The 2026 catalysts European defence investors can't ignore

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Points clés

- 2026 is about execution: capacity expansion and supply-chain depth will matter as much as budgets.
- Ceasefire headlines may drive volatility, but the underlying rearmament cycle remains intact.
- IPO momentum and industrial conversion broaden the opportunity set beyond the large primes into enablers.
- US capital-return curbs tilt relative appeal toward Europe and could reshape global sector leadership.

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European defence stocks went through a meaningful change in 2025. Order backlogs and budget commitments continued to rise but the market became more selective. Performance wasn't linear. Through 2025, European defence stocks periodically softened as markets flirted with the idea of a ceasefire, particularly into the summer and ahead of the Alaska summit. When those expectations failed to translate into a durable shift on the ground, the sector regained support. A subsequent wave of ceasefire hopes created another temporary pause but again proved fleeting relative to Europe's longer-term rearmament trajectory.

2025 recap: from rearmament narrative to delivery reality

Stepping back, three features defined European defence in 2025:

- Geopolitics became persistent, not event driven. Even when headlines hinted at progress, investors increasingly treated defence demand as structurally political. Europe's security posture is being reset across multiple fronts, and the rearmament agenda is now embedded in multi-year plans rather than dependent on any single event.
- The bottleneck moved to capacity. Ammunition, air defence, drones, electronic warfare, spares and maintenance all share the same issue: demand can surge faster than industrial throughput. As 2025 progressed, the market cared less about who might benefit in theory and more about who could expand production lines, secure components and ship product contracted programmes.

- Leadership narrowed toward the core champions. Returns were increasingly concentrated in the large primes and scaled suppliers. Smaller more specialised names had a harder time holding investor attention unless they could show clear order visibility and operating leverage.

Drivers of performance of European defence in 2025

To put some numbers around that concentration, it is helpful to look at the WisdomTree Europe Defence UCITS ETF (Ticker: WDEF), which focuses on European companies that derive a meaningful share of revenues from the defence sector.

Figure 1: Top 10 contributors in WisdomTree Europe Defence UCITS ETF

Source: FactSet, WisdomTree as of 31 December 2025. Please note: CTR is contribution to return. You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.

In 2025, performance was driven overwhelmingly by the large prime contractors and munitions suppliers. Rheinmetall AG was the single largest contributor, benefitting from sustained demand for ammunition, armoured vehicles and artillery systems as European countries replenished stockpiles. Leonardo SpA and Saab AB also added strongly, supported by healthy order intake across helicopters, fighter aircraft and missile systems. Thales and BAE Systems contributed meaningfully as spending on command-and-control, radars, communications and naval programmes remained robust. Rolls-Royce and Safran, through their exposure to military engines and aerospace systems, added further to returns, while RENK Group, Airbus and HENSOLDT rounded out the list of top contributors. Together, the top ten contributors represented around 83% of average portfolio weight and delivered more than 70% of the strategy's total return for the year.

2026 catalysts: what could move the sector next

The 2026 setup is not just more of the same. Several catalysts can shape how investors price risk, duration and relative winners.

Peace efforts stall again: the higher for longer case gets reinforced

A key near-term catalyst is the market's repeated reassessment of whether the Ukraine war is nearing an endpoint. Recent commentary has highlighted stalled or derailed peace efforts, with investors again being pushed back toward the view that elevated budgets and replenishment are multi-year rather than transitory.

Greenland and the Arctic: a new strategic focus that reinforces Europe's sovereignty push

Greenland is not just a political headline. US President Donald Trump said he would refrain from imposing tariffs on goods from European nations opposing his effort to take possession of Greenland following a "framework of a future deal" that was reached1. While the Greenland crisis may be defused for now, the famously mercurial president could spark tensions again in the future.

