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5 Reasons to Invest In Aerospace and Defense

Update: August 2026

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The aerospace & defense sector remains at a multi-year inflection point. Surging global defense budgets, persistent commercial aviation demand amid production constraints, technological modernization, resilient aftermarket economics, and ongoing industry consolidation continue to create compelling long-term opportunities. LtCol Tony Bancroft, USMCR (Ret.), Portfolio Manager of the Gabelli Commercial Aerospace and Defense ETF, outlines five updated reasons the sector warrants attention in mid-2026.

1. Surging Global Defense Spending

- At the 2025 Hague Summit, NATO Allies committed to investing 5% of GDP annually in defense by 2035 (at least 3.5% on core defense requirements plus up to 1.5% on broader defense- and security-related investments). Progress continues, with European Allies and Canada expected to increase spending further in 2026.
- Combined NATO defense expenditure is projected at approximately $1.8 trillion in 2026 (up from ~$1.6 trillion in 2025), with the U.S. accounting for the majority at roughly $1 trillion.
- The U.S. FY2027 defense request reaches historic levels (approximately $1.15 trillion discretionary base plus additional mandatory/reconciliation funding targeting a ~$1.5 trillion total), reflecting prioritization of munitions, shipbuilding, missile defense, and industrial base expansion. Ukraine-related and broader stockpile replenishment needs remain acute.

Investor takeaway: Sustained multi-year procurement growth supports primes (Lockheed Martin, Northrop Grumman, RTX, L3Harris) and the broader supply chain.

2. Commercial Aviation Recovery & Record Backlogs

- Global passenger traffic has largely recovered and stabilized above pre-pandemic levels in many markets, though 2026 growth has moderated (near-term softness linked to geopolitical factors and fuel prices; longer-term forecasts remain solid at ~3–4% CAGR).
- Boeing's latest Commercial Market Outlook projects nearly 44,000 new airplane deliveries over the next 20 years as the global fleet expands toward 50,000 aircraft.
- Combined Airbus + Boeing commercial backlogs exceed 16,000–17,000 aircraft (roughly a decade-plus of production at current rates). Boeing's total company backlog reached a record ~$715 billion at mid-2026 (commercial airplanes alone ~$597 billion / >6,200 aircraft). Production ramp challenges persist, supporting elevated utilization of existing fleets.

Investor takeaway: OEMs and suppliers remain positioned for multi-decade growth driven by fleet modernization, replacement, and emerging-market demand (Asia, India, Middle East).

3. Technology & Innovation Driving the Future

- Next-generation defense priorities emphasize AI-enabled systems, autonomous/uncrewed platforms, cyber, hypersonics, precision munitions, and integrated air/missile defense.
- In commercial aviation, advanced materials continue to gain share: lightweight composites (carbon fiber and related systems from suppliers such as Hexcel) form a large and growing portion of primary structures on widebodies and are expanding on next-generation platforms.
- Autonomy, drones/UAS, and advanced ISR/strike capabilities are reshaping both defense and dual-use applications.

Investor takeaway: Long-cycle innovation and qualification barriers create durable growth for both primes and specialized technology/materials suppliers.

4. High-Margin Aftermarket Growth

- The aerospace aftermarket continues to benefit from high aircraft utilization, aging fleets, delayed new deliveries, and the expanding installed base of modern engines (LEAP, GTF, GEnx, etc.). Growth remains robust in the high-single to double-digit range for many engine and component aftermarket businesses.
- Airlines are extending service lives and investing in maintenance, overhauls, and parts. Companies with strong positions in FAA/EASA-approved parts, PMA, and engine services (e.g., HEICO, GE Aerospace, Safran, and related MRO providers) generate recurring, high-margin revenue streams that have proven resilient even amid near-term traffic volatility.

Investor takeaway: Aftermarket revenues remain among the highest-quality, most resilient cash-flow streams in the sector.

5. M&A, Portfolio Optimization & Industrial Base Consolidation

- Strategic and private-equity activity remains active around scarce capabilities (propulsion, advanced materials, electronics, aftermarket). Notable examples include L3Harris's earlier acquisition of Aerojet Rocketdyne, subsequent majority sale of its Space Propulsion & Power Systems business to AE Industrial Partners (~$845 million valuation for the stake, reviving the Rocketdyne name while retaining key programs such as RS-25), and ongoing capacity investments and framework agreements to expand solid-rocket-motor production for systems such as PAC-3 and THAAD.

- Government support for the defense industrial base (including equity-like investments and multi-year procurement frameworks) is accelerating capacity expansion in critical munitions and propulsion. Consolidation and portfolio shaping continue as companies focus on core priorities and higher-margin aftermarket exposure.

Investor takeaway: Structural demand growth, innovation, aftermarket resilience, and industry restructuring continue to position well-selected aerospace & defense companies for long-term value creation.

How to Invest in Aerospace and Defense

The aerospace & defense sector offers a rare blend of long-cycle demand, structural growth themes, and defensive characteristics. For investors seeking exposure to this critical industry, the Gabelli Commercial Aerospace & Defense ETF (GCAD) provides diversified access to leading companies positioned to benefit from these secular tailwinds.

To learn more visit https://gabelli.com/ticker/gcad/ or use the QR code to schedule time to meet with a Gabelli representative:

DISCLOSURES

Tony Bancroft is a Portfolio Manager for The Gabelli Commercial Aerospace & Defense Fund (GCAD)

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