Global Defence: security as a secular trend

Published 31 March 2026

Aneeka Gupta
Director, Macroeconomic Research, WisdomTree Europe

Key Takeaways

- Defence is increasingly viewed as a long-term structural investment theme, not a short-term cyclical trade, due to persistent geopolitical tensions and rising multi-year military budgets.
- The opportunity set is expanding beyond traditional contractors into drones, missile defence, cyber, space, electronics, software and C4ISR capabilities.
- The WisdomTree Global Defence UCITS ETF aims to provide a more targeted global defence exposure by focusing on companies generating at least 25% of revenue from defence activities.

- Related Products WisdomTree Global Defence UCITS ETF - USD Acc Find out more

From geopolitics to a secular investment theme

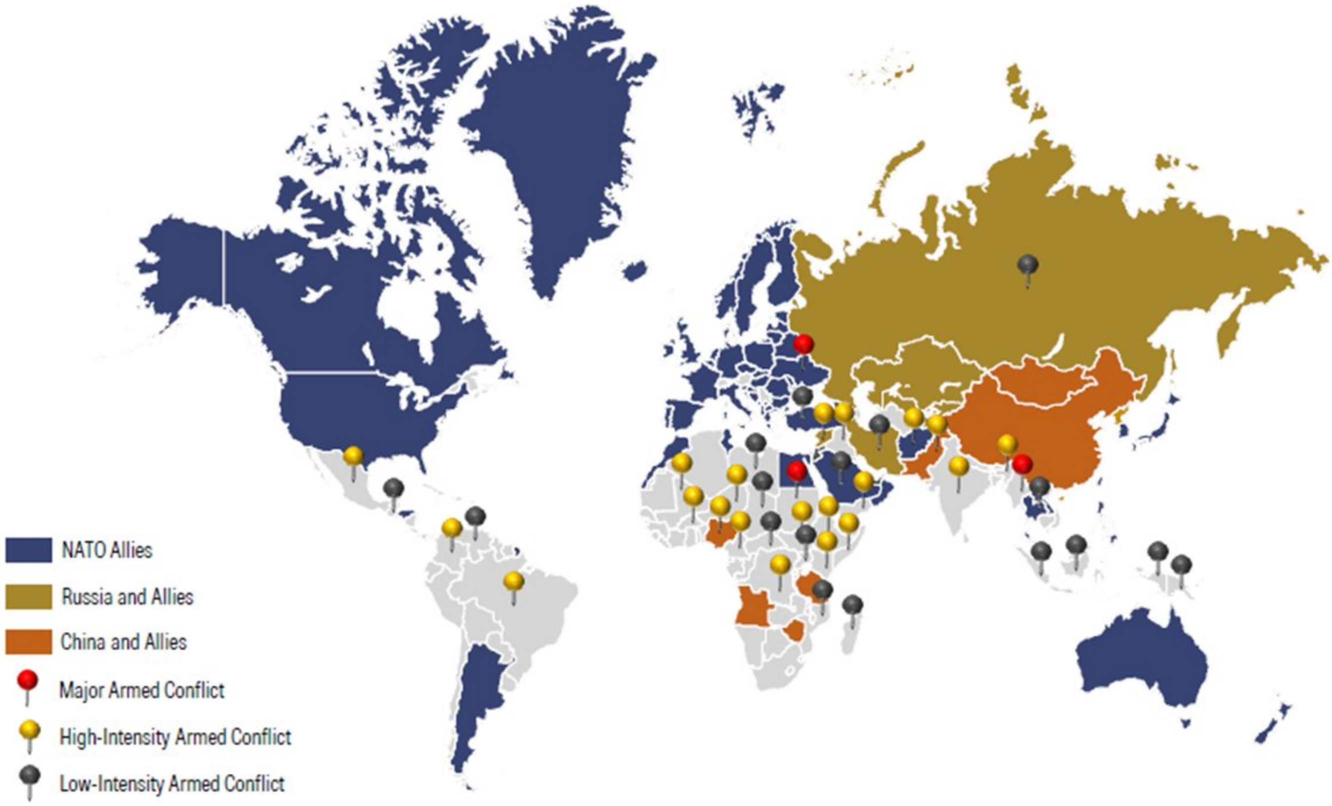
Defence is undergoing a profound re-rating in the minds of policymakers, industrial planners and investors alike. What was once often treated as a cyclical and sometimes controversial corner of equity markets is increasingly being recognised as a structural theme tied to national resilience, strategic autonomy and technological leadership. Despite that shift, defence companies still account for only around 2.5%[1] of the MSCI World Index, underscoring how underrepresented the theme can remain in broad global equity allocations.

