

FUNDS



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IC COMMENT

The funds capturing the defence hot streak

The world is in turmoil and, in the investment universe, people are looking for cover. Gold has made some big gains again so far this year, with the **Invesco Physical Gold ETC (SGLD)** up by more than 8 per cent year to date, as at 3 March. Bond yields have fallen this year, too, in a sign that investors are scrambling for defensive assets.

'Defensive' is a good word for those wondering which shares can make gains in a time of uncertainty, in more ways than one. Donald Trump's public spat with Ukraine's Volodymyr Zelenskyy has cast doubt over the prospects of a peace deal in the Russia-Ukraine war. That, combined with broader political tensions related to the president's actions, has turbocharged returns from defence stocks, especially in Europe. Take **Rheinmetall (DE:RHM)**, which has made gains of around 90 per cent so far in 2025, as one extreme example. Closer to home, **BAE Systems (BA.)** has made gains of around 35 per cent.

Some investors will have understandable qualms about holding companies in this sector, although the Ukrainian situation might persuade them that there is a higher purpose here. Those who do want to hold defence shares may wish to look at the multiple thematic exchange-traded funds (ETF) available, either to hold directly or to simply provide some inspiration.

Unsurprisingly, those ETFs have delivered some huge gains so far this year. The **Global X Defence Tech ETF (ARMG)** stands out, having made a total return of 17 per cent (as at 3 March). It tracks the Mirae Asset Defence Tech index, has 37 holdings and has substantial exposure to the companies we have already

discussed. There's a 12.2 per cent allocation to Rheinmetall, roughly 9 per cent apiece in **Palantir (US:PLTR)** and BAE Systems and 8 per cent in **RTX Corporation (US:RTX)**.

As its name suggests, there is a technology element to the portfolio, with companies involved in cyber security and the use of artificial intelligence included among its holdings. Some 85 per cent of the fund is in industrials, with the balance in tech. In terms of geography it's fairly US-centric, with an allocation of around 60 per cent to that market. Yet despite the ETF's performance, US defence stocks have lagged their peers this year. Take **Lockheed Martin (US:LMT)**, which has actually seen its shares slip back in 2025.

The Global X fund is not the only name with strong returns: the **Future of Defence ETF (NATO)**, focused on the theme of higher defence spending from European Nato members, has returned around 15 per cent. It has 60 holdings and smaller position sizes than ARMG, although top holding Rheinmetall accounts for 7.2 per cent of the portfolio. The NATO ETF has a similar weighting to the US, although it has less in industrials than its rival.

It's worth noting that the **Invesco Defence Innovation ETF (DFNX)** is pretty flat this year, but those ETFs focused on cyber security have performed well, if less astoundingly so than the defence funds.

We are yet to see whether more generalist funds embrace the defence sector, be it standard equity funds or even those ESG portfolios that might now spot a cause to be backed. But investors wanting to play defence have plenty of options already. Whether stocks in this sector have more room to run is another discussion, however. ●

What's next for commodity funds?

Commodity markets face further upheaval with tariff threats, but are there opportunities for commodities funds? Holly McKechnie reports

The commodity sector is notoriously volatile. While the Bloomberg Commodity Index has had a good run in recent years, economic uncertainty, partly driven by higher interest rates and geopolitical disruption, has seen it fall back notably from its 2022 peak.

FT data shows that over the past year individual commodity prices have had mixed fortunes. Natural gas is up 104 per cent, while Brent crude oil is down 10.7 per cent and heating oil is down 12.4 per cent. In the metals sector, copper is up 18.2 per cent, while silver and gold are up by 40 per cent each.

Agricultural commodities have also seen significant price variations: coffee prices have risen by more than 100 per cent, but the likes of sugar have dropped by 15 per cent over the same period.

With Donald Trump back in the White House, commodity markets look set for further disruption. Less than two months into his second term, Trump has already introduced blanket tariffs against Canada, Mexico and China. Separate tariffs on steel and aluminium imports are expected to come into force on 12 March.

How Trump's policy decisions will affect commodities funds is up for debate. Mick Gilligan, head of managed portfolios at Killik & Co, is pessimistic about the outcome. "Tariffs are generally bad for the economy and bad for profitability. It's hard to see how

equities could go down without it impacting commodity funds," he says.

He maintains that some tariff plans could well be just a heavy-handed negotiating tactic on the president's part.

"Take aluminium: the US has to import aluminium, it only produces the aluminium that it needs and the other half it imports from Canada. It is difficult to see how that benefits the US. It's difficult to make an investment decision based on what might happen in a month or two, but that in itself leads to uncertainty".

