THE CONTROL REPORT
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AMERICA'S FIRST $1 TRILLION+ DEFENSE BUDGET IS COMING SOONER THAN ANYONE EXPECTS

The Empire is Poised for Record Defense Spending As It Tries to Keep Control Of The Globe. Here's the investment script to follow…

Nothing is certain in life except death and taxes… and U.S. military spending.

62 years ago, President Dwight D. Eisenhower appeared on TV sets across America to warn about the third.

It all happened very fast. No one was prepared for the grim prophecy Eisenhower would tell that night in his farewell address:

> *"Until the latest of our world conflicts the United States had no armaments industry. American makers of plowshares could, with time and as required, make swords as well.*
>
> *"But now we can no longer risk emergency improvisation of national defense,"* he continued. *"We have been compelled to create a permanent armaments industry of vast proportions…*
>
> *"In the councils of government,"* he warned, *"we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex [MIC]. The potential for the disastrous rise of misplaced power exists and will persist."*

It was worth a try.

Yet, the defense industry's influence over U.S. affairs six decades after Ike is as strong as ever. As an example, according to WorldBeyondWar, the U.S. has 902 bases and military facilities in countries around the world.

For all the debates about America having open borders, America's real borders today are global, thanks to the MIC.

To maintain those sprawling borders, U.S. defense spending is over $816 billion. It increases every year, like clockwork.

Any cuts to defense spending you ever hear about are usually cuts in the rate of growth of spending, not cuts in absolute levels of spending.

In short, the only thing the U.S military does better than destroying things is successfully lobbying for money. In order to keep the money flowing, the Pentagon has pursued a policy of "brass creep."

During World War II, there were 30 ships for every admiral. Today there are over 1,000 generals and admirals. Yes, there are more admirals than there are ships.

Many top brass have cohorts of chauffeurs, chefs, and secretaries. Some have runway-ready private jets. Still others get motorcade escorts and mansion homes.

The cost of the benefits to each top officer works out to roughly $1 million.

One general used his staff and military equipment to take his wife shopping and send her on taxpayer-funded vacations.

What do these generals do?

One retired U.S. Army colonel, Jack Jacobs, explained that many are *"spending time writing and defending plans with Congress, and trying to get the money."*

They're essentially lobbyists, but on the Pentagon's payroll.

Thanks to them, the U.S. military spending will cross the inevitable $1 trillion mark, just off of regular increases and adjustments for inflation alone.

Right now that's projected to happen sometime in 2027-2028 if it was business as usual.

But I believe it could happen sooner than expected.

The Associated Press reports: "Defense budget speeds toward $1 trillion"

And Roll Call writes: "'Watershed' $1 Trillion defense budget on the horizon."

Because, ironically, for all the money spent on empire-building, the U.S. has put itself in a vulnerable position.

It's increased its enemies around the world by playing global cop…

Increased the amount of money it receives and spends…

But it has decreased its military capabilities since WWII relative to the number of bears it poked (I'm not counting nuclear weapons in that statement, of which the U.S. has more than enough to wipe out any enemy. But I figured that would be the end of everything so let's discount it.)

The number of warships, for example, since WWII has decreased from 6,768 warships to 300. They're better ships, yes, but we'll address that in a minute.

Meanwhile, a large chunk of the DoD's budget is spent on things most people wouldn't consider spending on military might -- like veteran benefits and healthcare costs.

For these reasons, I believe military spending could ramp up to levels not seen in decades. And you should consider one of the most obvious set-it-and-forget-it investments of the last 17 years in light of it.

Plus, I'm even going to share a small, little-discussed speculation that could skyrocket as the world pumps more and more money into military buildups.

Imperial Overmatch: The Reason for a Coming Spike in Defense Spending

You've probably heard that the U.S. military has a bare minimum goal of being prepared to fight two major wars at once.

Fewer people have heard of the doctrine of "overmatch."

