

Defense contractors

Trump's executive order: Dividends at risk?

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Table of contents

About us	3
Defense industry companies on dividend defense	4
Defense contractors' dividends in perspective	5
Trump's executive order: Dividend forecast implications	7
Appendix: Detailed 2026 dividend and DIPs forecasts	9
Appendix: EMEA defense dividends	11

The take

- A recent executive order by US President Donald Trump may alter capital allocation priorities and dividend policies among large US defense contractors.
- **Aerospace and defense companies contribute 31% of the capital goods sector's dividends and 1.7% of the total US market dividend payouts.**
- We forecast that the subsector will contribute 2.2% to our S&P 500 Dividend Index Points forecast for the 2026 futures expiry.
- **Dividend risk** is concentrated among companies with higher payout ratios, particularly those more reliant on dividends than buybacks.
- While we have not modified our Base-case estimate, **in our Bear case, we expect dividend suspensions** for large-cap US defense contractors.
- **Earnings calls in late January 2026** are expected to provide further clarity on management guidance, regulatory interpretation and implications for capital return policies.

About us

S&P Global Market Intelligence's Dividend Forecasting team provides timely data, insights and commentary to help financial institutions price instruments, enhance investment decisions and manage risks. Our global team of over 50 analysts maintain precise forecasts on the size and timing of payments based on bottom-up fundamental research as well as a proprietary advanced analytics model. We pride ourselves in an unmatched coverage that spans over 40,000+ securities including stocks, American depositary receipts (ADRs) and exchange-traded funds (ETFs) across the globe. Our analysts also stand ready to engage in discussion and address users' queries.

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Defense industry companies on dividend defense

In our intraday alert on US defense contractors on Jan. 8 ([link](#)), we summarized the possible impact of US President Donald Trump's Jan. 7 executive order on dividends among US defense companies.

The [executive order](#) directs defense contractors to place production capacity, innovation and on-time delivery above shareholder payouts. According to the order, stock buybacks and "excessive corporate distributions" must not come before meeting the needs of US military contracts.

Restrictions on dividends and buybacks: Contractors identified as underperforming, underinvesting in production or failing to prioritize government contracts may face **prohibitions on stock buybacks and dividend distributions**. Future defense contracts will explicitly allow the government to **limit or block these payouts** during periods of operational underperformance.

While the hard metrics of "underperformance" are not defined, the next operational factors can consider the following:

- Failure to invest in production capacity
- Insufficient prioritization of government contracts
- Inadequate production speed

Underperforming contractors must submit a remediation plan or engage with the US defense secretary. If the plan is inadequate or issues remain unresolved, the government may amend contracts, invoke the Defense Production Act or apply other enforcement measures.

Among aerospace and defense S&P 500 constituents, **10 companies that paid regular or special dividends could be impacted — nine of which are paying regular dividends — and be subject to scrutiny and potential payout risks**. All 10 companies have **significant orders and contracts from the US government and the Pentagon**, as evidenced throughout their latest earnings calls.

US government backlog based on most recent earning calls

Company name	Main defense items	Backlog	% of revenue	Revenue
General Electric Co.	Air Force and Navy	19.0	43%	44.0
RTX Corp.	Munitions and integrated air and missile defense	72.0	84%	86.0
Lockheed Martin Corp.	Missiles and fire control, rotary and mission systems, aeronautics, and space	179.0	244%	73.3
General Dynamics Corp.	Marine systems, combat systems and technologies	109.9	213%	51.5
Howmet Aerospace Inc.	Defense and aerospace	N/A	0%	8.0
Northrop Grumman Corp.	Defense weapon systems	N/A	0%	40.9
TransDigm Group Inc.	Airborne systems' glide modulation canopy	N/A	0%	8.8
L3Harris Technologies Inc.	Missile defense	8.3	38%	21.7
Textron Inc.	Airborne Tactical Advantage Co. (adversary air) contracts and 65 mobile strike force vehicles	11.4	80%	14.2
Huntington Ingalls Industries Inc.	Mission Technologies	56.0	466%	12.0

Data compiled Jan. 8, 2026.

N/A = data is not provided in the recent earning calls.

Backlog and revenue are in US\$B. Revenue is captured for the last-12-months.

Source: S&P Global Market Intelligence.

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Defense contractors' dividends in perspective

The **capital goods sector** is the eighth-largest sector by dividend payouts in the US market. We forecast that the sector's dividend payments will grow by **7% in 2026, reaching US\$44.3 billion.**

Within capital goods, aerospace and defense companies weight 31% of the total payouts, and we estimate the industry's dividends to grow by 8% in 2026.