Global military expenditure reached around US $2.7tn in 2024[2], marking the tenth consecutive annual increase and the sharpest rise since the end of the Cold War. Importantly, this is not simply a short-term replenishment cycle following recent conflicts. Defence budgets are increasingly being embedded into multi-year procurement plans, industrial policy frameworks and capacity buildouts that could support earnings visibility across the defence value chain for years to come.

Structural forces driving global defence

The first driver is a more persistent and geographically dispersed threat backdrop. Russia’s invasion of Ukraine accelerated rearmament in Europe, while tensions in the Indo-Pacific and instability in the Middle East have reinforced the need for deterrence, readiness and stockpile rebuilding on a broader global basis. The result is a higher baseline for defence spending, not only among countries directly exposed to conflict, but also among allies reassessing force posture, resilience and supply security.

Figure 1: Geopolitical tensions and security threats drive defence spending

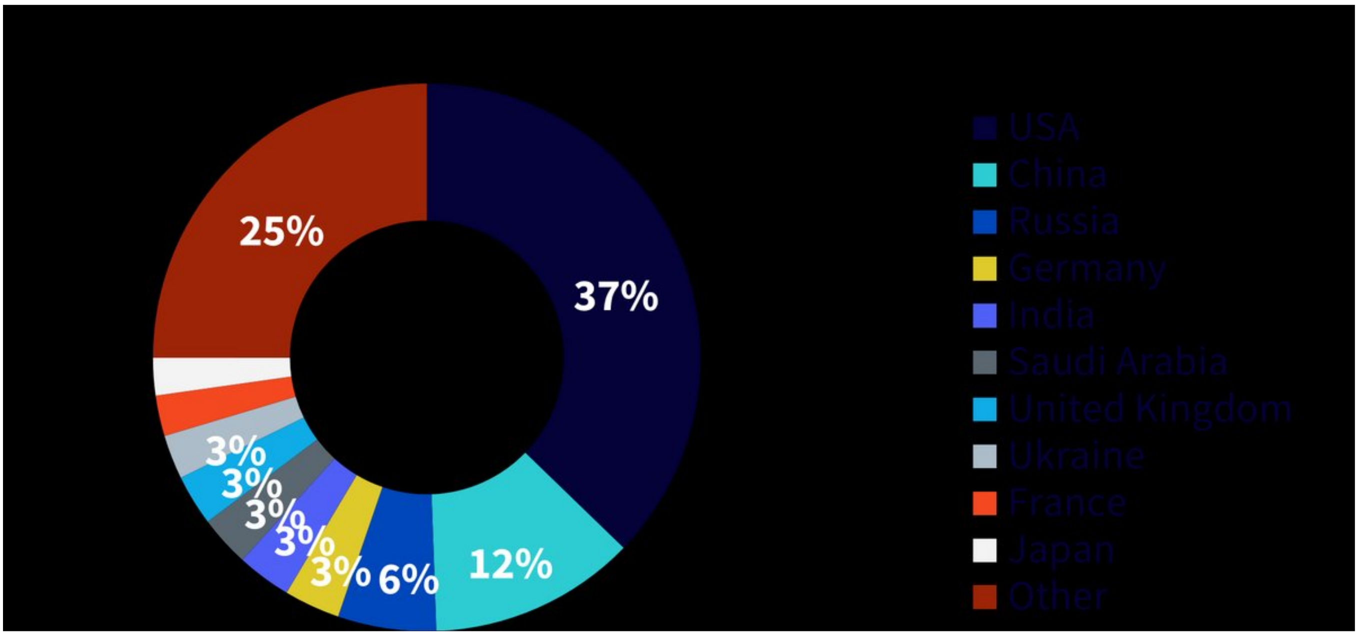


Source: SIPRI Stockholm International Peace Research Institute, WisdomTree as of 10 February 2026.