In basic terms, it means giving the United States an impossible advantage over opponents, such that no enemy stands a chance of victory in a conflict. It's a deterrence doctrine that requires overwhelming technology and force no matter what comes at the U.S.

Right now the goal is Overmatch…

And the basic expectation is preparedness for two wars.

We're far off the mark from both targets. And that's why I believe -- given the war in Ukraine and tensions with China -- that military spending in the U.S. will trend back towards at least 5% of GDP. As it does, a lot of money will be made.

In the U.S., much ado is made about how much we spend on defense compared to other countries.

Globally, the U.S. accounted for 39% of global military spending in 2022, while China and Russia accounted for 13% and 3.9%, respectively.

Yet, and this is just a guesstimate, the U.S. has to account for *far more* than 39% of the globe's military adventurism, commitments or projections around the world.

According to Wikipedia there are 42 ongoing wars right now. Figure the U.S. has some part to play in most of them. Therein lies the problem of being an empire. You use your strength until it becomes your weakness.

So, it's no surprise that according to the Government Accountability Office (GAO), the United States is facing a major crisis in military readiness, especially when it comes to the Navy and Air Force.

> *"Nearly two decades of conflict has degraded U.S. military readiness," says the GOA. "To adapt to growing threats posed by major powers (such as China and Russia) and other adversaries, the Department of Defense (DOD) and the individual military services must make some urgent changes."*

Take the Air Force for example. It faces big problems. The GAO found the mission-capable rate of F-35 fighter jets decreased from 2020 to 2021 simply because they lacked working engines.

Shockingly, the GAO discovered only 4 out of 49 military aircraft types met performance goals in most years from 2011-2021, while a whopping 26 aircraft did not meet their goals in ANY year.

Or, take the Navy. From 2017 to 2019, while ground forces improved, the readiness of U.S. sea forces declined.

In fact, the Navy has a $1.7 billion backlog of deferred maintenance for surface ships, of which, $1.2 billion is for ships the Navy wants to decommission early due to high maintenance costs.

The U.S. does have a superior naval advantage with its supercarrier battle groups.

But as the great Richard Maybury wrote in his July *U.S. & World Early Warning Report*, while the U.S. does have 11 of these beastly carrier groups it:

> *"[it] rarely [has] more than seven ready to fight. (Saltwater corrodes metal and causes awesome maintenance problems.) And how much of the earth's surface is seawater? 71%. So the seven supercarrier battle groups are assigned to police 71% of the whole world. It's a far cry from the 1940s when this hair-brained global cop scheme was dreamed up and the swamp had a total of 146 carriers and, after 1945, zero competition. Today they have eleven, and extensive competition…*
>
> *So, is the US Navy really as powerful as it looks? No way."*

Bottom line: The U.S. armed forces are struggling to maintain capable air and sea fleets due to a lack of parts, cost overruns, and delays in maintenance.

And that's despite spending billions annually. And to maintain the imperial order, it will need to reach military overmatch.

Which begs the question, when will military brass start *really* pounding the table to increase spending at an even faster clip?

Rebuilding America's Proxy War Arsenal

Based on the new defense budget of $886 billion for 2024 – the highest in U.S. history – it's easy to think we spend plenty on defense.

After all, the budget goes up like clockwork every single year.

But when you compare the defense budget to our GDP, and how that ratio has changed over time, you see a very different story.

Just do the math.

Based on an estimated GDP of $26.28 trillion in 2024, the U.S. will spend roughly 3.3% of its GDP on defense next year.

That's a sharp drop from the nearly 5% of GDP that was spent on defense during the late George W. Bush administration and early Obama years.

