

European defence: strong fundamentals behind a soft market

Published 8 June 2026

Aneeka Gupta

Director, Macroeconomic Research, WisdomTree Europe

Key Takeaways

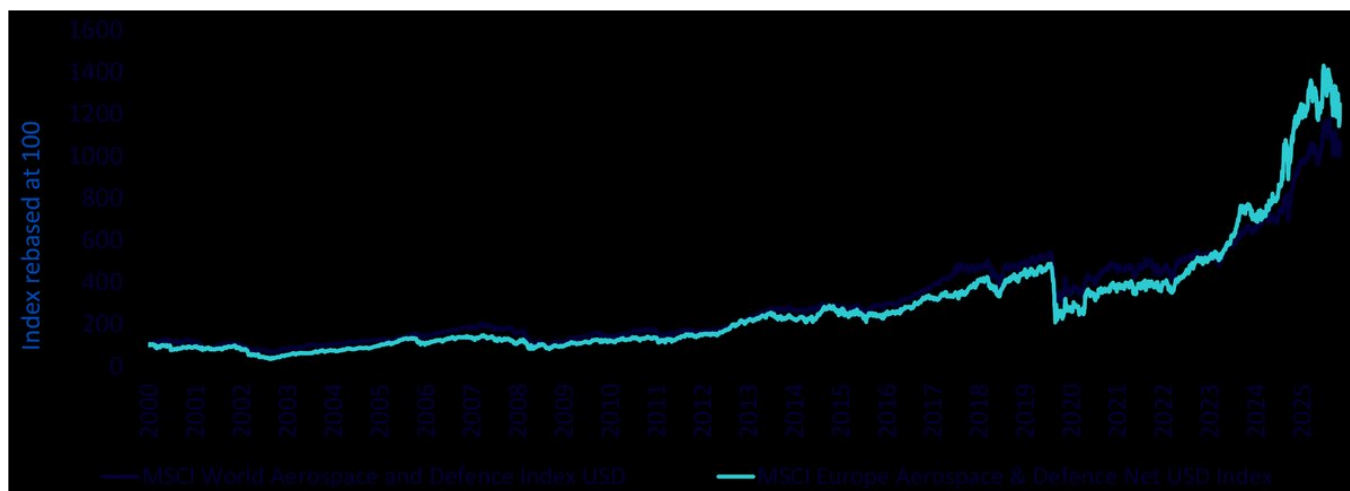
- Recent European defence sector price weakness is sentiment-driven, not fundamental.
- Book-to-bill ratios across European defence constituents average 1.49x, offering signals of accelerating demand.
- European defence trades at a meaningful discount to US peers (28.6x vs 48.8x P/E) while offering higher forecast earnings growth (19.1% vs 16.8%).
- Related Products WisdomTree Europe Defence UCITS ETF - EUR Acc, WisdomTree STOXX Europe Aerospace & Defence 3x Daily Leveraged Find out more

A sector rerating but not a fundamental story

European defence has been one of the defining investment themes of recent years. Russia's full-scale invasion of Ukraine forced a wholesale reassessment of European security. Since then, the continent's defence primes have been at the centre of a structural rearmament story. Order books have surged. Production capacity has expanded. Long-duration procurement contracts have multiplied. A policy architecture has taken shape that continues to deepen the demand underpinning the sector, with NATO's 5% GDP target, the EU's Readiness 2030 programme and Germany's multi-decade Bundeswehr modernisation.

Yet despite this backdrop, European defence equities have retreated meaningfully from their highs. For investors, this raises a natural question: if the fundamentals are intact, why are prices falling? The answer lies not in the fundamentals but in a convergence of sentiment-driven forces. The pattern is a familiar one: markets tend to rally defence stocks in anticipation of conflict or spending acceleration, then sell off once the event arrives. It happened after Russia's invasion of Ukraine in 2022. It is happening now, following US–Israeli military action against Iran. Revenue recognition in defence is slow, companies book orders months or years before delivery and when conflict escalates, markets initially price in future earnings, then pull back when they realise those earnings may be years away.

