Asia’s defence shift: from geopolitics to investment opportunity

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Points clés

- Asia’s defence sector is evolving from a series of geopolitical tensions into a multi-year industrial and investment trend.
- Governments across the region are increasing defence spending, procurement planning and domestic industrial capacity.
- Strategic autonomy is driving local production, maintenance and supply chains, keeping more defence spending within national ecosystems.
- Defence modernisation increasingly spans drones, cyber, space and dual-use technologies, expanding the investable universe.
- The WisdomTree Asia Defence UCITS ETF (WDAF) provides targeted exposure to Asia-Pacific defence companies positioned to benefit from the region’s military modernisation cycle.

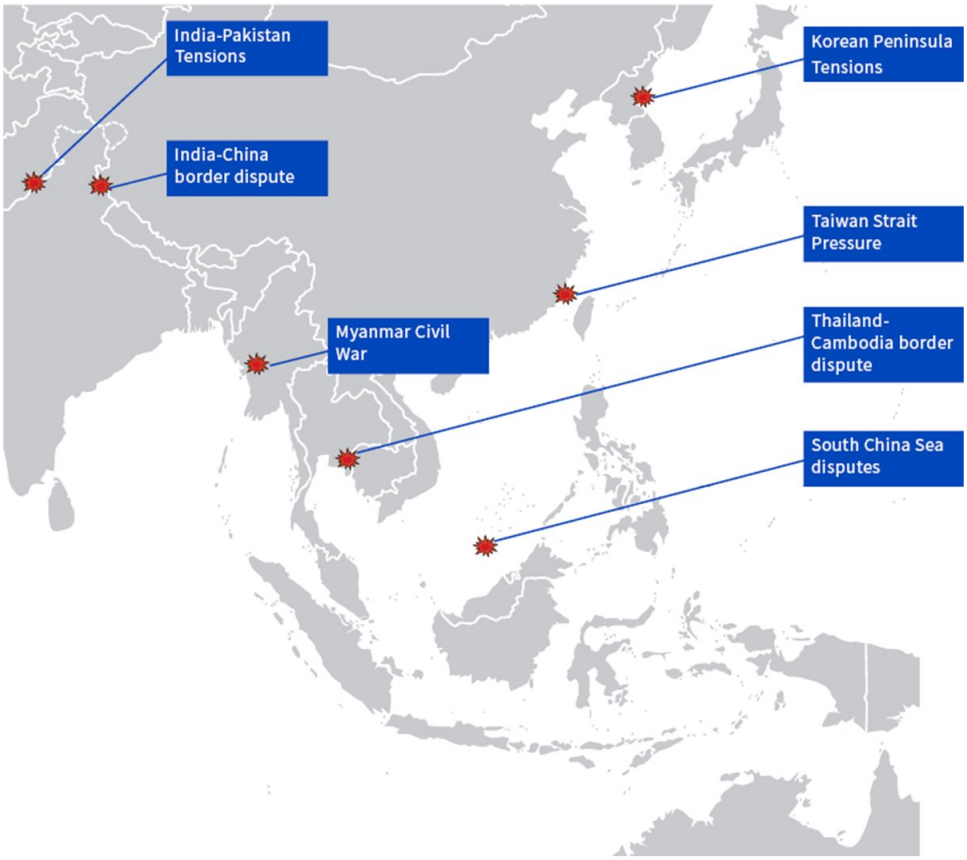
As the US refocuses and pushes allies to shoulder more of their own defence burden, Asia is emerging as an increasingly important part of the global defence buildout. What may once have looked like a series of geopolitical flashpoints is increasingly taking shape as a regional, multi-year industrial trend.

This is not only a story of increasing defence budgets. It is also a story of expanding domestic capability, firmer procurement plans and a broader listed opportunity set. Across the region, governments are responding to a tougher security backdrop with resilient defence spending growth, clear strategic priorities, and a strong push to build local industrial capacity.

Structural forces driving Asia defence

Persistent threat environment: Tensions around the Taiwan Strait, the Korean Peninsula and the India-Pakistan border continue to keep readiness high. That supports demand not only for new platforms, but also for munitions, maintenance, upgrades, training and sustainment. Once readiness requirements move up, these categories tend to become more recurring and less discretionary.