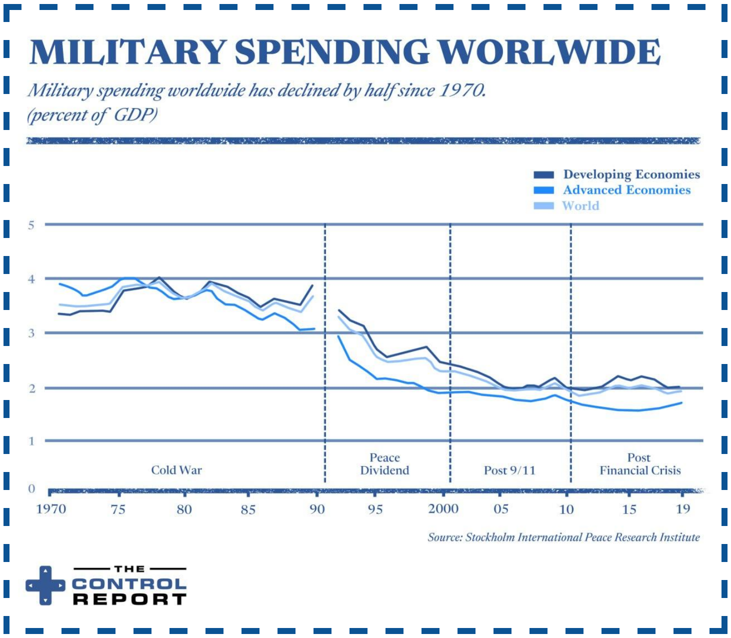
What's more, during the Cold War, military spending accounted for a whopping 5%-10% of GDP.

And the U.S. is not alone in this decline.

Global military spending in relation to GDP has decreased by half since the 1970s when the Cold War was in full swing.

The reason is simple. After the Soviet Union collapsed, the United States became the lone superpower.

There were no traditional enemies that posed a threat, and so, for many countries, military spending wasn't a priority.



That brought roughly a decade of peace. Then, a decade later, after 9/11, the U.S. entered the global war on terror which gave the empire a new enemy to focus on.

Even with those major wars in Iraq and Afghanistan, the relative level of defense spending worldwide was low as a percentage of GDP.

As a result, governments diverted their military budgets into pro-social initiatives like infrastructure, healthcare, and education, in addition to boondoggles like clean energy and foreign aid.

Not to mention, the easy money policies and subsequent debt, go directly into boosting GDP (making the economy bigger, at least nominally). So, as a percentage of GDP, military spending looks smaller.

So while the U.S. spends more than the next 10 countries combined on the military, it ranks around 15th in the world in military spending as a % of GDP. And, a lot of that budget is going to costs that aren't associated with overmatch -- like benefits for veterans and operational costs.

But I believe this trend could soon reverse, given what's happening in Ukraine and in the Taiwan Strait.

World War Control Has Begun

The major players in this conflict are obvious: The United States, Russia, and China.

Right now it's not a traditional world war. A lot of it is by proxy.

The U.S. and NATO countries supply Ukraine…

China and Iran supply Russia.

The estimated casualties are now in the hundreds of thousands, while the costs have reached tens of billions.

But just one political miscalculation could mean those numbers multiply.

One misstep could bring more countries into the conflict, setting off the fuse that could turn this from a proxy war into a direct conflict between the U.S. and Russia.

This proxy war has created a stealth threat.

See, it doesn't *feel* like the U.S. is really at war right now. So most people probably don't think about our military weakening from the conflict. After all, Ukraine is doing all the fighting, right?

However, the U.S. has depleted stockpiles of ammunition and other supplies by fighting via proxy in Ukraine. And the U.S. doesn't have the industrial base of producing military ammo and equipment.

As former navy captain and aide to the U.S. chief of Naval Operations, Byron King, told me in a Control Briefing this month:

> *"**Military power is the first derivative of industrial power**. You cannot have a military unless you have a strong industry behind it, including a steel industry, a machine industry, an electrical equipment industry, etc, in order to have it."*

U.S. industrial power has been hollowed out since WWII. This is a red alert for the military. They need to start producing armaments to keep two-theater readiness, let alone overmatch.

Ukraine is the first “front” of World War Control.