As seen in the chart, **27% of these dividend payouts** come from the **five largest companies** in the aerospace and defense industry. These companies account for **86% of the total dividend payouts** within the industry.

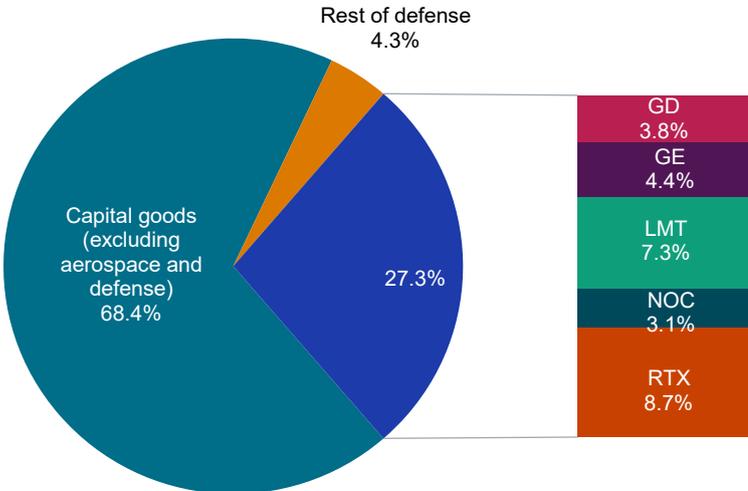
Of the total US market dividends, the aerospace and defense industry accounts for **1.7%** of the total dividends we estimate for 2026 (**US\$820 billion**).

Due to the executive order, cash previously available for **dividends and share buybacks** may be redirected toward **operational priorities,** making **shareholder returns contingent on production performance and compliance with government requirements.**

Combined, the 10 S&P 500 companies — that paid either regular or special dividends — generated **US\$39,039 billion** in cash over the last-12-months, while total **shareholder returns** amounted to **US\$29,316 billion** (excluding special dividends from TransDigm Group Inc. [TDG]). Dividends and net share buybacks accounted for **31% and 43%,** respectively. The chart below illustrates **shareholder distributions by company.**

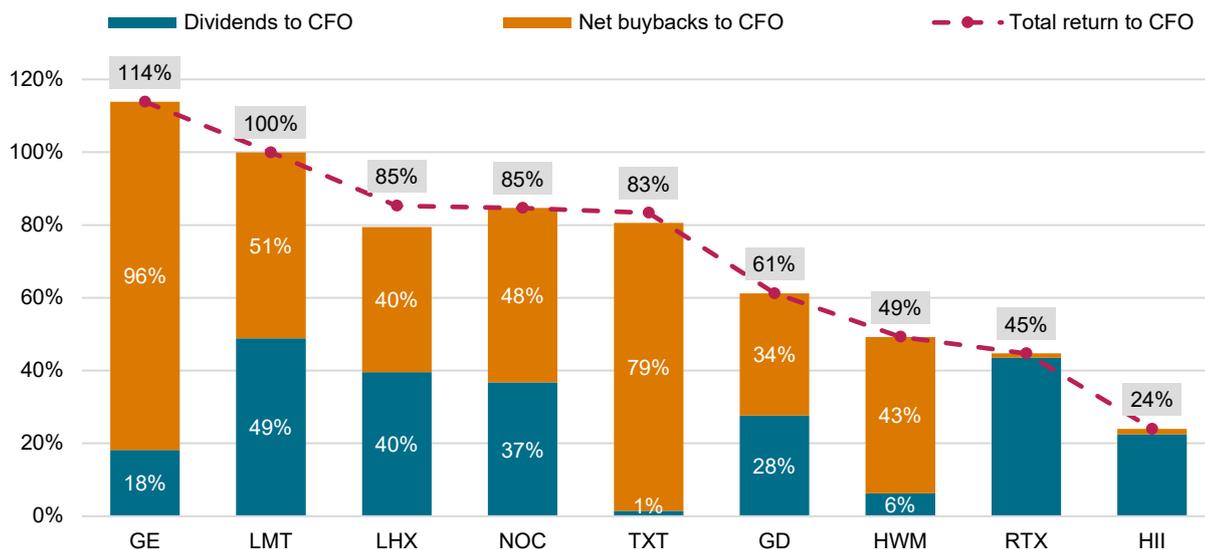
The Boeing Co. and Axon Enterprise Inc., which are also part of the S&P 500 index, do not pay dividends. Therefore, these companies are excluded from this research.