However, that very uncertainty could play in commodities' favour, according to Darius McDermott, managing director at Chelsea Financial Services. Added to this is the fact that tariffs tend to have an inflationary effect. "Natural resource equities tend to do well when there is higher inflation, so you can make quite a good case for commodities funds at this time," he says.

Fund options

Commodities funds can broadly be split into two categories: generalist funds, which invest in a range of commodities, and more niche strategies that focus on a single commodity, or a select group.

On the generalist side, **BlackRock World Mining Trust (BRWM)** remains popular with analysts despite its struggles in recent months. It invests in the shares of companies operating across a variety of areas: 'diversified' miners make up a third of the portfolio while copper miners account for a quarter, with gold making up 21.6 per cent.

The fund, which counts **BHP (BHP)**, **Rio Tinto (RIO)** and **Glencore (GLEN)** among its top holdings, reduced its dividend payment by almost a third in its annual results this week. Stifel analysts predict there will be a further cut to come in 2025, but still rate the trust as a holding for contrarian investors.

"The shares have de-rated sharply in the past nine months from a high of around 630p in late May, with the shares on a premium to net asset value (NAV), to trade around 500p now, on a c10 per cent discount to NAV," Iain Scouller, managing director at Stifel, said on 20 February. He attributed this to "weak share price performance from the listed mining sector generally", fears of a global recession and a slowdown in demand in China for commodities.

However, Scouller also argued that "the shares could revert back to trading near NAV, when sentiment towards the mining sector



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improves and returns pick up". It's worth adding the shares recently traded on a 7 per cent dividend yield.

CQS Natural Resources Growth & Income (CYN) also provides diversification across the commodity sector. While it is weighted towards gold miners with 42.8 per cent of its portfolio allocated to precious metals, oil and gas account for 19.5 per cent of its portfolio, and uranium makes up a further 12.4 per cent.

Another option is **BlackRock Energy Resources & Income (BERI)**, which provides broad exposure across the mining, traditional energy and energy transition sectors. **Anglo American (AAL)**, **Rio Tinto (RIO)**, **Targa Resources (US:TRGP)**, **Shell (SHEL)** and **Permian Resources (US:PR)** make up its top five holdings. Over the past year, CQS Natural Resources Growth & Income has seen a share price total return of 27.2 per cent, while BlackRock Energy Resources & Income is on a 17.5 per cent gain.

Neither name has been unscathed by recent drama in the investment trust sector, however. The CQS fund has been locked in battle with Saba, having defeated the US activist in one shareholder vote and managing to stave off the threat of a second ahead of an impending strategic review. The BlackRock fund has a 'standstill' agreement preventing Saba from carrying out activist measures for now, although the trust is going ahead with a continuation vote in 2026.

All that glitters

Given the current geopolitical uncertainty, if you are tempted by a single-focus fund then the obvious commodity to focus on is gold, with the caveat that it has already made substantial gains.

As a safe haven asset, gold tends to benefit from market uncertainty, with its latest rally

being fuelled by tariff concerns. For investors looking to add gold to their portfolio, there are a number of fund options available.

Firstly it's simple enough to simply hold gold itself via an exchange-traded fund (ETF), and the **Invesco Physical Gold ETF (SGLD)** in our 2024 Top 50 ETFs list (scan the QR code below to see the full list) offers a cheap and liquid way to do that. Investors who expect gold miners to do well on the back of the price rising can access such shares via the likes of active gold funds. They should note, however, that this brings greater risk, given miners are subject to share price volatility and company-specific risks.

For "almost pure gold exposure", Gilligan recommends **Golden Prospect Precious Metals (GPM)**. The trust is relatively small, with only a £38mn market cap, and 85.7 per cent of its portfolio is allocated to gold. It is currently trading at a share price discount to net asset value (NAV) of 24 per cent. Keith Watson and Robert Crayford, the trust's portfolio managers, argue in their most recent factsheet that "the outlook for 'stagflationary' pressures has worsened as US trade tariffs are introduced", meaning that "gold remains well supported."

However, while Trump's tariffs may be dominating the headlines, they are not the only thing to consider if you are thinking about investing in the commodity sector.

The energy transition and demand for AI, are both set to be big drivers for demand for copper and lithium as electrification increases. Meanwhile, uranium might also benefit from the energy transition, not least if the use of small modular reactors (SMR) becomes widespread.

Great British Nuclear is currently in the final stages of its UK SMR process, following the government's pledge to reform planning rules, making it easier to build SMR fleets in England and Wales. For adventurous investors, who are happy to make a pure uranium play, Gilligan suggests **Geiger Counter (GCL)**. The trust primarily invests in companies within the uranium industry and can only divert 30 per cent of its portfolio to companies outside the energy sector. ●

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