The second front is China – the top U.S. rival for economic supremacy in the 21st century and a frightening military foe.

On September 18th, 2022, President Biden promised that U.S. forces would defend Taiwan if they were attacked by China. That’s a pretty big commitment by a President -- one the U.S. isn’t ready to make good on.

And just this month, Beijing accused the U.S. and its allies of preparing for war after President Biden hosted the first-ever trilateral summit with the leaders of Japan and South Korea at Camp David.

The summit finalized new agreements on defense and technology. And included a commitment to consult on security threats, hold annual trilateral meetings, and enhance missile and defense cooperation in order to counter threats from China and North Korea.

It's being compared to an "Asian NATO," but without the requirement to intervene if any member is attacked.

As expected, efforts like these have raised tensions between Beijing and Washington. But the real “line in the sand” is Taiwan.

Similar to Hong Kong, China never renounced its claim to Taiwan and has long threatened to use force to achieve "reunification" if necessary.

And given the international response to Russia’s invasion of Ukraine and the perceived tolerance to the annexation of Crimea, China may feel emboldened to make good on that promise.

This grows increasingly likely as China continues to warn America against activities in the South China Sea and diplomacy with Taiwan, which it sees as interference in its affairs.

But here’s the thing…

The two fronts of the New Cold War are just the obvious threats. Because they have the most at stake, they get the most attention.

But when it comes to multi-national conflicts, it’s almost impossible to predict what catalyst will ignite the big one (e.g., no one predicted WWI would start with the assassination of Franz Ferdinand).

The analogy my friend Jim Rickards always makes is a snowpack that’s built up on the side of a mountain. It’s going to be an avalanche. You can see it in advance. The only question is, which snowflake will trigger the crush? We can only guess about that, but more important than getting the guess right is planning for the inevitable outcome, knowing you’ll never really know exactly when it will happen.

Governments Are Taking Notice And Cutting Checks

Clearly, governments are not blind to these rising tensions. Military expenditures worldwide are rapidly increasing to unprecedented levels not seen since the Cold War.

According to data from the Stockholm International Peace Research Institute (SIPRI), total global military spending rose 3.7% in real terms in 2022, reaching a record high of $2.24 trillion.

This was driven by massive hikes in military budgets across Europe. Military spending in the region saw its steepest year-on-year jump in 30 years. Total expenditure by European states surpassed $345 billion in 2022, exceeding Cold War levels from 1989 and 30% higher than just a decade prior in 2013.

This is especially true for Russia’s NATO neighbors.

For instance, Finland raised its military budget by 36%, Lithuania by 27%, Sweden by 12%, and Poland by 11%.

Ukraine increased military spending by an astronomical 640% to $44 billion in 2022, representing 34% of its GDP.

This was the single largest year-on-year rise ever recorded.

Meanwhile, tensions in East Asia are also spurring military buildups. Japan's concerns over China and North Korea caused military spending to climb 5.9% to $46 billion last year, its highest level since 1960.

… All of which has been a boon for American defense contractors.

The Department of Defense reported that sales of U.S. military equipment to foreign allies exploded 49% to $205.6 billion in fiscal 2022.

Major deals included $13.9 billion in F-15 jets for Indonesia (made by Boeing), $6.9 billion in ships for Greece (made by Lockheed Martin), and $6 billion in Abrams tanks for Poland (made by General Dynamics).

In other words:

As governments - domestic and abroad - spend more on defense, much of that money will flow straight into Americans defense contractors pockets. And you can benefit.

Defense Play #1: How To Profit From The 21st Century Arms Race

If you’re looking for a conservative, low-risk way to profit from the rise in military spending, this first recommendation is for you.

As I mentioned earlier, I have no idea which conflict will intensify. But I’m confident that betting on the military industrial complex is as sure a bet as they come.

For that reason, I believe it's safer to bet on a basket of defense stocks instead of a single specialized company.