Aerospace and defense: Total dividends within capital goods sector



Data compiled Dec. 1, 2025.
 GE = General Electric Co.; GD = General Dynamics Corp.; LMT = Lockheed Martin Corp.; NOC = Northrop Grumman Corp.; RTX = RTX Corp.
 Source: S&P Global Market Intelligence.
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Total shareholder return % of CFO



As of Jan. 8, 2026.

CFO = cash from operations; GE = General Electric Co.; LMT = Lockheed Martin Corp.; LHX = L3Harris Technologies Inc.; NOC = Northrop Grumman Corp.; TXT = Textron Inc.; GD = General Dynamics Corp.; HWM = Howmet Aerospace Inc.; RTX = RTX Corp.; HII = Huntington Ingalls Industries Inc.
Net buybacks = common buybacks - common shares issued.

Source: S&P Global Market Intelligence.

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Among the companies where the **operational cash flow distributed to shareholders is above 80%, Lockheed Martin Corp. (LMT) and Textron Inc. (TXT)** have high portions of revenue (80% and above) tied to the US government backlog (as presented in the table above — US government backlog based on the most recent earnings calls).

Trump's executive order: Dividend forecast implications

Aerospace and defense dividend-paying companies spent almost US\$18 billion in dividends in 2025. From this subsector, S&P 500 constituents represented more than 95% of those distributions. Including buybacks, these large-cap companies¹ returned more than US\$31 billion to shareholders in 2025². These companies' dividends are sustainable. Prior to Trump's executive order, we did not anticipate any dividend cut or suspension for any of them. Now, we believe that downside risks are likely in our Bear-case scenario.

What has changed?

- Given how recent the event is and the related uncertainty, we have not modified our Base-case forecasts at the time of writing.
- Nonetheless, in our Bear-case scenario, we expect major US defense contractors to suspend their dividends.

What is the potential impact on S&P 500 Dividend Index Points (DIPs)?

- We forecast that aerospace and defense S&P 500 companies will contribute 1.81 DIPs to the 2026 S&P 500 Annual Dividend Index Futures expiry.
- The subsector represents 2.2% of our total estimate for 2026's annual expiry³.
- In our Base case, we assign a low probability of dividend cuts or suspensions for distributions expected to occur in the first quarter (0.41 DIPs expected).
- The highest risk is concentrated in the third quarter where we forecast 0.69 DIPs for the aerospace and defense constituents.

What is our view?

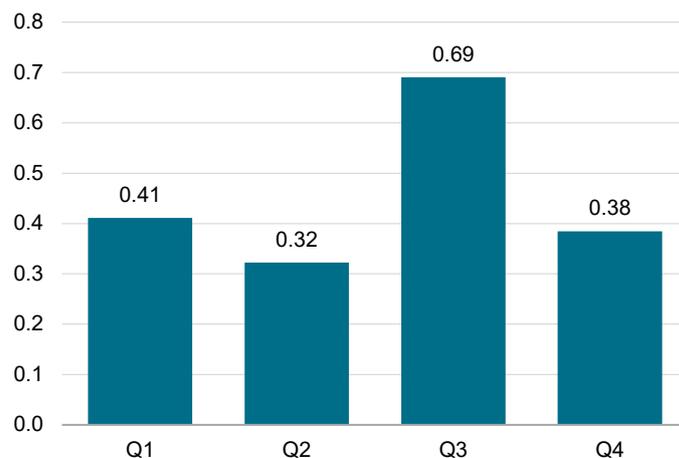
Given how recent the event is and the lack of clarity regarding its immediate consequences, we are unsure of the implications that this executive order will have on the companies' dividend policies.

Generally, US companies tend to be more reactive to business conditions and market or regulatory events with their buybacks. In contrast, dividend policies are typically more stable, and US companies are generally reluctant to modify them.

We believe the executive order is more likely to serve as a negotiation tool to encourage defense contractors to increase their production capacity and speed, rather than simply to prevent cash from being allocated to shareholder returns. Moreover, even in a scenario where these companies need to rebalance their capital

Aerospace and defense S&P 500 DIPs forecast

S&P Global Market Intelligence Dividend Forecasting Base-case estimate for 2026



Data compiled Jan. 8, 2026.

DIPs = Dividend Index Points.

2026 dates based on S&P 500 Annual Dividend Index Futures expiry dates.

Source: S&P Global Market Intelligence.

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1. Aerospace and defense S&P 500 constituents. GICS sectorial classification.

