

Defense Reinvented: A New European Index for a New Era

This article was written by Sean Murphy, Equity Indices Product Manager at Bloomberg.

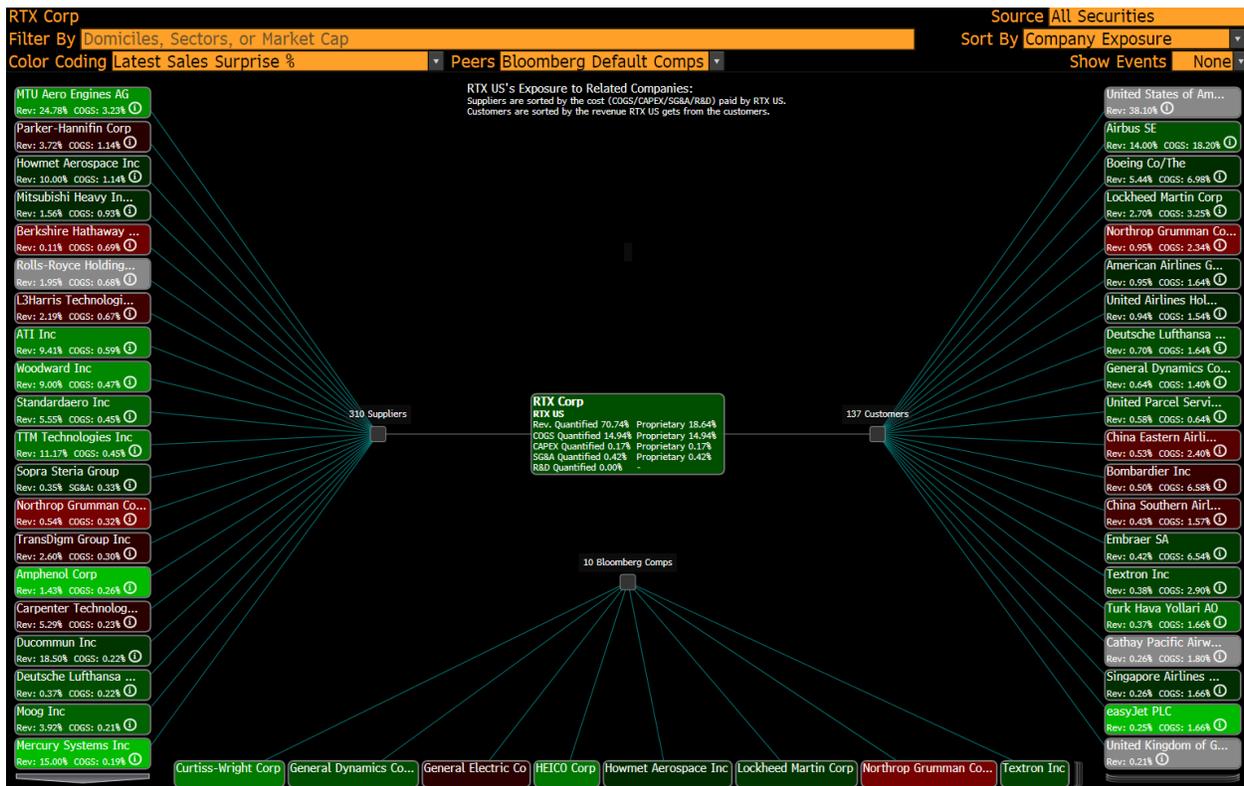
In his first 100 days in office, one thing is clear: President Trump is willing to break from historical norms long considered sacrosanct by previous administrations. While the tariffs unveiled on Liberation Day may be the most recent example of his approach, this change in trade relations is emblematic of a shift away from global cooperation to one of self-reliance. Arguably the most important development in this regard is not trade, but defense and security.

Europe has awakened quickly to this new norm. President Trump has often criticized the amount of investment European nations and fellow [NATO members commit to defense](#). The perceived need to ramp up military spending was reinforced even further after a contentious [meeting](#) between Ukraine's President Zelensky and President Trump at the White House in February. Leaders in Europe have come to the realization that U.S. assistance in the face of future Russian threats may not be assured. Shortly thereafter, the German government relaxed debt rules, allowing for [higher defense spending](#), and pressed the EU governing body to examine rules pertaining to member states' [military investing](#). Europe aims to not just increase defense spending but also increase in-continent defense reliance.