So for today’s first pick, I recommend buying the iShares U.S. Aerospace & Defense ETF (Ticker: ITA).

The ETF is a passively managed fund that tracks the performance of the Dow Jones U.S. Select Aerospace & Defense Index and currently holds 34 of the largest American defense contractors.

TOP 10 HOLDINGS IN ITA AS OF AUGUST 18, 2023

Rank	Stock Name	Symbol	Weight (%)
1	Boeing Company	BA	18.89%
2	RTX Corp.	RTX	18.47%
3	Lockheed Martin Corp.	LMT	6.40%
4	TransDigm Group Incorporated	TDG	4.84 %
5	Howmet Aerospace Inc.	HMX	4.80 %
6	General Dynamics Corporation	GD	4.76 %
7	Textron Inc.	TXT	4.54 %
8	L3Harris Technologies Inc.	LHX	4.41 %
9	Northrop Grumman Corporation	NOC	4.31 %
10	Axon Enterprise Inc.	AXON	4.20 %

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This means by buying this fund, you get exposure to the biggest U.S. arms manufacturers, including Boeing, Raytheon, Lockheed Martin, General Dynamics, Northrop Grumman, and more.

This is the easiest way to plug into the guaranteed money flows from the federal government into the military industrial complex.

Since its inception in 2006, the fund is up nearly 400%, as a consequence.

Not only do these companies supply the U.S. with its most advanced military equipment - including Tomahawk missiles, F-35 jets, and Virginia-class submarines - but these firms also sell weapons to our allies around the world.

This allows investors to profit as the U.S. government and its allies counter rising threats and return to a level of military spending not seen since the Cold War.

And best of all, Wall Street has yet to wake up to this trend, creating the perfect opportunity to get in at a good price.

ITA'S FUND DETAILS & PERFORMANCE

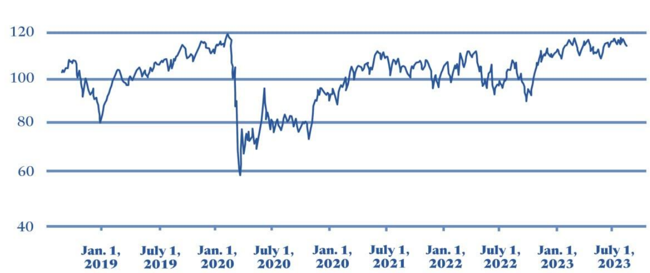
Fund Details		Average Annual Total Return	
Fund Symbol	ITA	YTD	2.93%
P/E Ratio	26.32	1-Year	19.00%
Expense Ratio	0.40%	5-Year	5.13%
Yield (ttm)	0.97%	10-Year	12.37%

Looking at the table you'll notice that year-to-date, the fund has lagged behind the S&P 500, returning a modest 3% compared to over 14% respectively.

That return is far below its historical average. The ETF has had an average annual return of 10.55% since its inception, suggesting that a reversion to the mean could be in store – especially since the fund has yet to eclipse its pre-pandemic highs.

ITA'S 5-YEAR PRICE ACTION

iShares US Aerospace & Defense ETF 2019-2023



Source: Yahoo Finance

But I see this as a feature. Not a bug.

This tells me that even though conflicts are heating up globally, people are still sleeping on the defense sector.

And while a P/E ratio of 26 is not considered "cheap" by most value investors, it's certainly not expensive considering the high-tech nature of defense & aerospace.

Plus, given the potential upside with the right geopolitical catalyst – of which, there are hundreds – this play seems like a safe bet to hold very long term.

Action: Buy ITA up to $130 and set a 25% stop loss from the purchase price.

Defense Play #2: A European Giant Awakens

Germany has been Europe's sleeping military giant for more than 70 years.

After World War II, the nation's military was stripped apart and restricted as part of war reparations.

The new German Constitution of 1949 even mandated that Germany was not allowed to "prepare for a war of aggression," causing Germany to pursue a pacifist foreign policy for decades.