Figure 1: Potential breakpoints across Asia-Pacific



Source: Peace Research Institute Oslo (PRIO), WisdomTree.

Strategic autonomy: As the US asks allies and partners in Asia to shoulder more of the burden, governments across the region are placing greater weight on self-reliance. That means more local production, more domestic qualification, more in-country maintenance and a larger role for national champions. In investment terms, it means a greater share of defence spending can remain within local industrial ecosystems rather than flowing abroad.

Policy and spending support: In several major Asian markets, stronger defence spending is now supported by formal strategy documents, updated doctrine, and longer funding horizons. That improves revenue visibility, supports capacity expansion and gives companies greater confidence to invest in production lines, inventories and supply chains. This is important because it turns a geopolitical concern into a more investable industrial theme.

Cross-sectoral synergies: Defence modernisation increasingly extends to drones, cyber, space, and other dual-use sectors. This is not just about shipbuilders or aircraft manufacturers. It is also about subsystem suppliers, enabling technologies and dual-use businesses that sit deeper in the value chain.

Country cases: different drivers, shared direction

The country cases help to show why the theme has momentum. The drivers vary by market, but the direction is consistent.

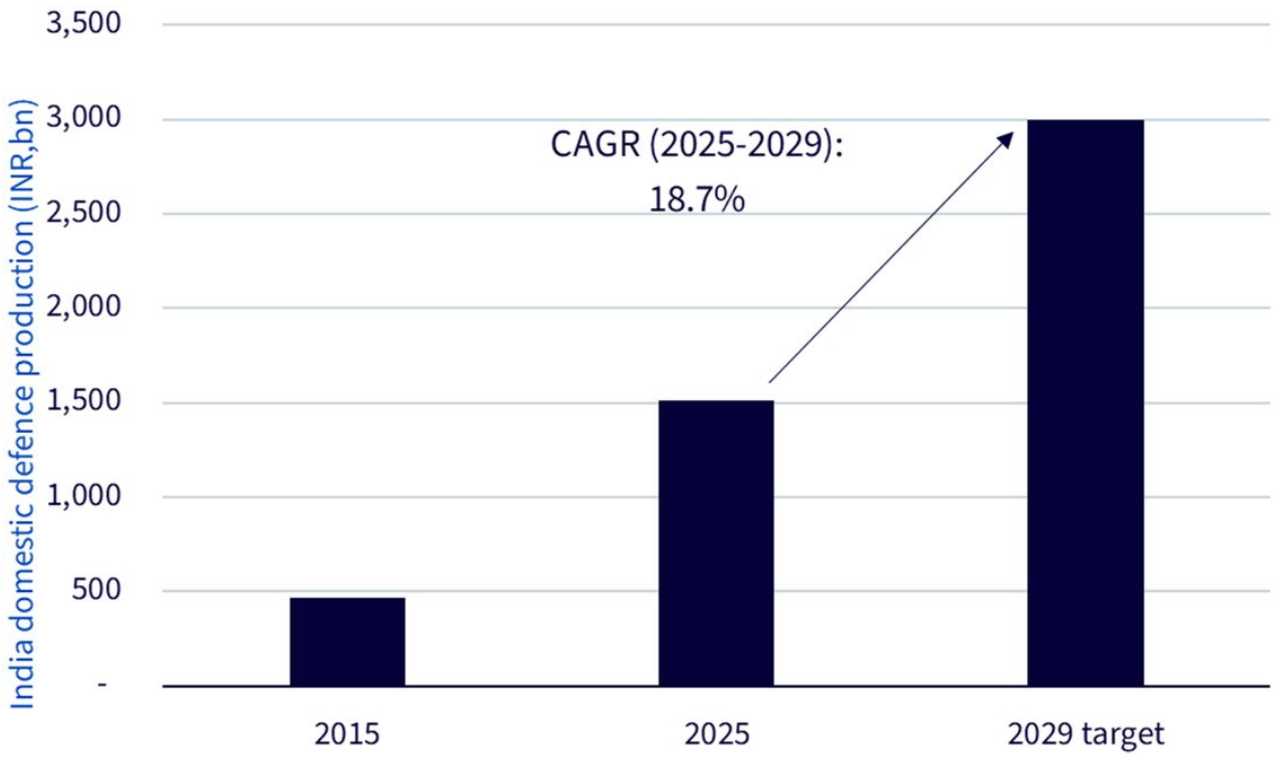
- Japan: Japan's defence shift is increasingly policy-led, with a clearer commitment to stronger capabilities, higher spending and a more serious domestic industrial base.
- South Korea: South Korea combines industrial depth, advanced technology and export momentum, making it one of Asia's most established defence ecosystems and an increasingly important supplier to global markets.
- India: India is accelerating defence localisation through procurement reform and Atmanirbhar Bharat, directing more spending towards local manufacturing and creating a broader domestic supply chain for future growth.