The second driver is that the nature of defence spending is changing. The current cycle is not limited to traditional land, air and sea platforms. New spending is increasingly directed towards air and missile defence, drones and autonomous systems, cyber and electronic warfare, space-based assets, and C4ISR3 capabilities. That broadens the opportunity set beyond prime contractors to include businesses involved in sensors, software, electronics, secure communications and mission-critical subsystems.

The third driver is that defence budgets are being supported by national strategy and alliance commitments rather than ad hoc responses. The ten largest military spenders account for roughly 75%4 of total global defence expenditure, highlighting how policy decisions in a relatively concentrated group of countries can shape the industry's revenue outlook. NATO countries, meanwhile, allocate on average 58%2 of their total defence budgets to equipment, research and development, and maintenance, reinforcing the case that procurement and modernisation remain central to the current cycle.

Figure 2: Top 10 Global Defence spenders in 2024



Source: SIPRI Stockholm International Peace Research Institute, Morningstar, WisdomTree as of 30 June 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

For investors, this combination of geopolitical persistence, technological change and longer funding horizons points to something more durable than a short-lived sentiment trade. In our view, global defence markets appear to be in the early stages of a new supercycle, supported by both sovereign demand and industrial investment.

How to capture the global defence cycle

Following the framework established in WisdomTree's regional defence strategies, the WisdomTree Global Defence UCITS ETF (Ticker: WDGF) is designed to provide targeted exposure to listed companies with meaningful participation in the global defence industry, but across a much broader opportunity set. The strategy extends beyond any single geography, spanning the US, Europe and selected other developed and emerging markets where domestic defence capability and industrial depth are increasingly important.

The WisdomTree Global Defence UCITS ETF tracks the WisdomTree Global Defence UCITS Index (Ticker: WTGDEFUN Index), which requires constituents to derive at least 25% of their revenue from defence activities. That threshold is significant. It helps reduce dilution from diversified aerospace and industrial businesses where defence may only be a marginal contributor and instead tilts the portfolio towards companies with more direct sensitivity to defence spending outcomes.

Eligible companies must also meet minimum size and liquidity requirements, including a market capitalisation of at least US $200mn and a three-month median daily traded volume of at least US $1mn. The Index further applies controversial weapons screening and excludes companies that support certain nuclear weapons programmes outside the Treaty on the Non-Proliferation of Nuclear Weapons framework.

To sharpen the exposure further, each selected company is assigned an Exposure Score based on the share of revenues linked to defence activities.

- Exposure Score 3 includes companies with more than 50% defence revenue
- Exposure Score 2 includes companies with 25% to 50% revenue exposure from the defence sector

Constituents are then weighted by market capitalisation adjusted by Exposure Score, subject to capping rules. Exposure Score 3 stocks are capped at 5%, while the remainder are capped at 2.5%. The Index is rebalanced quarterly. This design seeks to balance purity, scalability and diversification. It gives greater prominence to businesses with deeper defence exposure, evident in Figure 3, while still recognising the importance of investability and liquidity for exchange-traded fund (ETF) implementation.

