Truflation

Truflation U.S. Defense Index (TruDef-US)

Methodology

January 23, 2026

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1. Executive Summary

The Truflation U.S. Defense Index (TruDef-US) is designed to track the performance of publicly listed U.S. defense and aerospace equities through a focused portfolio of leading companies. The index reflects how geopolitical risk, defense spending, aerospace demand, and military technology investment are priced by financial markets.

TruDef-US measures stock price movements across the top ten publicly traded beneficiaries of U.S. defense spending, representing the core of America's defense and aerospace industrial base. These companies span critical segments including airframes, propulsion systems, missiles, avionics, surveillance, space systems, and security technologies, forming the backbone of U.S. defense production and innovation.

By aggregating the performance of these firms, TruDef-US provides investors and analysts with a transparent, high-frequency market signal that captures changes in defense demand, geopolitical tensions, government procurement cycles, and advancements in military and aerospace technologies.

Key insights generated by the index include:

- Market expectations for U.S. and allied defense spending.
- Investor reactions to geopolitical conflict and evolving security risks.
- Performance dynamics across defense supply chains and military industrial production.
- Capital allocation trends toward aerospace, weapons systems, and security technologies.

While not a substitute for macroeconomic or fiscal indicators, TruDef-US offers a real time, market based perspective on how global equity investors are pricing shifts in defense and security priorities.

2. Truflation US Defense Index Framework

The primary objective of the Truflation U.S. Defense Index is to provide a transparent and investable benchmark that tracks the equity market valuation of the U.S. defense and aerospace sector. By focusing on a concentrated basket of companies that derive a substantial share of revenue from defense, aerospace, and security activities, the index translates geopolitical and military industrial developments into a single, measurable financial indicator.

The index is designed to:

- Capture investor expectations for U.S. and global defense spending
- Reflect changes in demand for military hardware, aerospace systems, and security technologies
- Provide a real time market signal of geopolitical and security driven economic activity
- Serve as a benchmark for defense sector equity performance

The index construction follows the steps outlined below.

Step 1: Definitions

The Truflation U.S. Defense Index is defined as a basket of publicly traded U.S. companies whose core business activities are directly linked to defense, aerospace, and security markets.

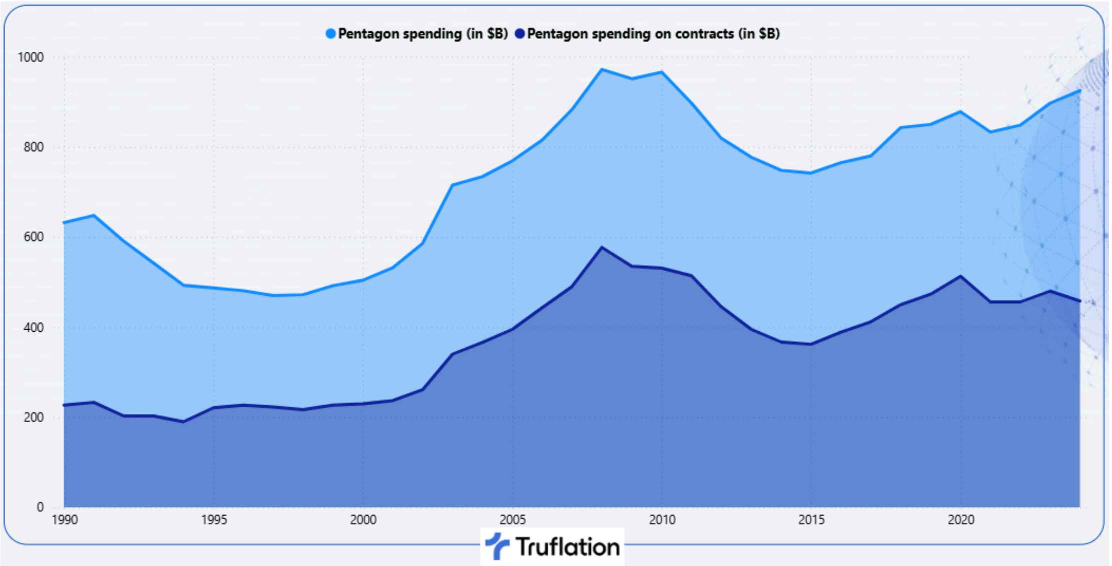
The U.S. Department of Defense allocated $874 billion to national defense in Fiscal Year 2024, approximately 13% of the federal budget, with a proposed budget of $1.01 trillion for Fiscal Year 2026.