The Greenland/Arctic angle points to incremental investment needs in Intelligence Surveillance and Reconnaissance (ISR), air and missile defence, naval capability, secure communications and equipment that can operate in harsh environments. More broadly, recent geopolitical events and the US administration policies reinforce the need for Europe to take more responsibility for its own sovereignty and reduce its security dependencies. In that context, a credible base case is that Europe continues moving toward defence spending closer to 3% of GDP by 2030 with higher budgets feeding through into order momentum and over time upside to earnings expectations.

Trump's capital return crackdown: a new relative advantage for Europe

This is the catalyst that can drive relative performance, not just absolute demand. Trump has moved beyond rhetoric and announced measures to block dividends and buybacks for US defence contractors until weapons production accelerates, while also attacking 'exorbitant' CEO pay and demanding investment in new plants. The implication is a more hostile governance and capital return environment for US primes, potentially pressuring free cash flow visibility, payout ratios and valuation multiples. For Europe, the read-across is second order but important: European contractors generally retain more capital allocation flexibility, and the political tone is more constructive around rearmament and strategic autonomy.

IPOs and listings: CSG's debut shows how strong the bid is for defence exposure

If 2025 was about repricing defence as a structural theme, early 2026 is showing how quickly capital markets can reinforce it. The standout example was Czechoslovak Group (CSG), the Prague based armoured vehicle and munitions maker, which listed in Amsterdam at an issue price of €25 and an implied €25bn market capitalisation2. The stocks surged in its debut session, trading well above the offer price, an opening move that speaks to both scarcity of 'pure-play' defence equity and the urgency investors are attaching to Europe's rearmament cycle2.

Just as important was the depth of demand. Reports indicated order of more than US$60bn, around 14x the deal size, with a meaningful share of investors receiving no allocation, despite heavyweight cornerstone participation3. That matters for the broader sector because it signals that IPOs are a financing mechanism for the industrial phase of this cycle: funding capacity, inventory, tooling, M&A and working capital to meet multi-year order books. In practical terms, more listings should broaden the opportunity set beyond the primes into the enabling layer (munitions, drones, sensors, secure comms, components).

Industrial conversion: Europe's hidden advantage in scaling output

One of the most underappreciated levers for Europe is industrial conversion, using the continent's civilian manufacturing base to expand defence capacity faster than the primes can do alone. Renault moving into drone production for Ukraine is one clear signal of this crossover4. The bigger point is that Europe's strength is industrial depth: automotive engineering and high-volume assembly, precision machining and machine tools, advanced materials, robotics and automation, and quality control disciplines that transfer well into defence manufacturing.

You can see the conversion trend in several forms:

- Civilian electronics and telecom supply chains being redirected toward secure comms and sensors.
- Aerospace and automotive suppliers pivoting into propulsion components, wiring, actuators and composites.
- Heavy industrials and specialised manufacturers scaling outputs like armour, castings and forgings.
- Chemical and materials capability being pulled into energetics and propellant-related bottlenecks.

If this accelerates, it eases constraints faster than relying purely on greenfield expansion by primes, and it strengthens the political narrative that rearmament can be delivered domestically, which increasingly shapes contract flow.

Conclusion

Europe’s defence equity story is maturing. The question is no longer whether budgets rise, it’s how effectively industry converts policy intent into delivered capability. The 2025 pattern of ceasefire-driven pullbacks followed by renewed buying reinforced that this is a structurally political demand signal, not a short-term trade. In 2026, catalysts like Arctic risk, a deeper IPO pipeline, and US pressure on contractor capital returns should keep attention on Europe’s scaled champions, while widening the opportunity set into enablers and adjacent industrials. For investors, the next leg is about underwriting execution: capacity additions, supply chain resilience, and who can translate backlog into cash flow as Europe pushes toward a more sovereign defence posture.

1 Bloomberg as of 22 January 2026
2 Euronext as of 23 January 2026
3 The Edge Singapore as of 23 January 2026
4 Financial Times as of 20 January 2026

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