Investors have taken note, with many traditional defense companies performing well despite the recent market pullback. The Bloomberg World Aerospace & Defense Index (WAERLST Index), which includes defense names throughout the world, is up 18% through April. But is a "World" approach best suited for this new norm? For example, over 60% of that index consists of US companies like GE Aerospace and RTX. While US companies undoubtedly lead the world in terms revenue, they may not benefit from a ramp up of European spending, especially with the imposition of tariffs. Both [GE](#) and [RTX](#) noted the increase in costs they expect to incur as a result of tariffs, which will impact input costs and may be passed on to end customers.

In leveraging the supply chain function (SPLC) on the Bloomberg Terminal, investors can see a company's geographic breakdown of suppliers as well as customers. Taking a closer look at RTX (Figure 1), the largest pure play defense name in the world, only 18% of revenue is estimated to come from Europe, while over 50% of their supplier facilities are located outside of the US and may be subject to tariffs. On the contrary, if we examine Rheinmetall, a German defense name, over 70% of their revenue comes from continental Europe and only 36% of their suppliers' facilities are in the US.

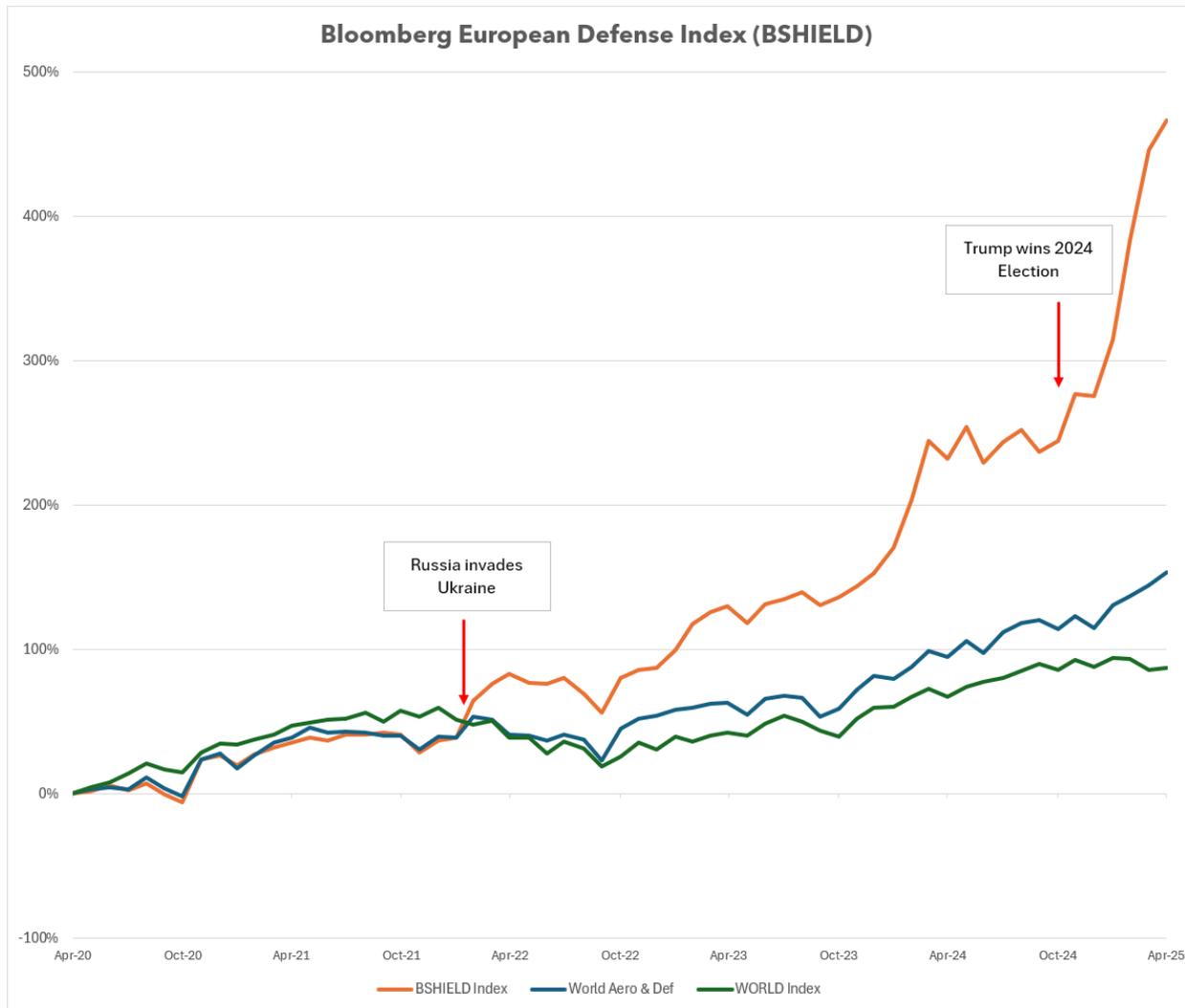
Figure 1: Screenshot of SPLC summary for RTX.