Figure 1: Historical performance of global aerospace and defence indices



Source: Bloomberg Finance L.P., WisdomTree as of 27 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Four specific near-term drivers compound this structural dynamic:

1. **Hedge fund de-grossing**¹ defence has been a popular long in leveraged books, and when volatility rises, positions are cut regardless of underlying merit.
2. **Increased global competition for defence capital** has emerged as the US FY27² defence budget request reached approximately US\$1.5tn (+50% year-on-year (yoy)), drawing attention and flows toward American primes.
3. **Debate around conventional versus next-generation systems**, re-ignited by the Middle East conflict, has introduced uncertainty about which technologies will dominate future procurement, though for Europe, which faces a primarily land-based threat and decades of underinvestment across all dimensions, the answer is clearly both.
4. **German procurement bottlenecks**, an administrative consequence of the speed of spending acceleration rather than any reduction in intent, have introduced order timing uncertainty that markets have interpreted more negatively than the facts warrant. Berlin is planning €144.9bn in defence spend for 2027 alone.

The earnings season dispels the myth

The most effective antidote to sentiment-driven narratives is reported data. The Q1 2026 European defence earnings season has been remarkably consistent in one respect: the top European defence primes confirmed or upgraded full-year guidance. Operational delivery has not faltered. What has moved is the market's willingness to pay for it.

Rheinmetall reported Q1 2026 revenues of €1,938m against the consensus of €2,270m, marking a 15% miss that generated significant investor attention. The context matters. A €140m pull-forward effect in Q1 2025 artificially inflated the comparable period and was never going to repeat. The company's earnings before interest and taxes (EBIT) margin came in at 11.6%, in line with expectations. Full-year guidance was confirmed at 40–45% revenue growth and an approximate 19% EBIT margin. Management guided Q2 2026 sales growth of 60–65% yoy. This is a timing effect, not a demand problem.

Hensoldt provided perhaps the most striking single data point of the reporting season. Q1 2026 total order intake came in at €1.36bn, up 94% yoy, with a group book-to-bill of 2.8x. The Optronics division registered a book-to-bill of 7.0x, driven by the Shakal programme and a Puma award. Revenue grew 24% organically. With approximately 60% of revenues derived from Germany, Hensoldt is directly exposed to the domestic spending acceleration.

Thales reported group order intake of €4.7bn (+27% organically) for Q1 2026. Within that, Defence orders surged 75% organically to €2.2bn, including seven contracts above €100m, three of them for air defence systems (Denmark SAMP/T, Qatar Ground Master, command posts to a European country). Group revenues of €5.3bn were 2% ahead of consensus. Full-year guidance was confirmed.

BAE Systems delivered an AGM trading update consistent with its reputation for execution³: in line with full-year guidance, with year-to-date order awards of approximately £4.5bn, materially ahead of the ~£1.9bn disclosed in June 2025. Geographic diversification across the US, UK, Australia and the Middle East insulates BAE from any single budget cycle, while the Australia–United Kingdom–United States (AUKUS) security partnership and the Global Combat Air Programme (GCAP) provide decade-long revenue visibility.

Safran delivered revenues of €8.6bn for Q1 2026 (+23% organic, 4% ahead of consensus), with LEAP engine deliveries rising 63% and M88 military engine deliveries increasing materially. Management guided to the top end of the full-year range. This is notable given Safran's well-established conservatism on guidance.

Leonardo has navigated sector de-rating alongside a CEO transition. Q1 2027 order intake is forecast at €7.9bn (+15% yoy) and could deliver an upside surprise to consensus.

Kongsberg, Saab, Airbus Defence & Space, and Rolls-Royce each confirmed guidance and reported growing backlogs.

Seizing the investment opportunity in Europe's defence sector

In response to the accelerated push for European defence autonomy, WisdomTree launched the [WisdomTree Europe Defence UCITS ETF \(Ticker: WDEF\)](#), the first dedicated European defence ETF, on 11 March 2025. It tracks the WisdomTree Europe Defence Index (WTEUDEFN), a rules-based index designed to capture the performance of European companies with meaningful and measurable exposure to defence spending. Year-to-date the exchange-traded fund (ETF) has garnered US\$1.4bn of net inflows, lifting

the assets under management to US\$5.2bn⁴, a strong reflection of investor conviction in the European rearmament thesis.