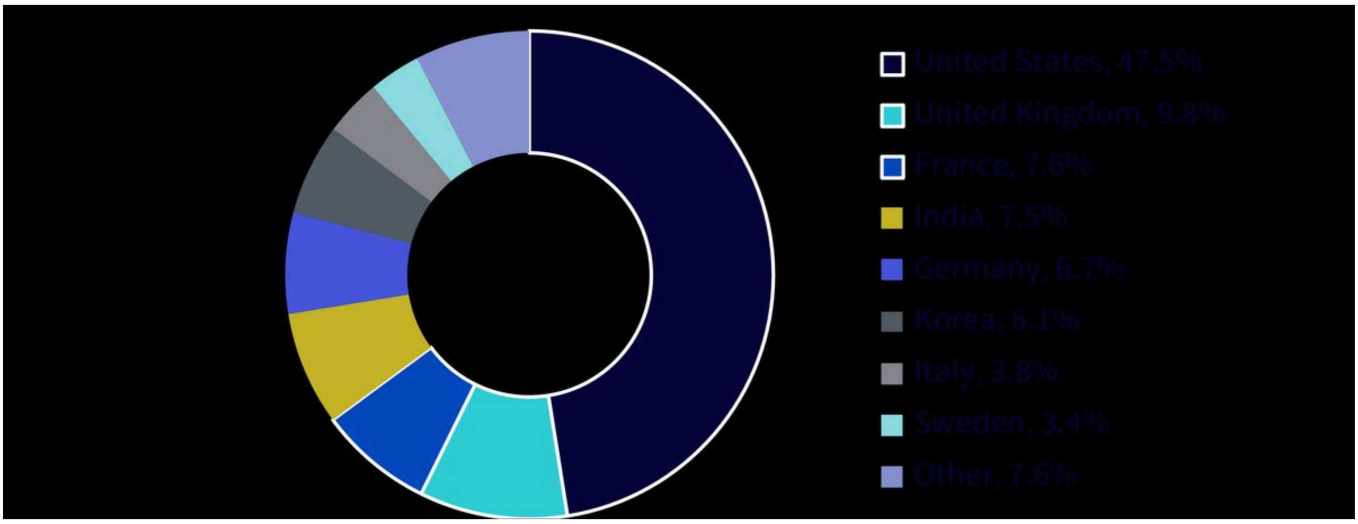
Figure 3: Purity of exposure - companies with a higher defence revenue exposure obtain a higher weight

	BAE SYSTEMS	Rolls-Royce
Market Cap	USD 79.1bn	USD 130.6 bn
Defence Exposure	High revenue exposure ~90%	Low revenue exposure ~26%
Exposure Score	**3**	**2**
Weight at the Last Rebalancing	**5.0%**	**2.5%**

Source: WisdomTree, Bloomberg, FactSet. Market cap data as of 19 September 2025, the latest rebalancing date. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

It also broadens the regional footprint beyond the dominant US primes to include defence champions and suppliers across Europe and a range of other strategic markets such as India and Korea. The result is a portfolio that reflects the increasingly global nature of defence modernisation and procurement.

Figure 4: Geographical allocation



Source: WisdomTree. Holdings are based on target weights as of 31 December 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Why a targeted global approach matters now

A purely regional defence allocation can be powerful, but a global approach may be especially compelling at this stage of the cycle. The United States remains central to defence technology and procurement. Europe continues to accelerate rearmament and industrial coordination. At the same time, other markets are becoming increasingly important as both buyers and suppliers of defence equipment. A global strategy can therefore capture a broader mix of prime contractors, subsystem manufacturers and emerging industrial champions positioned to benefit from rising defence budgets, modernisation programmes and export demand.

