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April 10, 2025

Winging It!

Implications of Trump's Tariff Plan on US Aerospace & Defense

Company	Ticker		Price		Exchange
Boeing	(BA	-	$155.03	-	NYSE)
Curtiss-Wright	(CW	-	314.82	-	")
Lockheed Martin	(LMT	-	461.3	-	")
RTX Corp.	(RTX	-	127.68	-	")
Textron	(TXT	-	65.17	-	")

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Implications of Trump's Tariff Plans on the Commercial Aerospace and Defense Industry

The commercial aerospace and defense industries are relatively insulated from the potential adverse effects of Trump's tariff plans due to several structural factors. A significant portion of the manufacturing base for these industries is located within the United States, particularly for major players like Boeing, Lockheed Martin, and Raytheon Technologies (RTX). This domestic production reduces their exposure to import tariffs on components or raw materials that could otherwise raise costs. Additionally, the United States Department of Defense (DoD) remains the largest and most consistent customer for defense contractors, providing a stable revenue stream that is less sensitive to trade disruptions or tariff-related price increases. This strong dependence on domestic markets for both defense and commercial sectors offers a degree of protection against potential economic friction triggered by global trade policies.

However, the long-term risks associated with tariffs should not be overlooked. If tariffs were to escalate or if trade tensions persisted, the aerospace and defense industry could experience higher costs on imported materials that are not easily sourced domestically. Tariffs on critical components, such as rare metals or advanced electronics, could increase production expenses, especially in sectors where specialized parts are required for advanced systems. Moreover, supply chain disruptions due to global trade barriers could delay production schedules, particularly if the industry depends on suppliers located outside the U.S. Although the impact might be manageable in the short term, prolonged trade uncertainty could hinder the industry's ability to innovate or scale production, potentially undermining long-term competitiveness.

Despite these potential risks, the aerospace and defense industries remain attractive in the long run for several key reasons. First, the global demand for defense spending continues to rise, driven by geopolitical tensions, technological advancements, and the modernization of military forces across the world. The U.S. military, as well as allied nations, will continue to prioritize defense investments, particularly in areas such as cybersecurity, space exploration, advanced air defense systems, and unmanned vehicles. This demand for advanced military technologies and systems ensures that defense companies will see consistent growth opportunities in the years to come. Companies like Curtiss-Wright and Textron also stand to benefit from these trends, given their strong track records in providing innovative and mission-critical technologies that support both commercial and defense applications.

In the commercial aerospace sector, the industry's long-term prospects are also strong, underpinned by a robust recovery from the pandemic. As air travel resumes and global demand for passenger aircraft increases, leading manufacturers like Boeing are well-positioned to capitalize on the growing need for new, fuel-efficient aircraft. Airlines around the world are continuing to modernize their fleets, and the demand for new aircraft is expected to increase over the next two decades. Additionally, the rise of emerging markets, particularly in Asia and Africa, will contribute to a growing demand for air travel, which will be a key driver of commercial aerospace sales.

For companies like Boeing, Lockheed Martin, and RTX, the tariffs' effects are likely to vary depending on their specific business segments. Boeing, a leader in commercial aircraft manufacturing, may face some challenges from tariffs on components and raw materials, particularly as it competes in a global market where international sales are crucial. While its manufacturing footprint in the U.S. provides some insulation, its global supply chain and reliance on international sales could see price hikes in its aircraft components. On the defense side, however, Boeing benefits from the steady flow of contracts from the U.S. government, which is largely insulated from tariff concerns. Lockheed Martin and RTX, both major defense contractors, would likely experience minimal impact from tariffs as their primary customers are the U.S. government and its allies. These companies may, however, face indirect pressures if global trade tensions disrupt international collaboration or if tariffs increase costs on international defense contracts. Overall, while the commercial aerospace segment could be slightly more exposed to tariff risks, the defense sector's reliance on U.S. government contracts provides a significant buffer against adverse long-term effects.

In summary, while tariffs may introduce short-term uncertainties and increased costs, the commercial aerospace and defense industries remain attractive over the long term. The essential nature of defense spending, the recovery and growth of global air travel, and the advent of groundbreaking technologies ensure a positive long-term trajectory for companies within these sectors. By leveraging their advanced technological capabilities, strong government relationships, and market-leading positions, firms like Boeing, Curtiss-Wright, Lockheed Martin, RTX, and Textron are poised to continue benefiting from steady demand, ensuring their resilience against economic fluctuations. As the world continues to prioritize defense and modernize its aerospace fleets, these industries will likely remain vital to both national security and global connectivity.

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Important Disclosures

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