Europe’s security crossroads: the shift towards strategic independence

Published 11 March 2025

Aneeka Gupta
Director, Macroeconomic Research

Baoqi Zhu
Associate Director, Quantitative Research & Multi Asset Solutions

Key Takeaways

- Europe is rapidly increasing defence spending as geopolitical uncertainty forces greater military self-reliance.
- The **WisdomTree Europe Defence UCITS ETF (WDEF)** offers unique, undiluted exposure to Europe’s defence sector by focusing exclusively on companies with high revenue from military activities, capturing this fast-growing investment theme.
- Rising defence budgets, strategic autonomy, and industrial investments are driving long-term growth in European defence stocks.

As the geopolitical landscape continues to evolve, European defence is at a critical juncture. The continent is grappling with the possibility of reduced US military and financial support, forcing European leaders to reconsider their security strategies. With Washington signalling a shift towards direct negotiations with Russia and potentially sidelining European interests, the urgency for a more unified and self-sufficient European defence architecture has never been greater.

European-led security initiatives: a necessary step

For many European nations, the prospect of a US-brokered peace deal without Kyiv’s involvement is deeply concerning. In response to growing uncertainties, the UK and France have begun drafting plans for a European-led “reassurance force” in Ukraine. This initiative, aimed at deterring future Russian aggression, could involve up to 30,000 European troops stationed in Ukraine’s key cities, ports, and infrastructure.

However, its feasibility depends on securing US backing for intelligence and aerial protection, a commitment that remains uncertain. To support these ambitious defence commitments, Europe is also ramping up investments in defence technology and industrial production. Denmark, for example, has announced its largest military spending initiative in 50 years, accelerating weapons procurement and defence readiness.

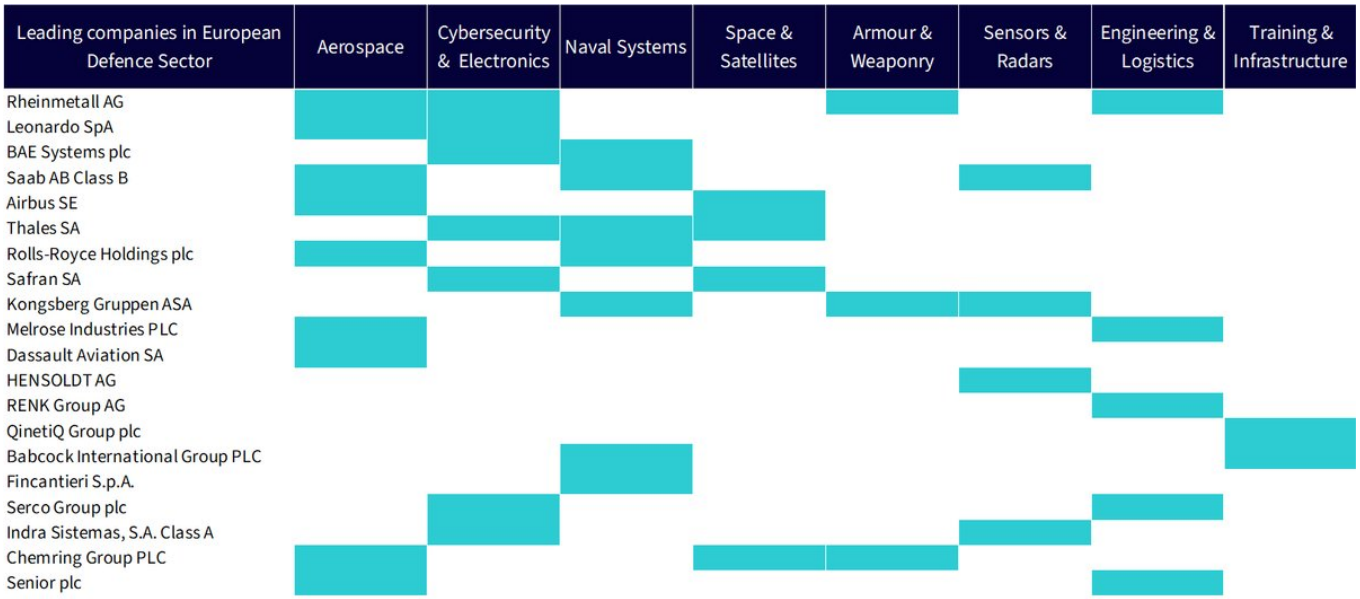
Germany’s defence shift: the election’s impact

Germany, as Europe's largest economy, is also reassessing its defence strategy in light of recent political shifts. Following the election victory of the conservative CDU/CSU[1] bloc under Friedrich Merz, discussions have emerged about financing a €200 billion military spending increase. This would be twice the size of the fund approved after Russia's invasion of Ukraine, signalling a major shift in Germany's security priorities.