2. Net buybacks (i.e., common stock repurchases net of common stock issuance). Companies with net stock issuance in the last-12-months (such as Boeing) were excluded from this calculation.

3. As of Jan. 9, 2026, we forecast 83.17 DIPs for the 2026 S&P 500 Annual Dividend Index Futures expiry.

allocation frameworks by prioritizing capital expenditures over shareholder returns, **most contractors have the flexibility to first reduce or suspend buybacks before modifying their dividend policies**, which are, in most cases, reliable and long-standing.

At the company level, **we believe RTX Corp.'s dividend policy faces one of the highest risks**. The company rarely engages in buybacks, and almost all of its shareholder returns are provided through dividends. In addition, RTX has the highest expected contribution to S&P 500 DIPs in this subsector.

Aerospace and defense S&P 500 companies' Dividend Forecasting estimates in 2026

Company	Ticker	Dividends	Net buybacks	Base, 2026	Bear, 2026	Bull, 2026	SPX DIPs, 2026
RTX Corp.	RTX	3,462	100	2.87	0	2.93	0.4508
Lockheed Martin Corp.	LMT	3,110	3,250	13.95	0	14	0.3328
TransDigm Group Inc.	TDG	5,122	334	47	-	-	0.3101
General Electric Co.	GE	1,377	7,222	1.74	0	1.86	0.2150
General Dynamics Corp.	GD	1,577	1,918	6.24	0	6.3	0.1853
Northrop Grumman Corp.	NOC	1,263	1,648	9.75	0	9.87	0.1532
L3Harris Technologies Inc.	LHX	899	907	4.96	-	-	0.1087
Huntington Ingalls Industries Inc.	HII	211	14	5.6	-	-	0.0257
Howmet Aerospace Inc.	HWM	107	734	0.52	-	-	0.0245
Textron Inc.	TXT	15	838	0.08	-	-	0.0017
The Boeing Co.	BA	0	-18,162	0	0	0	0
Axon Enterprise Inc.	AXON	0	-122	0	-	-	0

Data compiled Jan. 8, 2026.

SPX = S&P 500; DIPs = Dividend Index Points.

Dividends and net buybacks (common stock repurchases net of common stock issuance) in US\$B (last-12-months). Base/Bear/Bull dividend per share forecasts for 2026 based on SPX DIPs expiry dates and in US\$. Bear-Bull scenarios only provided for S&P 100 constituents.

Source: S&P Global Market Intelligence.

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What is next?

In the last week of January 2026, most of these aerospace and defense S&P 500 constituents are scheduled to host earnings calls, during which we expect additional guidance from the companies' managements. While we have not made any changes to our Base-case estimates yet, we remain attentive to new developments from the US government and the companies. Until then, we are closely monitoring the news and will share intraday **updates exclusively with our subscribers with Bear-Bull scenario comments**.

Appendix: Detailed 2026 dividend and DIPs forecasts

Aerospace and defense S&P 500 companies' dividend and DIPs estimates in 2026

Ticker	Type	XD confidence	AD	XD	PD	DPS (US\$)	DIPs
GE	Q4	Announced	12/04/25	12/29/25	01/26/26	0.36	0.0445
GD	Q4	Announced	12/03/25	01/16/26	02/06/26	1.5	0.0446
HWM	Q1	Medium	01/16/26	02/06/26	02/25/26	0.12	0.0057
RTX	Q1	High	02/02/26	02/27/26	03/26/26	0.68	0.1068
HII	Q1	High	02/03/26	02/27/26	03/13/26	1.38	0.0063
LMT	Q1	Medium	01/23/26	03/02/26	03/27/26	3.45	0.0823
NOC	Q1	Medium	02/13/26	03/02/26	03/18/26	2.31	0.0363
GE	Q1	Low	02/13/26	03/09/26	04/24/26	0.46	0.0568
TXT	Q1	Medium	02/25/26	03/13/26	04/01/26	0.02	0.0004
LHX	Q1	Medium	02/20/26	03/13/26	03/27/26	1.24	0.0272
GD	Q1	Medium	03/04/26	04/10/26	05/08/26	1.58	0.0469
HWM	Q2	Medium	04/10/26	05/08/26	05/26/26	0.12	0.0057
RTX	Q2	High	04/27/26	05/15/26	06/11/26	0.73	0.1147
HII	Q2	High	05/05/26	05/29/26	06/12/26	1.38	0.0063
LMT	Q2	Medium	04/17/26	06/01/26	06/26/26	3.45	0.0823
NOC	Q2	Medium	05/08/26	06/01/26	06/10/26	2.48	0.039
LHX	Q2	Medium	04/17/26	06/05/26	06/18/26	1.24	0.0272
TXT	Q2	Medium	04/22/26	06/12/26	07/01/26	0.02	0.0004
GE	Q2	Low	06/26/26	07/06/26	07/31/26	0.46	0.0568
GD	Q2	Medium	06/10/26	07/10/26	08/14/26	1.58	0.0469
HWM	Q3	Medium	07/17/26	08/07/26	08/25/26	0.14	0.0066
RTX	Q3	High	06/08/26	08/21/26	09/10/26	0.73	0.1147
HII	Q3	High	08/04/26	08/28/26	09/11/26	1.38	0.0063
LMT	Q3	Medium	06/18/26	09/01/26	09/25/26	3.45	0.0823
NOC	Q3	Medium	08/14/26	09/01/26	09/16/26	2.48	0.039
TDG	SPEC	Low	08/20/26	09/02/26	09/14/26	47	0.3101
LHX	Q3	Medium	07/17/26	09/04/26	09/18/26	1.24	0.0272
TXT	Q3	Medium	07/28/26	09/11/26	10/01/26	0.02	0.0004
GE	Q3	Low	09/18/26	09/29/26	10/27/26	0.46	0.0568
GD	Q3	Medium	08/04/26	10/09/26	11/13/26	1.58	0.0469

