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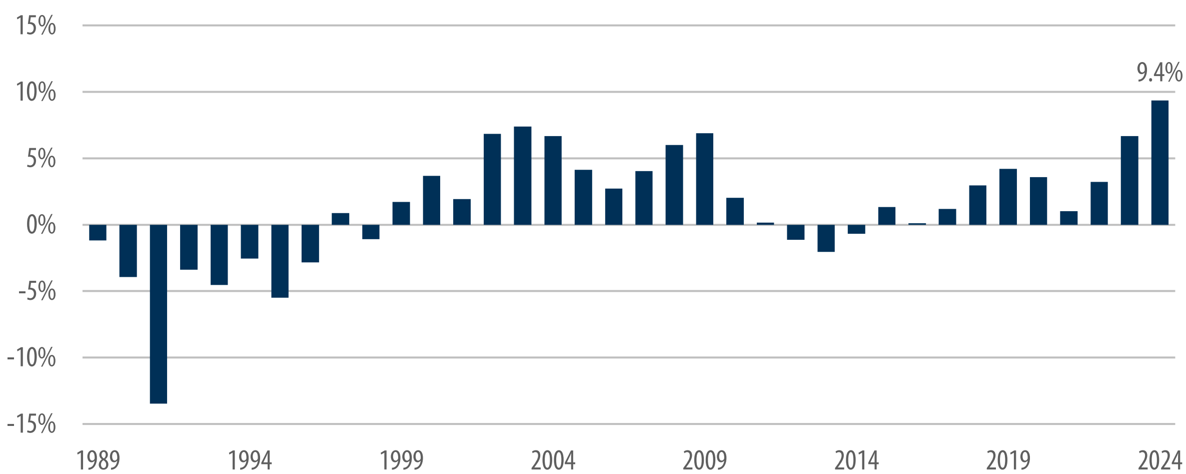
Defense Budgets Surge as the Space Economy Lifts Off: The Case for MISL

Rising geopolitical uncertainty has fueled a surge in global defense spending over the past few years, including major commitments from several NATO allies. This momentum has coincided with the rapid growth of a burgeoning space economy. Together, we believe these interconnected trends form a supportive backdrop for the aerospace & defense industry and hold meaningful potential for further acceleration in the years ahead. Below, we explore these dynamics and highlight why we believe the First Trust Indxx Aerospace & Defense ETF (MISL) is well-positioned to benefit in the years to come.

Escalating Geopolitical Tensions Fuel Record Defense Spending

Ongoing geopolitical uncertainties—ranging from the Russia-Ukraine conflict and Middle East instability to great-power competition in the Indo-Pacific and other emerging flashpoints—continue to propel sharp increases in global military expenditures. According to the Stockholm International Peace Research Institute (SIPRI), world military spending grew 9.4% in 2024 to $2.7 trillion, marking the steepest annual increase since the end of the Cold War and the tenth consecutive year of growth.[1] This momentum intensified at the 2025 NATO Summit in June, where allies committed to investing 5% of GDP annually on defense and security-related spending by 2035.[2]

Global Growth in Military Spending



Source: SIPRI. Data from 1989-2024 (most recent data available). Figures are in billions U.S. dollars ($). There is no guarantee that past trends will continue.

In the U.S., the Trump administration's FY2026 defense budget totaled roughly $1 trillion (including $113.3 billion in mandatory funding via congressional reconciliation).[3] This figure was quickly eclipsed by President Trump's January 2026 announcement on Truth Social proposing a $1.5 trillion defense budget for FY2027.[4] While questions remain about the feasibility of such a dramatic increase, its primary value may be in signaling the administration's intent to pursue significantly higher spending levels, in our opinion.

Emerging initiatives, such as the "Golden Dome" national missile defense program, underscore aggressive targets that could drive substantial future outlays. The Trump administration estimates the cost of this space-based missile defense shield at $175 billion, although other independent analysis, including from the Congressional Budget Office, project far higher costs, perhaps exceeding $500 billion.[5] The program relies heavily on collaboration between traditional defense giants with innovative Silicon Valley startups to accelerate the integration of AI and space-based technologies.

[1]SIPRI, Trends in World Military Expenditure, 2024, April 2025.
[2]NATO, December 2025
[3]U.S. Department of Defense budget documents, including congressional reconciliation provisions.
[4]@realDonaldTrump on TruthSocial.com
[5]Congress.gov, "Defense Primer: The Golden Dome for America," September 29, 2025.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

First Trust

"We Have Liftoff…"

Parallel to the rising defense budgets, the commercial space economy is poised for significant growth, in our view. Leading companies are leveraging defense-funded technologies to capture high-growth opportunities in satellites, launch systems, and orbital infrastructure. Remarkably, the total number of objects launched into space since 2022 exceeds the combined total from the dawn of the space age in 1957 through 2021.[6] According to McKinsey, the global space economy could reach $1.8 trillion by 2035.[7] This surge has been largely fueled by plummeting launch costs, thanks to reusable rockets and private innovators like SpaceX. As of December 2025, SpaceX operates more than 9,300 Starlink satellites in low Earth orbit, enabling global broadband and supporting a variety of downstream applications.[8]

Looking ahead, we see several key growth drivers, including satellite-enabled services such as direct-to-device mobile connectivity, advanced weather and climate monitoring, and emerging innovations to address the growing demands of artificial intelligence—including space-based orbital data centers. In theory, orbital data centers offer compelling advantages over terrestrial ones. They benefit from near-constant solar access (with capacity factors of orbital solar arrays potentially exceeding 95%, versus roughly 24% for average terrestrial US solar farms[9,10]), eliminating interruptions from night, weather, or atmospheric interference. Additionally, the extreme cold of space (around -270°C in shadow) enables passive radiative cooling, drastically reducing the energy and water required for thermal management compared to Earth-based data centers.