What distinguishes WisdomTree Europe Defence from conventional market-cap-weighted approaches is its revenue-based tilt in the weighting methodology. Rather than simply weighting constituents by size, the index tilts holdings toward companies where defence revenues represent a larger share of total revenues, giving greater weight to pure-play or near-pure-play defence exposure, and less weight to large, diversified conglomerates where defence is only one of several businesses.

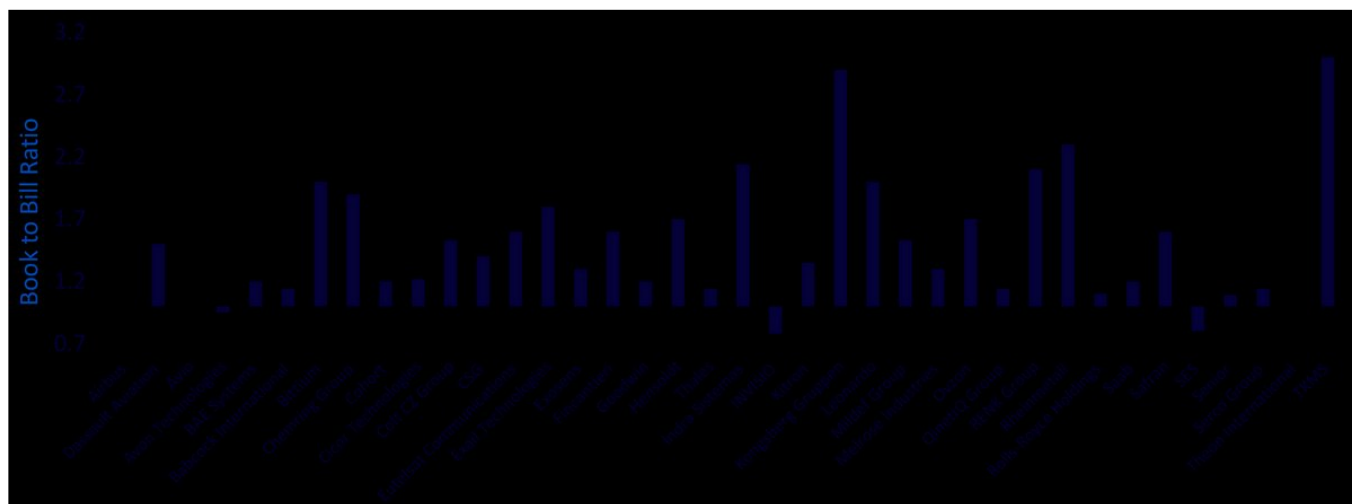
The ETF is weighted by market capitalisation adjusted by the Exposure Score. Each selected company is assigned an Exposure Score from 1 to 3 based on revenue exposure to defence activities:

- **Exposure Score 3:** companies with > 50% exposure to defence activities
- **Exposure Score 2:** companies with 25% to 50% exposure to defence activities
- **Exposure Score 1:** companies with 10% to 25% exposure to defence activities

Book-to-bill: the forward indicator that matters

For capital-intensive, long-cycle industrial businesses, the book-to-bill ratio is one of the most reliable leading indicators of revenue growth. A ratio above 1.0x means a company is booking more new orders than it is recognising as current-period revenue, its backlog is growing, and future revenue coverage is improving. In the current European defence cycle, the average book-to-bill ratio of the constituents of the WisdomTree Europe Defence UCITS Index is 1.49x.