Source: Bloomberg.

Additionally, traditional approaches to defense equity indices may not work with the recent evolution of global conflict. Where countries historically fought with tanks and artillery, the new era of conflict, witnessed in conflicts like Ukraine, relies on innovative tools and hardware not seen before on the battlefield. This has sparked governments, both in the [US](#) and abroad, to take note and question the future state of their militaries.

With that backdrop in mind, Bloomberg has launched a new approach to defense index construction. The Bloomberg Europe Defense Select Index (BSHIELD Index) is constructed to track the performance of European defense companies that are focused on developing new technologies to keep pace with advancements and changing threats. The Index includes companies that are engaged in the design of vehicles, weapons, technology, and equipment for military, defense, and space use. BSHIELD also includes companies that are suppliers to defense manufacturers as well as companies engaged in researching and developing solutions for the conflicts of tomorrow.



Source: Bloomberg. Returns reflect performance through April. Historical performance is not a guarantee of future returns.

BSHIELD leverages two sources of proprietary Bloomberg data to identify companies aligned with this theme. The first is the Bloomberg Industry Classification System (BICS), which creates groupings of issuers with similar activities and drivers, covering over 60,000 listed equities with up to 7 levels of granularity. BSHIELD incorporates European based companies that are categorized by BICS as Aerospace & Defense. As such, the index includes names like Rheinmetall as well as 19 other such names in this category.

But while industry classifications are helpful, relying solely on this data may not capture all the names with high exposure to this theme. Some companies that stand to benefit are not classified in a defense related industry. BSHIELD seeks to capture the entire European Defense value chain, and to ensure that relevant names do not slip through the cracks, the index also relies on our [Bloomberg Intelligence](#) data. Bloomberg Intelligence

(BI) delivers an independent perspective, providing interactive data and investment research on companies, industries and global markets. It is a team of 400+ research professionals created to help clients make informed decisions in the rapidly moving investment landscape. The data BICS and BI provide are complimentary and help to ensure proper coverage for the European defense theme.

While BSHIELD consists largely of companies classified as Aerospace & Defense, it also includes stocks from 5 other BICS Level 3 industries. The index, for example, includes Indra Sistemas, a Spanish company operating within the Technology sector. While at first glance the name may appear as an outlier, supply chain data available on the Bloomberg Terminal (SPLC) shows their clients are primarily in the defense space. The company delivers advanced systems for command and control, surveillance, electronic warfare, and military simulation training. While they serve customers worldwide, over 70% of their revenue is estimated to come from European nations.

New innovations are also captured in the Bloomberg Europe Defense Index. Kongsberg Gruppen is a Norwegian Industrial company categorized within the Transportation Equipment industry. Kongsberg, however, is involved in many different businesses that have naval and defense applications, including critical defense systems that provide protection against aircraft, missile, and drone attacks. Despite being one of the largest military suppliers in this arena, such a name may be excluded from traditional defense approaches.

While many defense indices are performing well this year, BSHIELD's performance stands out, up over 50% through April (in EUR terms). With such an upward move, many investors may question if there is anything left in the tank (pun intended). The modernization of armies and the bolstering of in-house defense production will not be an overnight endeavor but a longer-term strategic goal. Bloomberg Intelligence has noted factors such as strong fundamentals and year-over-year earnings outlook.

The Bloomberg European Defense Select Index (BSHIELD) is constructed with expected new norms in mind. Governments throughout Europe and elsewhere are looking to adapt to ensure adequate and self-sourced national security. Just as alliances are changing, so too is the approach to defense. While European countries hope to achieve this future state in quick order, the result may be decades in the making. In a similar vein, traditional approaches to defense index construction may no longer suffice. Thoughtfully built to avoid defense index vulnerabilities, yet still capture evolution in the space, constituents of BSHIELD are selected based on reliable innovative data in conjunction with in-depth research to ensure the proper capture of the European Defense theme.

European investors will be able to gain exposure to the companies in BSHIELD through a new ETF offered by BNP Paribas under the Bloomberg ticker GUARD FP.

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