In January 2026, Axiom Space successfully launched its first two orbital data center nodes into low Earth orbit, marking a tangible step toward space-based cloud computing[11] Other notable projects include NVIDIA-backed “Starcloud” (which has deployed prototypes featuring advanced GPUs)[12] and Google’s “Project Suncatcher” (exploring solar-powered satellite constellations with AI-optimized processors).[13] These developments signal accelerating momentum in dual-use space technologies that could further bolster the aerospace and defense industry, in our opinion.

The Case for MISL in an Uncertain World

In our view, the convergence of surging global defense budgets and the rapid growth potential of the commercial space economy forms a compelling secular investment theme. Leading aerospace and defense companies are well-positioned to benefit from stable government contracts on one hand, and high-margin commercial innovations on the other. We believe the **First Trust Indxx Aerospace & Defense ETF (MISL)**, which is based on the Indxx US Aerospace & Defense Index and is designed to measure the performance of companies involved in the Aerospace & Defense sector, may provide investors an efficient, diversified way to access this opportunity.

A closer look at MISL’s underlying holdings highlights the close relationship between space and defense: a substantial majority (>95%) derive revenue from space-related activities. For select holdings, such as Rocket Lab (launch services), AST SpaceMobile (direct-to-device satellite broadband), and Intuitive Machines (lunar exploration/infrastructure), space represents a dominant or growing portion of revenues. This interplay makes MISL’s diversified basket a more measured way to gain exposure to the space industry compared to selecting individual, often more speculative stocks.

Among other thematic ETFs with strong growth potential, we believe MISL stands out for its potential role in addressing geopolitical risk. In periods of escalating global tensions, defense-oriented stocks may outperform broader markets as investors anticipate accelerated government spending on military readiness and advanced systems. This dynamic may offer a counter-cyclical buffer, helping offset potential underperformance in more cyclical or growth-oriented sectors amid supply-chain concerns, risk aversion, or economic uncertainty.

As investors evaluate thematic opportunities amid heightened geopolitical stress and accelerating space commercialization, MISL may provide a balanced approach for capturing structural demand growth while mitigating single-stock risk. Near-term catalysts—such as defense budget expansions, advancing momentum in the Golden Dome missile defense program, ramps in munitions procurement, and continued supply-chain resilience initiatives—are poised to unfold in 2026 and beyond. We believe MISL offers investors a compelling way to potentially benefit from this durable, high-conviction theme.

[6,8]“The Space Boom Accelerates,” Three on Thursday, First Trust. January 15, 2026.

[7]McKinsey, January 24, 2025.

[9]World Economic Forum, How Data Centres in Space Sustainably Enable the AI Revolution, January 16, 2026.

[10]EIA, Electric Power Annual, October 2025.

[11]Axiom Space, January 11, 2026.

[12]NVIDIA, October 15, 2025.

[13]Google Research, November 4, 2025.

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Overall Morningstar Rating™

★★★★

As of 12/31/2025. Among 44 funds in the Industrials category. This fund was rated 4 stars/44 funds (3 years) based on risk adjusted returns.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. ©2026 Morningstar, Inc. All Rights Reserved. The Morningstar Rating™ information contained herein: (1) is proprietary to Morningstar;(2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

MISL Performance Summary (%) as of 12/31/25

Fund Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	SFI
Net Asset Value (NAV)	3.36	41.24	41.24	25.02	N/A	N/A	26.20
Market Price	3.46	41.27	41.27	25.03	N/A	N/A	26.24
Index Performance**							
Indxx US Aerospace & Defense Index	3.54	42.13	42.13	25.81	N/A	N/A	26.97
S&P 500® Index	2.66	17.88	17.88	23.01	N/A	N/A	21.49
S&P Composite 1500® Aerospace & Defense Index	1.69	44.15	44.15	21.79	N/A	N/A	23.80

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

SFI = Since Fund Inception

Inception Date: 10/25/2022. Total Expense Ratio: 0.60%.

***NAV** returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Risk Considerations

You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.

The companies involved in the aerospace and defense industries are subject to fierce competition, consolidation, adverse political and government developments, substantial research and development costs, limited numbers of potential customers and excess capacity and spending trends. Their products and services may be subject to rapid obsolescence.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. For example, changes in governmental fiscal and regulatory policies, disruptions to banking and real estate markets, actual and threatened international armed conflicts and hostilities, and public health crises, among other significant events, could have a material impact on the value of the fund's investments.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

Large capitalization companies may grow at a slower rate than the overall market.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

A fund classified as "non-diversified" may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a fund may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility and be highly concentrated in certain issuers.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

First Trust Advisors L.P. (FTA) is the adviser to the First Trust fund(s). FTA is an affiliate of First Trust Portfolios L.P., the distributor of the fund(s).

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Definitions

S&P 500® Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

S&P Composite 1500® Aerospace & Defense Index is a capitalization-weighted index of companies classified by GICS as aerospace and defense within the S&P Composite 1500 Index.

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