One approach under consideration is loosening borrowing restrictions or creating another special defence fund. However, this proposal faces challenges, including gaining two-thirds majority support in the Bundestag. Alternatively, leaders may attempt to push through approval before the new parliament is sworn in, potentially with the backing of the Greens.

Capturing the opportunity with European defence stocks

In response to the accelerated push for European defence autonomy, WisdomTree is providing investors with an opportunity to capitalise on the growth potential of European defence stocks via the WisdomTree Europe Defence UCITS ETF (WDEF). By investing across the European defence value chain, the WisdomTree Europe Defence UCITS ETF (WDEF) provides exposure to the 20 leading European defence companies. Companies with strong exposure to land-based systems (ammunition, vehicles) and air defence (missiles, drones) are particularly well-positioned to benefit from increased European military expenditures.



Companies domiciled in developed and emerging European markets that derive at least 10% of their revenue from the defence industry will be eligible for inclusion in the underlying WisdomTree Europe Defence UCITS Index (Ticker: WTEUDEFN). WTEUDEFN prioritises companies with a higher exposure to the defence industry by assigning an exposure score:

- **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

Companies will then be weighted by free-float market capitalisation adjusted by the Exposure Score. In doing so, the WisdomTree Europe Defence UCITS ETF (WDEF) provides an exclusive focus on European defence companies, providing an undiluted exposure to the sector's growth potential.

To provide an illustration, we can compare the weights of two leading defence companies within the WisdomTree Europe Defence UCITS Index, Rheinmetall and Airbus. In the case of Rheinmetall, owing to its larger revenue exposure to defence activities at 70%, alongside its higher geographical exposure to Europe at 76%, it obtains a higher weight of 12.5% in the underlying Index. In comparison, Airbus, owing to its lower revenue exposure to defence activities at 20%, alongside its lower geographical exposure to Europe at 40%, its obtains a lower weighting of 7.5% in the underlying index as illustrated in Figure 2.

Figure 2: Index weightings of Rheinmetall and Airbus in the WisdomTree Europe Defence UCITS Index

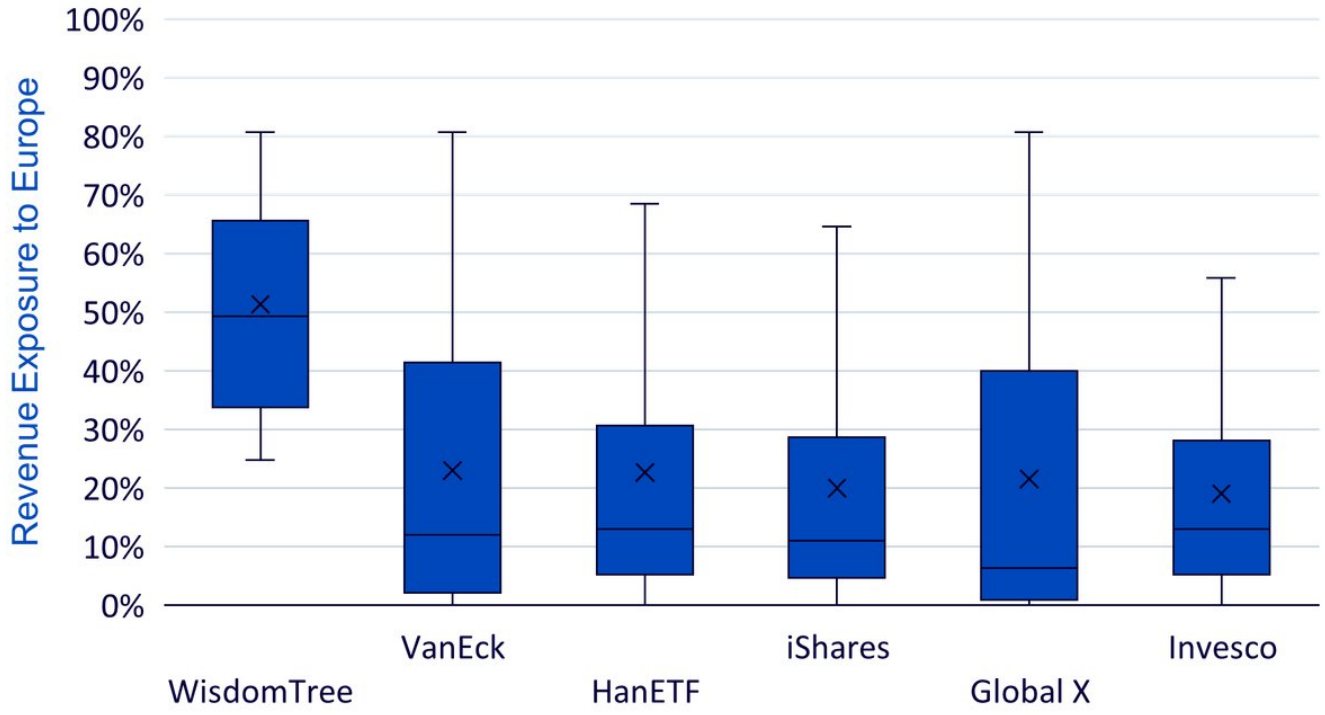
	RHEINMETALL	AIRBUS
Country of Domicile	Germany	France
Core Business Segments	- Defence (land systems, munitions, electronics) - Automotive (engine parts, components)	- Commercial Aircraft - Helicopters - Defence & Space
Market Cap	EUR 34.3 bn	EUR 126.7 bn
Liquidity	High	High
Defence Exposure	High revenue exposure ~70%	Low revenue exposure ~20%
Geographical Exposure	Revenue Exposure: - Europe 76% - Americas 8%	Revenue Exposure: - Europe 40% - Americas 26%
Short-Term Catalysts	- Accelerated European land systems modernisation - Ammo restocking demand - Potential new EU/NATO-wide contracts	- Commercial aviation recovery pace - Possible defense consortium projects (e.g., Eurofighter, FCAS)
6-month Return	+69.2%	+22.0%
Weight at the Last Rebalancing	**12.5%**	**7.5%**