Through the rest of the 20th century, military spending was kept low at around 1% of GDP, while Germany relied on NATO and the U.S. for defense.

But slowly, this started to change in the early 90s.

After the Cold War ended, Germany began boosting military capabilities, including ending conscription and moving towards professional armed forces.

The country also started exporting weapons to allies and assisted in their military campaigns around the world, including Operation Desert Storm and the Afghanistan War.

Then last year, this trend accelerated dramatically. And I'm sure you can guess why…

How Russia Turned German Doves Into Hawks

Russia's invasion of Ukraine in February 2022 completely shifted Germany's perspective on defensive spending and military readiness.

It was a wake-up call that shook the nation's assumptions about peace and security in Europe - confirming the long-held fear over Putin's willingness to force against its neighbors and proving that hard power still matters greatly in the 21st century.

In response, Germany has made historic changes to its military policies. For instance, the country quickly broke longstanding taboos by sending arms to Ukraine and permitting Estonia to send German-made weapons, overturning its ban on exporting arms to conflict zones.

Just days after the invasion, Germany's Chancellor Olaf Scholz announced a dramatic increase in defense spending, starting with the creation of a €100 billion special fund to rapidly upgrade and modernize the German military.

This one-time fund will supplement the annual defense budgets to provide a massive investment in new military equipment and technology.

In addition, Scholz committed to permanently raising Germany's annual defense spending to over 2% of GDP, the NATO spending target that Germany has long failed to meet.

In general, Germans support the decision. A poll last month found that about 60% of German residents would approve of more military spending, even if it meant making cuts elsewhere or borrowing.

And now, politicians are taking action. Last month, Germany's Cabinet approved a draft of the 2024 budget, which is set to increase defense spending to €51.8 billion, an increase of €1.7 billion. However, this is still far short of the estimated €75 billion needed to fully meet Germany's 2% target and its NATO obligations this year.

And that's why now is the perfect time to invest in this trend.

Germany is about to add over €25 billion per year to its military budget and prioritize military power in a way not seen since WWII.

This isn't an option anymore. Europe depends on it.

As a result, there's one company that will profit hand over fist:

Heckler & Kock (Ticker: MLHK)

Heckler & Koch (H&K) is a German defense manufacturing company founded in 1949 by Edmund Heckler, Theodor Koch, and Alex Seidel.

The company designs and produces firearms, primarily for military and law enforcement, from which it generates the vast majority of its revenue.

Since its founding, H&K has become a global leader in the defense industry, known for its innovation and quality.

From handguns like the P7 to assault rifles such as the HK416 assault rifle, which gained fame for its use in the operation that killed Osama bin Laden, H&K's weaponry has become a mainstay in military and law enforcement units across the world.

But H&K not only sells cutting-edge weaponry, it does so in a pro-Western way.

The German press in 2017 labeled Heckler & Koch the "world's most ethical gunmaker" after the company pledged to only sell arms to NATO member states, the EU, and NATO-equivalent countries (Switzerland, New Zealand, Australia, Japan).

H&K was the first weapons manufacturer to make such a pledge.

While that commitment was first seen as a smart PR move in light of controversial arms sales the company made in the past, the Green Countries approach has become a major selling point since the Russian invasion of Ukraine.

As a result, H&K has been a major beneficiary of increased German and European military spending.

European Chaos Yields Record Sales For H&K

Last year, the Russian invasion drove H&K to its highest net sales in recent history. Commenting on the performance, the company wrote:

> *"Economically, the reporting year was extraordinarily successful for the company. The H&K AG and its subsidiaries achieved good sales growth and very strong earnings growth. The goals for the fiscal year 2022 were not only achieved but were significantly exceeded, especially in terms of results."*

But the outlook wasn't always so positive for H&K.

Prior to 2020, H&K had fallen on hard times. The company had racked up over €240 million in debt, and analysts were speculating that it could go bankrupt.

