

GLOBAL DEFENSE – MADE ANYWHERE, PAID IN AMERICA



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"The house always wins?' The house doesn't even need to win. There's no game because the house owns everything. The money you bet with, the air you breathe. The myth is that when the wheel spins it's any different from when it's standing still."
– Nick Harkaway, *Titanium Noir*

Chart of the Day

SEMIS: Strong returns after large semis declines

All instances **SMH 1D Decline more than 6%** and SMH Forward Returns

Since 2011

SMH Forward Returns

| | Date | SMH 1D Decline | 1W | 1M | 3M | 6M |
|----|------------|----------------|--------|-------|--------|-------|
| 1 | 10/10/2014 | -6.6% | 2.9% | 13.2% | 19.1% | 21.5% |
| 2 | 10/24/2018 | -6.7% | 5.2% | 2.4% | 1.5% | 32.4% |
| 3 | 1/3/2019 | -6.0% | 9.9% | 18.4% | 35.0% | 35.5% |
| 4 | 3/9/2020 | -8.3% | -15.7% | 4.9% | 26.3% | 41.8% |
| 5 | 3/12/2020 | -10.6% | -5.3% | 14.1% | 41.1% | 50.8% |
| 6 | 3/16/2020 | -14.4% | 2.8% | 25.0% | 43.1% | 62.9% |
| 7 | 3/18/2020 | -8.3% | 13.5% | 30.7% | 48.5% | 68.0% |
| 8 | 6/11/2020 | -6.1% | 5.3% | 11.2% | 17.1% | 53.5% |
| 9 | 7/17/2024 | -7.1% | -5.2% | -3.0% | -2.8% | -3.8% |
| 10 | 8/1/2024 | -6.5% | -2.6% | 5.4% | 8.5% | 4.1% |
| 11 | 9/3/2024 | -7.5% | -1.4% | 8.6% | 10.1% | 3.4% |
| 12 | 1/27/2025 | -9.8% | 1.3% | 3.4% | -10.1% | 21.9% |
| 13 | 2/27/2025 | -6.2% | -3.9% | -7.3% | 5.9% | 29.7% |
| 14 | 4/3/2025 | -8.7% | 0.3% | 12.0% | 43.8% | 66.9% |
| 15 | 4/4/2025 | -7.6% | 11.3% | 21.1% | 56.9% | 84.6% |
| 16 | 4/10/2025 | -6.9% | -1.9% | 13.9% | 45.5% | 71.8% |
| 17 | 6/5/2026 | -9.2% | 8.8% | | | |
| | Average | | 1.5% | 10.9% | 24.3% | 40.3% |
| | Median | | 1.3% | 11.6% | 22.7% | 38.6% |
| | Win Ratio | | 59% | 88% | 88% | 94% |
| 18 | 6/23/2026 | -7.0% | | | | |

- Full recovery in 1M
- >88% win rate 1M, 3M, 6M
- >38% gain next 6M

Source: Fundstrat, Bloomberg

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Good morning!

Way, way back in old New York City, the fish trade was largely mob controlled, and restaurants would essentially be required to pay the mob to get fresh seafood delivered. Any restaurateur who suggested they could just head down to the old Fulton Fish Market to buy the fish themselves would be told that while nobody would stop them from heading downtown to pick up their own seafood, they'd be paying the mob either way. "So you might as well let us bring the fish to your door," the local mob representative would argue with a oh-so-reasonable shrug of his shoulders.

While I certainly wouldn't suggest that the U.S. defense industry is at all similar to the 1930s Genovese crime family, there is this commonality: one way or another, any

country that's a part of the so-called free world seeking to arm its military ends up paying U.S. defense contractors.

We wrote recently about why that is with Europe's militaries, despite the EU's stated (and undoubtedly sincere) desire to pivot to developing domestic suppliers. But the same is true for Asia as well, albeit for different reasons.

For Asian nations seeking an alternative to the U.S. defense contractors that won't create a similar dependence on China, Japan, India, and especially South Korea have each been seeking to create an alternative. And while some notable accomplishments have been achieved, independence from the U.S. military-industrial complex is not among them.

South Korea boasts defense industry standouts like Hanwha Aerospace, whose artillery systems and Redback infantry fighting vehicles are well regarded and have been exported to countries like Poland, Australia, Norway, and Egypt. Its sister company Hanwha Ocean boasts a strong array of advanced naval vessels, including attack submarines and frigates that have been sold to Thailand, the Philippines, and the United Kingdom. Other notable companies include Hyundai, a manufacturer of Aegis-equipped destroyers, battle tanks, and armored vehicles; Korean Aerospace Industries, maker of light fixed-wing fighters and attack helicopters.

Yet although today South Korea is the second-largest provider of military armaments to NATO's European member countries (second only to the U.S.), South Korean offerings are all at least somewhat dependent on either technology licensed — including software, hardware, and the design — from U.S. companies like Lockheed Martin \$LMT or engines and radar components from U.S. suppliers like \$RTX, General Electric \$GE, and Northrop Grumman \$NOC. That means that even when South Korean defense contractors score a win, the U.S. is getting paid.