Figure 2: South Korean arms exports grow and diversify

Category	1990-94	1995-99	2000-04	2005-09	2010-14	2015-19	2020-24
Air-defence systems	-	-	-	-	-	-	60
Aircraft	-	42	11	13	476	797	318
Armoured vehicles	11	17	5	12	12	61	486
Artillery	10	-	69	546	646	248	1,097
Missiles	-	-	-	-	9	31	333
Ships	236	49	325	309	134	1,817	806

Source: SIPRI Arms Transfers Database, Mar. 2025. The bars compare the values of exports of different categories of major arms in each period, calculated using SIPRI trend-indicator values. SIPRI Trend-Indicator Values (TIVs) are SIPRI's standardised measure of the volume of international transfers of major conventional weapons, based on the military resources transferred rather than their financial value. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 3: India's domestic defence production targets to 2029



Source: United Service Institution of India, Assessment of India's Indigenous Defence Manufacturing Capabilities, May 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Taken together, they reinforce the same broader point. Asia defence is becoming more structural, more local and more investable.

How to capture Asia's defence investment cycle

WisdomTree Asia Defence UCITS ETF (WDAF) is designed to give investors targeted exposure to Asia Pacific ex-China companies with meaningful involvement in the defence industry. Following the successful launch of WisdomTree Europe Defence UCITS ETF (WDEF), the WisdomTree Asia Defence UCITS ETF extends that approach to another region where defence spending, strategic autonomy and industrial buildout are becoming increasingly important.

The exchange-traded fund (ETF) tracks the WisdomTree Asia Defence UCITS Index, which targets companies deriving at least 10% of their revenue from defence activities and tilts towards those with higher exposure. This creates a more focused, pure-play profile, screening out diversified conglomerates where defence is only marginal, while giving greater weight to companies more directly positioned to benefit from Asia's military modernisation cycle.

To be eligible, companies must also meet minimum market capitalisation and liquidity requirements. The strategy further applies controversial weapons screening1.

Each selected company is assigned an Exposure Score from 1 to 3 based on the revenue exposure to defence activities.