Figure 2: Book-to-bill ratio of European defence companies



Source: Company Reports, WisdomTree as of 30 April 2026. Please note: Invisio Q1 2026 book-to-bill ratio of 0.78x reflects the DHS shutdown rather than underlying demand weakness. **Historical performance is not an indication of future performance and any investments may go down in value.**

Valuations have moderated

Valuation multiples have moderated despite continued growth in order backlogs and earnings expectations. The WisdomTree Europe Defence UCITS ETF's trailing P/E has fallen from 39.5x to 30.9x. The earnings growth trajectory for the portfolio continues to run materially ahead of both MSCI Europe and MSCI Europe Industrials. Current market valuations imply lower multiples despite improved multi-year backlog visibility compared to twelve months ago.

The WisdomTree Europe Defence UCITS Index is positioned for strong earnings growth, with earnings per share expected to rise by 15.1% in 2026 and 21.5% in 2027. This reflects expanding market share, multi-year procurement cycles, and increasing defence budgets across Europe. Dividends per share are also expected to grow over the next two years.

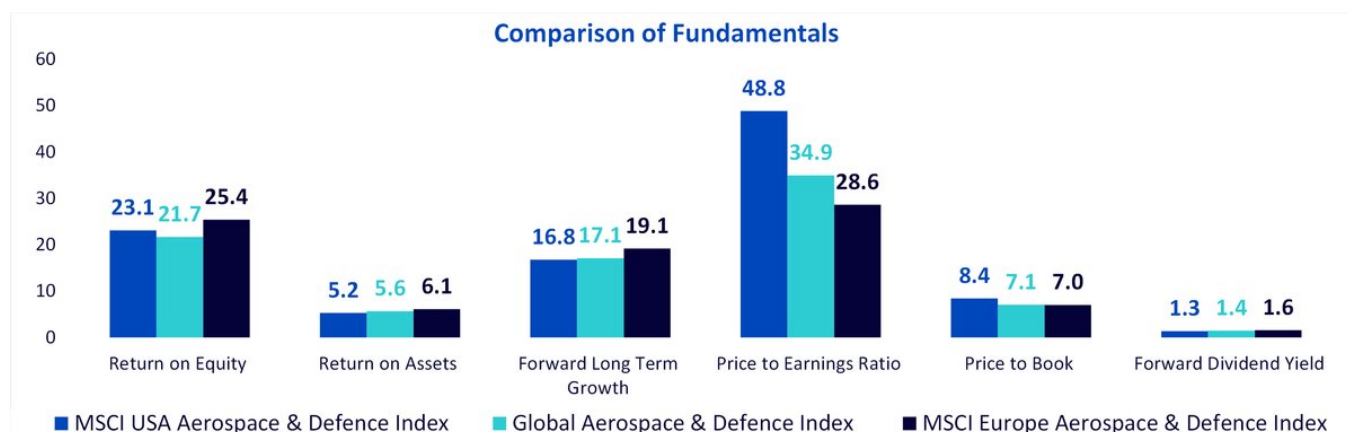
Figure 3: Fundamental earnings estimate – WisdomTree Europe Defence UCITS Index

Measure	Current	2026		2027		2028	
		F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth
Earnings Per Share	12.56	14.46	15.14%	17.56	21.45%	21.08	20.03%
Cash Flow Per Share	20.54	25.51	24.19%	28.29	10.90%	34.94	23.50%
Dividends Per Share	4.96	5.89	18.57%	7.12	20.94%	8.6	20.88%
Book Value Per Share	67.44	74.55	10.55%	84.55	13.41%	97.97	15.88%
Sales Per Share	157.36	172.5	9.62%	193.66	12.27%	217.76	12.44%
EBITDA Per Share	21.7	26.88	23.88%	31.17	15.95%	36.24	16.29%
Net Debt Per Share	0.93	-4.82		-10.84	-124.86%	-20.77	-91.56%
Enterprise Value Per Share	365.09	368.04	0.81%	364.56	-0.95%	359.33	-1.43%

Source: Bloomberg, WisdomTree as of 19 May 2026. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Compared with global defence benchmarks, European defence trades at a lower historical P/E ratio (28.6x versus 48.8x for the US Aerospace & Defence Index) while offering higher forward long-term growth estimates (19.1% versus 16.8%). The European Aerospace & Defence Index also exhibits stronger quality characteristics, with higher return on assets and return on equity than the US Aerospace & Defence Index, as illustrated below.