The same goes for Japan and India. Mitsubishi Heavy Industries makes and exports missile interceptors in Japan – with Patriot technology licensed from LMT and \$RTX, and it does a bustling business selling Lockheed-inspired stealth fighters built in Nagoya. India has hopes to find a market in Southeast Asia for its Tejas Light

Combat Aircraft, but even if it's successful, what gets those planes off the ground are General Electric F404 (and F414) engines. Once again, guess who gets paid?

Attempts to find a workaround continue. Amidst the collapse of a Franco-German initiative to develop homegrown fighter jets, the *Financial Times* reported on Monday that Lorenzo Mariani, chief executive of Italy's Leonardo, had expressed interest in inviting Germany to join the Global Combat Air Programme – a joint venture that also includes the UK's BAE and Japan's Mitsubishi. But with Japan wary that a fourth partner could endanger the program's already-distant 2035 target date and add even more production delays, and with the UK's own defense funding in flux, the outcome of this venture remains uncertain.

The takeaway, for me, is that companies like Lockheed, GE, and RTX can be reasonably confident that their licensing revenues and global market dominance will remain largely uninterrupted for some time.

Economic data summary: The Richmond Fed's Manufacturing Survey is a monthly check-in on the health of factories across the Mid-Atlantic. It surveys Virginia, the Carolinas, Maryland, D.C., and most of West Virginia. After a strong pop in May, June cooled off: the Richmond Fed described the latest numbers as coming in "flat," and the composite index fell from 13 to 4. The pullback was seen in all three components – shipments, new orders, and employment. Factories shipped and ordered less while slightly trimming their workforce. Meanwhile, input costs accelerated to 6.99%, up from May's 5.96%. It appears likely that the mid-Atlantic manufacturing industry is still digesting the shock from the Middle East. However, to us, this doesn't read as a positive for the economy but instead somewhere in the middle – a mild step back rather than a real fall. One positive takeaway is that firms' expectations for future shipments and orders stayed firmly positive. – *Kieran McBride*

The S&P Global PMI numbers showed U.S. business activity picking up in June, with the S&P Global Flash Composite PMI rising to 52.2 from 51.5, a five-month high that came in above the 50.8 consensus and gave us a third straight month of growth. Services rose to 51.3 and the manufacturing PMI was up to 55.7, a 49-month high,

while manufacturing output increased from 56.6 in May to 57.7. On the surface this looks like clean growth, but a deeper look suggests a softer narrative.

The jump in manufacturing is arguably the most misleading data point. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, asserted that the recorded factory growth numbers are likely temporary and largely due to companies pulling orders forward to stockpile inventory in response to fears of supply disruptions and rising prices. The labor market was also a weak spot. Companies cut jobs for a second straight month, and manufacturing layoffs ran at their highest pace since 2009 outside of the pandemic, all while price pressures stayed high. The survey is consistent with the economy growing just above a 1% annualized pace in the second quarter. – *Micah Kim*

Share your thoughts

Which continent do you think is more likely to develop a viable defense-industry alternative to the U.S.'s, Europe or Asia? [Click here to send us your response.](#)

Here's what a reader commented

Q: Does declining interest of foreign scientists studying and working in the U.S. concern you?

A: Declining interest of top foreign students is obviously a concerning trend. Is it not a precursor to a decline? The U.S. has had 250 years to learn the benefits of mixing world cultures and ideas with freedom. This Fourth of July is a time to reflect.

Catch up with Fundstrat

We believe the pullbacks in SMH and DRAM are very buyable. These dramatic 1D declines of 6% or more are seen in bull markets and not a sign of a market top.

Technical

Korea's sharp one-day drop and China's ongoing deterioration deserve close scrutiny, but neither gives sufficient technical reason to fade the broader US rally heading into \$MU earnings.

Crypto

Strategy is finally taking the steps investors wanted to see several weeks ago, and the gradual rebuilding of the USD reserve should continue restoring confidence in the MSTR complex. A broader issue for crypto remains liquidity. Rising real yields, hawkish policy expectations, and crowded positioning across several global risk themes continue to limit the attractiveness of deploying capital aggressively.

News We're Following

Breaking News

- Brent falls below \$76, notching its lowest level since day before U.S.-Iran war
CNBC

Markets and economy

- Venezuela to reveal \$240bn debt pile in world's largest restructuring FT
- US SEC probes popular type of private equity fund as it steps up industry scrutiny, sources say REU

Business

- SK Hynix seeks \$29 billion with US listing to fund AI boom BBG
- SpaceX pitches investors juicy yields in \$25bn bond deal FT
- Morgan Stanley caps withdrawals at private credit fund after rising pullout requests REU
- Alibaba sues Pentagon over inclusion on Chinese military blacklist FT

Politics/U.S.