The index focuses on defense contractors that are the largest recipients of Department of Defense (DoD) spending, including:

- Prime contractors (weapons systems, aircraft, ships, missiles)
- Sub-contractors and suppliers (electronics, materials, software)
- Technology and cybersecurity providers
- Logistics and support service providers

Over time, the share of the Pentagon budget allocated to private contractors has increased significantly (see Exhibit 1). Between Fiscal Years 1990 and 1999, average annual spending on private contractors represented 41% of total Pentagon outlays. This share has risen steadily, reaching 54% during the 2020–2024 period.

Exhibit 1 - Pentagon contracts vs budgets, 1990-2024



Source: Figures refer to Subfunction 051 discretionary budget authority in constant 2025 dollars. Years are fiscal years. Data: GSA, Treasury, DOD Comptroller.

The index selects the top ten U.S. defense contractors based on defense revenue in 2024, as shown in Exhibit 2.

Exhibit 2 - Top 10 US defense contractors included in the TruDef-US Index

No	Company	Defense Revenue (2024)	Description
1.	Lockheed Martin Corporation	$64.65 bn	The largest defense contractor and lead producer of the F35 Lightning II and various missile defense systems.
2.	RTX Corporation	$40.60 bn	A major provider of advanced sensors, precision weapons and aerospace systems.
3.	Northrop Grumman	$35.20 bn	Specializes in aeronautics, space systems and mission systems including the B-21 Raider stealth bomber.
4.	General Dynamics Corporation	$33.65 bn	A leader in naval shipbuilding (submarines & destroyers) and land systems (Abrams tanks).
5.	The Boeing Company	$32.68 bn	Boeing remains a top-tier defense prime through its Defense, Space & Security segment.
6.	L3Harris Technologies Inc	$15.55 bn	Key tactical provider of communications, electronic warfare & space / airborne systems.
7.	Huntington Ingalls Industries	$11.43 bn	The largest military shipbuilder in the US.
8.	Leidos	$11.05 bn	A major player in defense IT and intelligence services.

9.	Booz Allen Hamilton	$6.83 bn	Consulting, analytics and engineering services, especially in cybersecurity and intelligence.
10.	Amentum	$5.70 bn	A top provider of mission support and modernization services for the DOD

* The US Defense revenue is based on 2024 and in billions of USD (Bloomberg, US Global Investors)

This selection ensures that the index:

- Represents the most economically significant firms in U.S. defense
- Reflects where the majority of defense contract spending is allocated
- Adapts to evolving DoD procurement and contracting trends

Constituent membership is reviewed annually. Companies falling outside the top ten at the review date are replaced by newly qualifying firms, with changes implemented through the standard rebalance and scaling-factor process to preserve index continuity.

Step 2: Data Collection

The TruDef-US Index is constructed using daily closing equity prices for each constituent stock. These prices are used to create continuous, investable price series. By relying on market traded equity data, the index reflects real time investor assessments of defense fundamentals, geopolitical risk, and future earnings potential.

Step 3: Data Weighting

The TruDef-US Index employs a defense revenue based weighting methodology, combined with minimum and maximum constituent caps to ensure balanced representation across the defense sector.

- **Defense Revenue Weighting:** Defense revenue for each company is derived from annual financial reports and adjusted based on the percentage of revenue attributable to defense activities. Commercial and non defense revenues are excluded. These figures are cross validated against Bloomberg data, with the average of the two sources used to determine preliminary weights.
- **Capping Mechanism:** Final weights are capped at a maximum of 20% and a minimum of 5% per constituent. This prevents over concentration in a single contractor while ensuring meaningful representation of smaller but strategically important segments such as cybersecurity and defense IT.