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Aerospace and defense S&P 500 companies' dividend and DIPs estimates in 2026 (continued)

Ticker	Type	XD confidence	AD	XD	PD	DPS (US\$)	DIPs
HWM	Q4	Medium	09/25/26	11/06/26	11/25/26	0.14	0.0066
LHX	Q4	Medium	10/16/26	11/16/26	12/04/26	1.24	0.0272
RTX	Q4	High	10/09/26	11/20/26	12/17/26	0.73	0.1147
NOC	Q4	Medium	11/13/26	11/27/26	12/16/26	2.48	0.039
HII	Q4	High	11/04/26	11/27/26	12/11/26	1.46	0.0067
LMT	Q4	Medium	09/18/26	12/01/26	12/24/26	3.6	0.0859
TXT	Q4	Medium	10/28/26	12/11/26	01/01/27	0.02	0.0004

Data compiled Jan. 8, 2026.

XD = ex-date; AD = announcement date; PD = payment date; DPS = dividend per share; DIPs = Dividend Index Points; SPEC = special dividends.

Source: S&P Global Market Intelligence.

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Appendix: EMEA defense dividends

The White House is proposing a US\$1.5 trillion defense budget for 2027. The US already accounts for about 40% of global military spending, and a US\$500 billion increase is roughly equivalent to the combined budgets of all European NATO members. Such a significant step-up typically means more orders for electronics, sensors, munitions and vehicles — areas where several European companies have US operations and can convert higher volumes into cash.

Names to watch from a dividend perspective

- BAE Systems PLC generates about 40% of its sales in the US and is involved in air, land, electronic warfare and space programs. If US orders rise, BAE should have more flexibility to support its dividend. Broad US limits on a UK-domiciled company's payouts appear difficult to enforce.
- Leonardo SpA (via DRS) generates about 20% of its sales in the US, primarily in sensors and C4ISR. Electronics can scale quickly, supporting free cash flow and operational flexibility.
- Rheinmetall AG currently earns 3%-4% of its revenue in the US. It has upside potential in ammunition and land systems, and is bidding for the XM30 infantry fighting vehicle program and the Common Tactical Truck (CTT) program in the US. As capacity and orders grow, this should bolster cash flows, although reinvestment remains a priority.
- Thales SA derives 6%-8% of its revenue from the US, largely in tactical communications — a consistent demand area. Stronger US orders would likely support cash generation.

Risks to watch

- According to a Financial Times article, there is a funding gap because tariffs are expected to raise about US\$230 billion a year, while the proposal adds about US\$500 billion to the budget, and the US deficit is near 5.5% of GDP, which many economists consider unsustainable. Contract clauses that emphasize delivery speed could also create volatility in dividends and buybacks.
- Strong cash generation may not automatically lead to higher dividends, especially given the increased scrutiny of payouts and buybacks and the uncertainty around how any restrictions will be applied to non-US groups. We remain positive on the outlook, but given how new this development is and the lack of clarity on details, we are keeping our dividend forecasts unchanged for now. Our Base-, Bear- and Bull-case commentary, as well as confidence rankings on amounts, duly capture the risks.

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