 2018 or a 6.7% CAGR. Of total NATO spending, the US spent about \$860 billion in 2023 and will likely be higher in 2024.

Table 1

(\$ in million)	2018	2019	2020	2021	2022E	2023E	5 Yr CAGR	% Total	% GDP
NATO Members									
United States	\$672,255	\$730,149	\$784,952	\$811,140	\$821,830	\$860,000	6.4%	37.2%	3.5 %
Poland	11,857	11,824	13,590	13,369	16,580	29,105	25.2%	0.8%	3.9
Greece	5,388	4,843	5,019	8,014	8,488	7,125	7.2%	0.4%	3.0
Estonia	615	637	719	787	821	1,170	17.4%	0.0%	2.7
Lithuania	1,057	1,094	1,176	1,278	1,738	1,990	17.1%	0.1%	2.5
Finland	3,825	3,900	4,156	4,145	4,726	7,325	17.6%	0.2%	2.4
Romania	4,359	4,608	5,051	5,785	5,195	8,481	18.1%	0.2%	2.4
Hungary	1,615	2,050	2,770	2,907	3,278	5,036	32.9%	0.1%	2.4
Latvia	710	692	743	851	857	1,028	9.7%	0.0%	2.3
United Kingdom	60,380	59,399	61,925	72,765	66,651	65,763	2.2%	3.0%	2.1
Slovak Republic	1,298	1,802	2,050	2,043	2,090	2,620	19.2%	0.1%	2.0
France	50,507	49,710	52,727	58,729	52,289	56,649	2.9%	2.4%	1.9
Montenegro	\$75	\$74	\$83	\$97	\$86	\$131	14.8%	0.0%	1.9
North Macedonia	120	146	154	219	221	294	25.1%	0.0%	1.9
Bulgaria	962	2,159	1,075	1,253	1,440	1,855	17.8%	0.1%	1.8
Croatia	966	1,002	1,031	1,846	1,285	1,394	9.6%	0.1%	1.8
Albania	176	200	188	239	231	371	20.5%	0.0%	1.8
Netherlands	11,172	12,092	13,125	14,378	15,606	16,741	10.6%	0.7%	1.7
Norway	7,544	7,536	7,272	8,292	8,723	8,814	4.0%	0.4%	1.7
Denmark	4,559	4,557	4,979	5,522	5,420	6,775	10.4%	0.2%	1.6
Germany	49,772	52,549	58,902	64,785	60,788	68,080	8.1%	2.8%	1.6
Czech Republic	2,750	2,910	3,201	4,013	3,896	5,033	16.3%	0.2%	1.5
Portugal	3,249	3,299	3,306	3,975	3,574	4,167	6.4%	0.2%	1.5
Italy	25,641	23,559	26,071	29,763	30,307	31,585	5.4%	1.4%	1.5
Canada	22,399	22,572	23,595	26,523	26,046	28,950	6.6%	1.2%	1.4
Slovenia	547	572	568	760	777	928	14.1%	0.0%	1.3
Turkey	14,168	14,089	13,396	13,057	12,286	15,842	2.8%	0.6%	1.3
Spain	13,200	12,630	12,828	14,875	14,897	19,179	9.8%	0.7%	1.3
Belgium	4,845	4,761	5,427	6,503	6,880	7,076	9.9%	0.3%	1.1
Luxembourg	356	386	406	474	511	609	14.4%	0.0%	0.7
NATO Europe and Canada	\$304,113	\$305,653	\$325,533	\$367,245	\$355,687	\$404,115	7.4%	16.1%	1.7
NATO Total	\$976,368	\$1,035,802	\$1,110,485	\$1,178,385	\$1,177,517	\$1,264,115	6.7%	53.3%	2.6 %

Source: NATO, SIPRI, Gabelli Estimates



Opportunities in Defense

We think the structural shift in higher defense spending will be a strong tailwind for United States defense operators. Further, we have the long-term view that geopolitical volatility will remain heightened with countries such as Russia, China, Iran and North Korea. In short, the world is becoming more dangerous and increased defense spending is required to offset these global risks. In terms of opportunities, we find companies with missile and propulsion capabilities to be most attractive. As a result, we continue to buy L3Harris (LHX-NYSE), which recently acquired Aerojet Rocketdyne and will have exposure to missile propulsion. Additionally, we would buy the two largest US missile OEMs, Lockheed Martin (LMT-NYSE), and RTX (RTX-NYSE).

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