Exhibit 3: Truflation US Defense Index Final Weighting

Company	Annual Reports FY 2024 Financials			Bloomberg		Part 1 Weights (avg)	Final Weights
	Revenue	Defense Revenue	Weights	Defense Revenue	Weights		
Lockheed Martin Corporation	$71.04 bn	$67.49 bn	27.5%	$64.65 bn	25.1%	26.3%	**20%**
RTX Corporation	$80.74 bn	$32.30 bn	13.2%	$40.60 bn	15.8%	14.5%	**14.4%**
Northrop Grumman	$41.03 bn	$36.93 bn	15.0%	$35.20 bn	13.7%	14.4%	**14.3%**
General Dynamics	$47.70 bn	$35.73 bn	14.6%	$33.65 bn	13.1%	13.8%	**13.8%**
The Boeing Company	$80.76 bn	$23.42 bn	9.5%	$32.68 bn	12.7%	11.1%	**11.1%**
L3Harris Technologies Inc	$21.33 bn	$16.42 bn	6.7%	$15.55 bn	6.0%	6.4%	**6.4%**
Huntington Ingalls Industries	$11.50 bn	$10.70 bn	4.4%	$11.43 bn	4.4%	4.4%	**5.0%**
Leidos	$16.70 bn	$9.19 bn	3.7%	$11.05 bn	4.3%	4.0%	**5.0%**
Amentum	$14.40 bn	$7.20 bn	2.9%	$5.70 bn	2.2%	2.6%	**5.0%**
Booz Allen Hamilton	$11.98 bn	$6.11 bn	2.5%	$6.83 bn	2.7%	2.6%	**5.0%**

Step 4: Index Calculation Formula

Each constituent price is normalized to 100 on the index base date. The index level is calculated as the weighted sum of normalized constituent prices:

$$\textit{TruDef-US Index} = (\textit{Normalized index}_1 \times \textit{Constituent Weight}_1) + (\textit{Normalized index}_2 \times \textit{Constituent Weight}_2) + \ldots (\textit{Normalized index}_{10} \times \textit{Constituent Weight}_{10})$$

The index is calculated and published daily at 23:59 UTC, reflecting prevailing market conditions.

Step 5: Rebalancing Frequency

An annual rebalance is conducted each May (on or before the 15th) and applied retroactively from the first trading day of the month. Constituents are re-evaluated based on updated defense revenue rankings.

Step 6: Scaling Factor (Divisor Adjustment)
A scaling factor is applied to maintain index continuity and prevent artificial changes in the index level resulting from structural events. Structural events include constituent additions or deletions, changes in index weights due to scheduled rebalancing, and other methodology-driven adjustments.

The scaling factor is calculated as:

Scaling Factor = Old Weighted Sum / New Weighted Sum

The index level is calculated as:

Index Level = Weighted Sum × Scaling Factor

Prior to a structural event, the scaling factor remains unchanged. On the effective date of a constituent change or weight rebalance, the scaling factor is recalculated so that the index level immediately before and after the event remains consistent. The recalculated scaling factor remains in effect until the next structural event requiring adjustment.

All scaling factor changes are documented with effective dates to ensure transparency, auditability, and historical consistency of the index series.

3. The Output Metrics

The Truflation U.S. Defense Index is updated on a daily basis and produces the following indexes:

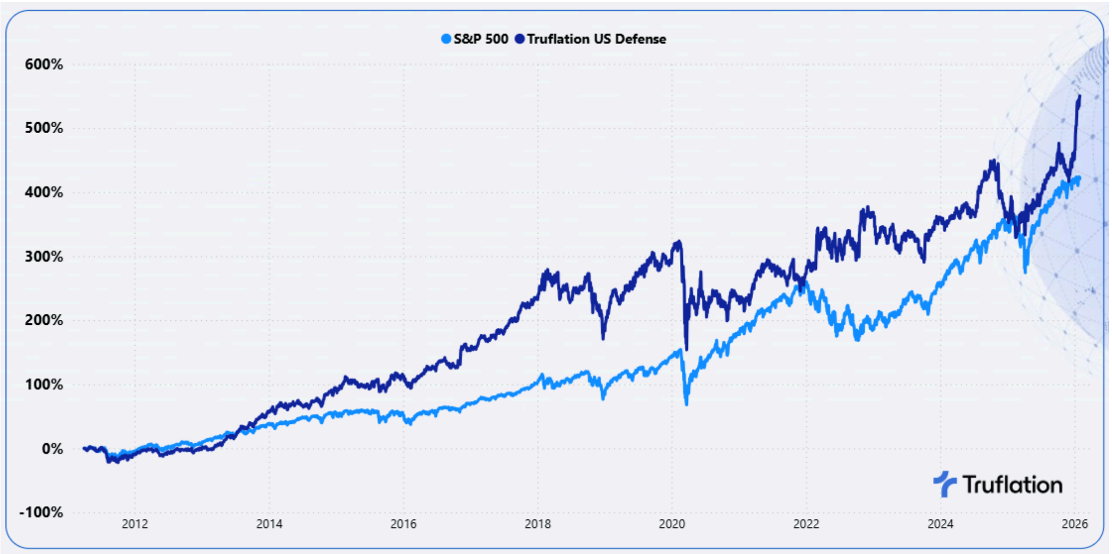
1. Truflation U.S. Defense Index level
2. Daily headline year on year percentage change
3. Individual constituent Index
4. Year on year percentage change for each constituents
5. Historical time series

The index was launched on September 2, 2025, with historical data back to April 1, 2011 (base date).

4. Truflation US Defense Index Benefits

The Truflation U.S. Defense Index has shown notable periods of outperformance relative to the S&P 500, particularly during inflationary or macro uncertain environments. Designed to emphasize assets and sectors that historically benefit from increased defense spending and defensive allocations—the index aims to preserve purchasing power rather than maximize growth at all costs. In contrast to the S&P 500's heavy reliance on growth-oriented equities, the Truflation Defense Index's diversified, inflation-aware construction has helped reduce volatility and improve risk-adjusted returns during times when inflation pressures weigh on traditional equities. This structural focus has allowed it to outperform the S&P 500 in select market regimes where inflation resilience and capital preservation are prioritized.

Exhibit 4: Performance of the Truflation U.S. Defense Index vs S&P 500



The Truflation US Defense Index (TruDef-US) offers several distinct benefits for investors, analysts, and policymakers:

- ***Real-Time Signal:*** Captures forward-looking market expectations for defense budgets and procurement ahead of official data releases.
- ***Direct Exposure to Geopolitical Risk:*** Acts as a proxy for global security stress, responding rapidly to geopolitical escalations or de-escalations.
- ***Focused Supply-Chain Representation:*** Concentrates on the primary beneficiaries of U.S. defense spending across aerospace, weapons, electronics, space, and cybersecurity.
- ***Portfolio Diversification & Risk Management:*** Defense equities often exhibit low correlation with traditional cyclical sectors, offering potential hedging benefits.

- ***Indicator of Industrial & Technological Momentum:*** Highlights capital flows into advanced defense technologies including aerospace, cyber, AI, and space systems.

5. Summary

The Truflation U.S. Defense Index provides a clear, timely, and market-driven view of how defense and security priorities are priced by investors. By bridging geopolitical developments, government spending decisions, and equity-market behavior, the index serves as a powerful tool for analysis, allocation, benchmarking and risk assessment.

6. Version History

Version	Date Released	Notes
1.0	September 2, 2025	Genesis of the Truflation US Defense Index
1.1	January 23, 2026	Added weighting based on the Pentagon budget allocated to private contractors.

7. Historical Weights

Date*	Lockheed Martin	RTX	Northrop Grumman	General Dynamics	The Boeing Company	L3Harris Tech	Huntington Ingalls Industries	Leidos	Amentum	Booz Allen Hamilton
April 1, 2011	20.0%	14.4%	14.3%	13.8%	11.1%	6.4%	5.0%	5.0%	5.0%	5.0%

* As the index was launched on September 2, 2025, with historical data extending back to April 1, 2011, these represent the first set of weights assigned to the index.