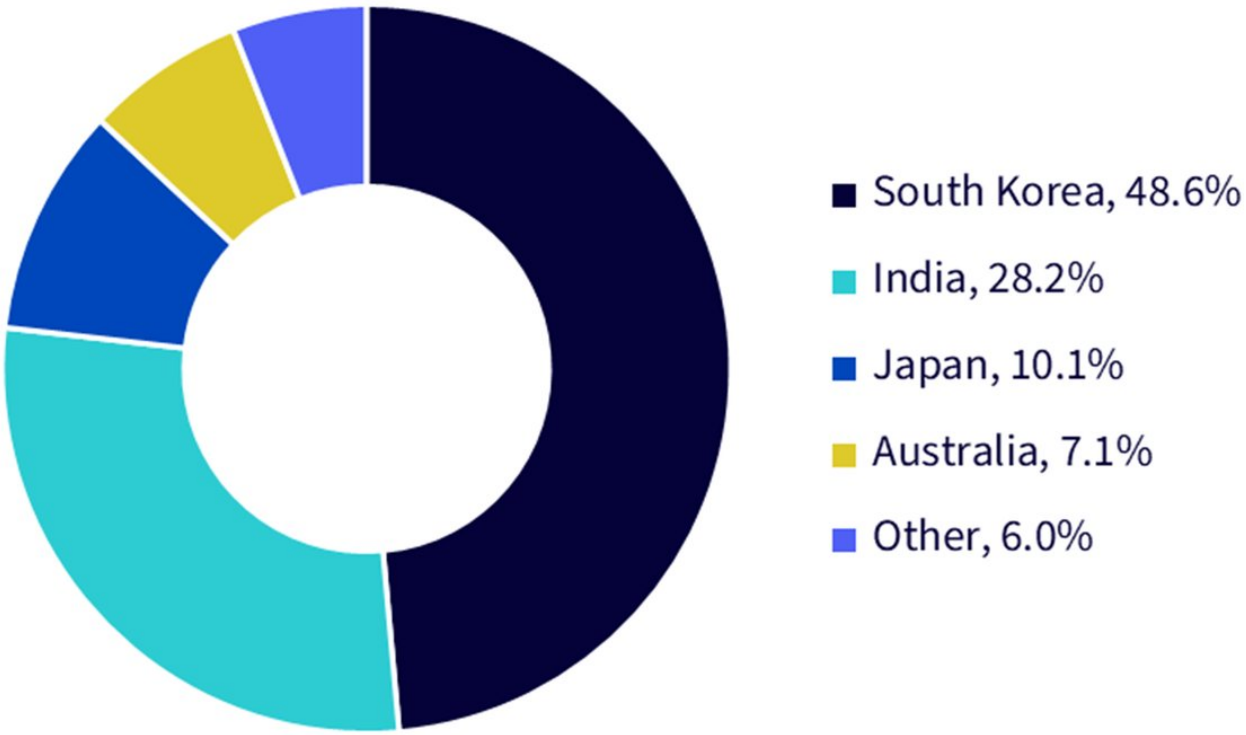
- Exposure Score 3: companies with > 50% revenue exposure to defence activities
- Exposure Score 2: companies with 25% to 50% revenue exposure to defence activities
- Exposure Score 1: companies with 10% to 25% revenue exposure to defence activities

The Index is weighted by market capitalisation adjusted by the Exposure Score, subject to the capping2 and liquidity adjustment criteria. Companies with higher market capitalisation and Exposure Scores are assigned greater weights. The Index is rebalanced on a quarterly basis.

A closer look at the WisdomTree Asia Defence UCITS ETF portfolio

The portfolio is designed to reflect the breadth of Asia's defence buildout while maintaining a clear focus on companies with meaningful exposure to the theme.

Figure 4: Country breakdown



Source: WisdomTree. Holdings are based on target weights as of 27 February 2026. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

As shown in Figure 1, the Index includes companies across Japan, South Korea, India, Australia and Southeast Asia. It is reconstituted quarterly to reflect changes in the defence sector.

Figure 5: Top 10 holdings in WisdomTree Asia Defence UCITS Index

As shown in Figure 2, the strategy's top holdings illustrate its design logic. As of late February 2026, the portfolio's 10 largest positions, ranging from Hanwha Aerospace and Korea Aerospace Industries in South Korea to Hindustan Aeronautics, Mazagon Dock Shipbuilders and Bharat Electronics in India, represented about 66.5% of the total weight.

These companies are not just national champions. They are increasingly becoming exporters of security. Hanwha's joint venture in Poland for missile production, India's Cochin Shipyard expansion and Japan's Kawasaki Heavy Industries' global supply chain all point to Asia's rise not only as a defence buyer, but also as a defence supplier.

Conclusion

Asia's defence cycle is becoming more structural and more investable, driven by a tougher threat backdrop, rising strategic autonomy and deeper industrial capacity across the region. The WisdomTree Asia Defence UCITS ETF (WDAF) provides targeted, rules-based exposure to that opportunity, with a portfolio tilted towards companies with more direct defence revenue exposure.

ETF information: WisdomTree Asia Defence UCITS ETF

1 The strategy seeks to exclude companies that are involved in certain controversial weapons, such as anti-personnel mines, cluster munitions, chemical and biological weapons, depleted uranium weapons and white phosphorus weapons and those that support nuclear weapons programs to states outside the Treaty on the Non-Proliferation of Nuclear Weapons (commonly known as the Non-Proliferation Treaty or "NPT").
2 The maximum weight of any security with an Exposure Score 3 is capped at 7.5% and other securities are capped at 4%.

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