- US Senate votes to end Iran war in rebuke to Trump BBG
- Mamdani-backed candidates sweep in NYC Democratic primaries NYT
- Protesters receive decadeslong sentences for Texas ice facility clash WSJ

Overseas

- Argentine economy grew more than expected in first quarter BBG
- Chinese supercomputer displaces US machines as world's fastest for first time since 2017 AP
- Peru right-wing presidential hopeful Fujimori appears poised to win runoff as Sanchez claims fraud CBS

Of Interest

- Ranks of the ultrawealthy jumped in 2025 WSJ

| Overnight | |
|------------------|--------------------------|
| S&P Futures | +4 ▲ point(s) (+0.05% ▲) |
| overnight range: | -17 ▼ to +22 ▲ point(s) |

| APAC | |
|--------------|----------|
| Nikkei | -0.88% ▼ |
| Topix | -0.67% ▼ |
| China SHCOMP | +0.11% ▲ |
| Hang Seng | +0.33% ▲ |
| Korea | +3.26% ▲ |
| Singapore | +0.20% ▲ |
| Australia | +0.24% ▲ |
| India | +0.87% ▲ |
| Taiwan | -2.24% ▼ |

Europe

| | | |
|--------|-----|----------|
| Stoxx | 50 | -0.13% ▼ |
| Stoxx | 600 | +0.02% ▲ |
| FTSE | 100 | -0.04% ▼ |
| DAX | | -0.87% ▼ |
| CAC | 40 | +0.29% ▲ |
| Italy | | -0.27% ▼ |
| IBEX | | -0.29% ▼ |
| Canada | | -0.21% ▼ |
| Mexico | | -0.41% ▼ |
| Brazil | | +0.52% ▲ |

FX

| | | |
|--------------------|--|--------------------|
| Dollar Index (DXY) | | +0.21% ▲ to 101.62 |
| EUR/USD | | -0.30% ▼ to 1.1348 |
| GBP/USD | | -0.17% ▼ to 1.3181 |
| USD/JPY | | -0.12% ▼ to 161.75 |
| USD/CNY | | -0.26% ▼ to 6.8101 |
| USD/CNH | | -0.30% ▼ to 6.8154 |
| USD/CHF | | -0.27% ▼ to 0.8119 |
| USD/CAD | | -0.16% ▼ to 1.4233 |
| AUD/USD | | -0.38% ▼ to 0.6891 |

UST Term Structure

| | | |
|------------------------|--|----------------------|
| 2Y-3M Spread narrowed | | -1.9bps ▼ to 40.9bps |
| 10Y-2Y Spread narrowed | | -1.4bps ▼ to 29.2bps |

| | |
|-------------------------|----------------------|
| 10Y-2Y Spread narrowed | -1.4bps ▼ to 26.2bps |
| 30Y-10Y Spread narrowed | -0.7bps ▼ to 43.9bps |

USD HY OaS

| | |
|-----------------------|-----------------------|
| All Sectors | +5.3bps ▲ to 295bps |
| All Sectors ex-Energy | +6.5bps ▲ 294bps |
| Cons Disc | +9.8bps ▲ to 474bps |
| Indu | +4.9bps ▲ to 243bps |
| Tech | +4.2bps ▲ to 221bps |
| Comm Svcs | +7.4bps ▲ to 291bps |
| Materials | +3.0bps ▲ to 245bps |
| Energy | +4.9bps ▲ to 279bps |
| Fin Snr | +5.9bps ▲ to 197bps |
| Fin Sub | +6.9bps ▲ to 297bps |
| Cons Staples | +13.0bps ▲ to 458bps |
| Healthcare | +6.7bps ▲ to 312bps |
| Utes | +4.3bps ▲ to 201bps * |

| DATE | TIME DESCRIPTION ESTIMATE LAST |
|------|--------------------------------|
|------|--------------------------------|

| DATE | TIME | DESCRIPTION | ESTIMATE | LAST |
|------|----------|---------------------------------|----------|--------|
| 6/24 | 10:00 AM | May New Home Sales | 639.89 | 622 |
| 6/24 | 10:00 AM | May New Home Sales m/m | 3.2 | -6.2 |
| 6/25 | 8:30 AM | May PCE m/m | 0.5 | 0.4 |
| 6/25 | 8:30 AM | May Core PCE m/m | 0.3 | 0.24 |
| 6/25 | 8:30 AM | May PCE y/y | 4.1 | 3.8 |
| 6/25 | 8:30 AM | May Core PCE y/y | 3.4 | 3.2892 |
| 6/25 | 8:30 AM | 1Q F GDP QoQ | 1.6 | 1.6 |
| 6/25 | 8:30 AM | May P Durable Gds Orders | -5 | 8 |
| 6/26 | 10:00 AM | Jun F UMich 1yr Inf Exp | 4.7 | 4.6 |
| 6/26 | 10:00 AM | Jun F UMich Sentiment | 50 | 48.9 |
| 6/30 | 9:00 AM | Apr S&P Cotality CS 20-City m/m | n/a | -0.16 |
| 6/30 | 10:00 AM | Jun Conf Board Sentiment | 94.6 | 93.1 |
| 6/30 | 10:00 AM | May JOLTS | 7275 | 7618 |

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