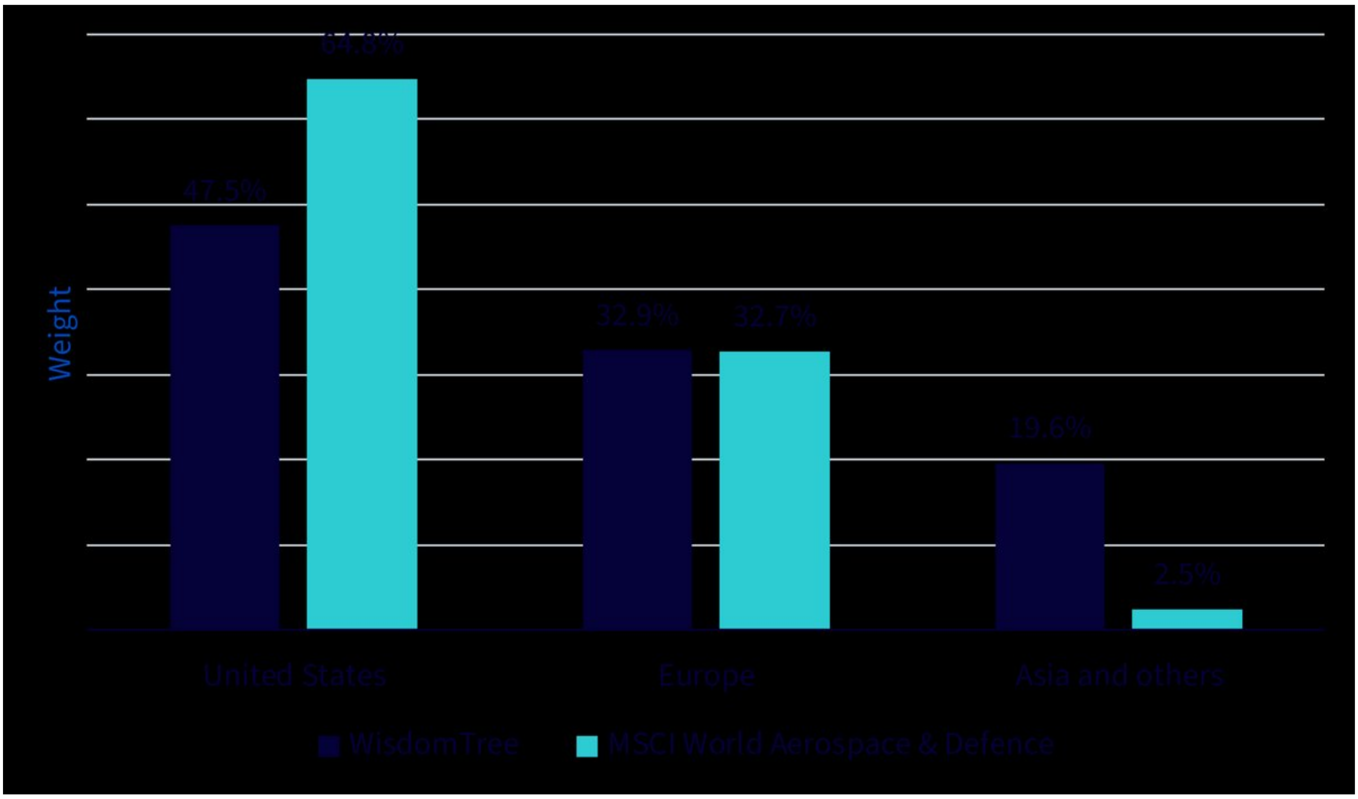
The WisdomTree Global Defence UCITS Index (Ticker: WTGDEFUN Index) currently has the highest estimated long-term growth rate among its peers at 18.1%. While its price-to-earnings (P/E) ratio appears elevated at 33.2x in isolation, this looks more reasonable when considered alongside its expected earnings growth. On this basis, the Price/Earnings-to-Growth (PEG) ratio is 1.8x, which is lower than that of benchmark indices.

Figure 5: Long-term growth and valuation metrics (forward P/E and PEG)

Source: WisdomTree, FactSet, Bloomberg, as of 31 December 2025. Holdings of the peers were sourced from Bloomberg. Fundamentals were sourced from FactSet. PEG ratios are based on forward P/E ratios and est. long term growth. MSCI World denotes MSCI World Index. MSCI World Aerospace & Defence denotes MSCI World Aerospace & Defence Index. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Compared with broader aerospace and defence benchmarks, WisdomTree's approach tilts towards companies with higher direct revenue exposure to defence, while allocating more meaningfully beyond the US and Europe. That may help investors gain access to a wider opportunity set and a more focused expression of the theme than conventional indices.

Figure 6: WisdomTree overweight companies outside the US and Europe



Source: WisdomTree. Holdings are based on target weights as of 31 December 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion

As security priorities harden and defence budgets become more deeply embedded in national industrial strategies, the investable case for the sector is evolving. Defence is increasingly moving from a niche satellite exposure to a more strategic allocation candidate within global equities.

1 Source: MSCI Inc., latest available data as of February 2026.
2 Source: SIPRI Stockholm International Peace Research Institute, WisdomTree as of 10 February 2026.
3 C4ISR represents Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance.
4 Source: SIPRI Stockholm International Peace Research Institute, Morningstar, WisdomTree as of 30 June 2025. Historical performance is not an indication of future performance and any investments may go down in value.

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 has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its oering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. 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 aected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an oer for sale nor a solicitation of an oer 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 oering 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 ailiate, nor any of their respective oicers, 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 dier 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

The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares”) representing each fund.

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 Europe¼s 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 aected 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 WisdomTree¼s 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 oering, 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 oer 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.