But when COVID struck, H&K experienced a boom from increased sales to law enforcement and militaries dealing with political unrest. Then when the war in Ukraine escalated last year, the company's dire financial situation had completely turned around.

HECKLER & KOCH REVENUE & MARGIN GROWTH

€m	2022	2021	2020	2019	2018
Order Intake	319	288	226	298	290
Net Sales (revenue)	305	290	275	239	221
EBIDTA	82	58	50	30	19
EBIDTA Margin	26.89%	20.00%	18.18%	12.55%	8.60%

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Over the past 5 years, H&K has seen consistent revenue growth, all while becoming more and more profitable.

The company's EBITDA (earnings before interest, taxes, depreciation, and amortization) margin has gone from 8.6% in 2018 to a whopping 26.89% in 2022.

This shows that H&K has improved its operating efficiencies while scaling at the same time, which is often difficult for capital-intensive businesses like H&K.

But it's not just H&K's EBITA margin that's attractive. The company has also cleaned up its balance sheet.

By restructuring debt and converting a significant amount into equity, H&K cut its financial debt by more than 55% over the past year, plummeting from €239 million to €107 million.

H&K has also dramatically increased its working capital, a metric that measures a business's ability to pay its bills and is calculated by subtracting current liabilities from current assets.

In the most recent quarter, H&K reported having over €125 million in working capital, nearly €30 million of which is cash.

In other words, H&K has gone from being on the verge of bankruptcy to an efficient business with a strong balance sheet and growing revenues.

And I expect to continue.

Here's why…

Germany's New €209 Million Contract With H&K

Germany has just committed to purchasing large volumes of new infantry weapons and munitions from H&K for years to come.

On December 14, 2022, the German Parliament's Budget Committee approved funding for the G95A1, a new standard assault rifle for the German Army, replacing the G36.

This new rifle is produced by H&K and is based on its famous HK416, which is one of the world's most reliable assault rifles and dramatically outperforms the American-made M4 in field tests.

That’s why the French and Norwegian militaries, as well as the U.S. Marine Corps, also use it as their standard assault rifle.

This contract alone will send 118,718 new assault rifles to the German military for roughly €209 million. That number is massive for a company like H&K, which had total revenues last year of €305 million – only 46% more than that single contract.

This contract is our catalyst.

As production for the G95A1 ramps up through 2025, H&K should see its sales skyrocket as Germany phases out the old G36 as its standard-issue assault rifle. And I expect to see more contracts like it as Russia’s NATO neighbors continue to increase their military spending.

This means that H&K not only has a major geopolitical tailwind in its favor (the war in Ukraine), but it also has plenty of opportunities to secure more contracts for the next-gen G95A1, all of which should be a boon for the stock price.

So here’s what I recommend…

Action: Buy MLHK on the Paris Stock Exchange up to €110. Sell if the stock falls more than 30% from your purchase price.

With this trade, you’ll want to be patient. The stock has very low volume, which means it can be sensitive to large trades. This can significantly affect the price, causing it to spike or drop suddenly. Or your trade might not get filed at all.

Because of this, make sure you follow these three instructions:

1. **Don’t rush your order.** Place a limit order at your desired price and wait until it’s filled. Otherwise, a market order could leave you paying a premium on your shares.

2. **Buy it on the Paris Stock Exchange, not over-the-counter (OTC).** Since this is an international stock, you may need to call your broker to enable the ability to trade on foreign exchanges in your account. This is important because the Paris Stock Exchange has the most trading volume for H&K, which means you’ll have the best chance of getting a good buy and sell price.

3. **Only invest what you can afford to lose.** Remember that this trade is a high-upside speculation. This isn’t a blue-chip stock you should bet your retirement savings on. So make sure you’re considering the asset allocation strategy I laid out in the Charter Issue and only invest a tiny portion of your portfolio.

You’re either being controlled or in control,

Editor, The Control Report