Figure 4: Comparison of fundamentals – US vs Europe Defence



Source: Bloomberg Finance L.P., WisdomTree, MSCI, as of 18 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion

The current period of share-price weakness is uncomfortable. It has been driven by sentiment, timing effects and a macro rotation, none of which alter the underlying reality that European governments are engaged in the most significant rearmament programme since the Cold War, and the companies represented in the portfolio are expected to play an important role in supporting European defence procurement programmes. For investors with a medium to long-term horizon, the combination of improving fundamentals and compressed valuations represents a strong entry point.

While the sector benefits from long-term defence spending commitments, investment in defence equities remains subject to risks. Government procurement programmes can experience delays, budget priorities may change, and contract awards may not materialise as expected. Defence companies may also face execution, supply-chain and geopolitical risks, while share prices can remain volatile and may diverge from underlying business fundamentals over shorter periods. Valuation multiples and earnings expectations may change, and there is no guarantee that anticipated growth in defence spending will translate into future investment returns.

1 Source: Financial Times, “Defence stocks: the geopolitical trade dividing investors”, 2 April 2026.

2 Source: US Department of War FY 27 budget.

3 Source: BAE Systems, as of 7 May 2026.

4 Source: Bloomberg Finance L.P. as of 21 May 2026.

5 Source: Bloomberg Finance L.P. as of 18 May 2026.

6 Source: Bloomberg Finance L.P. as of 19 May 2026.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication is intended for all investors; however, the WisdomTree products described in this document and related materials may be restricted in certain jurisdictions and may only be available to particular categories of investors in accordance with applicable laws and regulations. Where a product is not authorised or its distribution is restricted in your jurisdiction, it is the responsibility of any person or entity in possession of this information to inform themselves of, and comply with, all relevant restrictions. Before making any investment, investors should seek appropriate legal, regulatory, tax and investment advice to assess the suitability and implications of investing in these products. Information about WisdomTree products is available at wisdomtree.eu. WisdomTree does not offer investment advice tailored to individual circumstances. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any

province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

Certain funds referred to in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an open-ended, umbrella-type Irish Collective Asset-management Vehicle with segregated liability between sub-funds and is authorised by the Central Bank of Ireland ("CBI") as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Irish law. Each fund is represented by a separate class of shares (the "Shares") issued by WT Issuer.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

The [summary of investor rights](#) associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to

redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

For Investors in Switzerland:

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus (in English only) and the key investor information documents (KID) (in German, French and Italian) are available from WisdomTree's website <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

For WisdomTree UCITS products only: the representative and paying agent of the ETPs in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA may only be available to Qualified Investors.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the

Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.

For Investors in Israel: Offering materials for the offering of the Shares and securities have not been filed with or approved or disapproved by the United States Securities and Exchange Commission or any other state or federal regulatory authority, nor has any such regulatory authority passed upon or endorsed the merits of this offering or passed upon the accuracy or completeness of any offering materials. Any representation to the contrary is unlawful. The products mentioned herein have not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute “an offer to the public” under sections 15 and 15a of the Israel Securities Law, 5728-1968 (“the Securities Law”) or section 25 of the Joint Investment Trusts Law, 5754-1994 (“the Joint Investment Trusts Law”), as applicable. The products are being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in the First Addendum (“the Addendum”) to the Securities Law, “Sophisticated Investors”) who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This prospectus or this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a product is purchasing such product for its own benefit and account and not with the aim or intention of distributing or offering such product to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing a product for another party which is a Sophisticated Investor).

Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995. Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. A recipient of this document may be required to provide confirmation that it is a Sophisticated Investor purchasing a product for its own account or, where applicable, for other Sophisticated Investors.

Certain information contained herein (the “Information”) is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates (“MSCI”), or information providers (together the “MSCI Parties”) and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund’s assets under management or other measures. MSCI has

established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided “as is” and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.