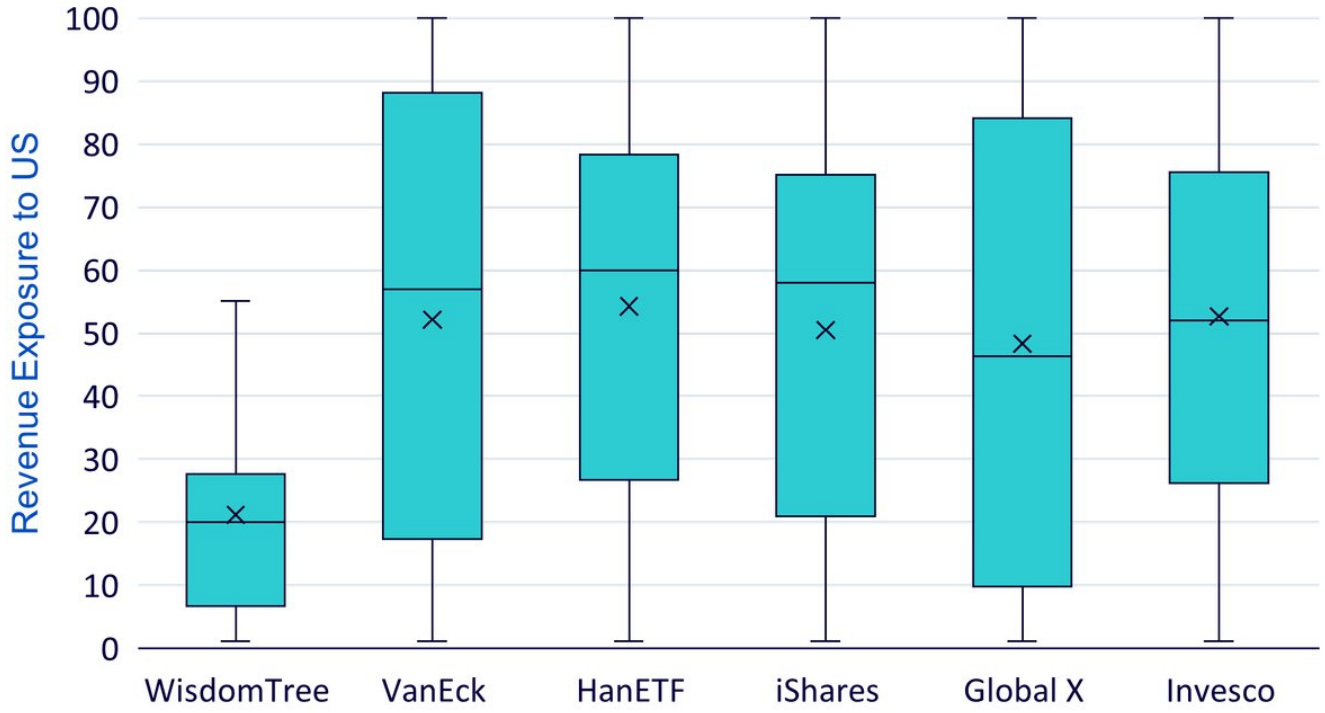
Source: WisdomTree, Bloomberg, FactSet. Market cap and performance data as of 31 January 2025. 12-month returns are total returns in EUR term. Geographical revenue exposure is based on the companies' most recent financial reports as of 19 February 2025, using trailing 12-month figures. Defence revenue exposure is sourced from multiple in-house and external sources.

Exclusive focus on European defence

The WisdomTree Europe Defence UCITS ETF (WDEF) has around 50% median exposure to Europe, much higher than peers (around 12-15%)[2]. This highlights how WDEF is built around a timely and urgent theme focused on Europe's push for strategic autonomy in defence amid rising geopolitical tensions. With

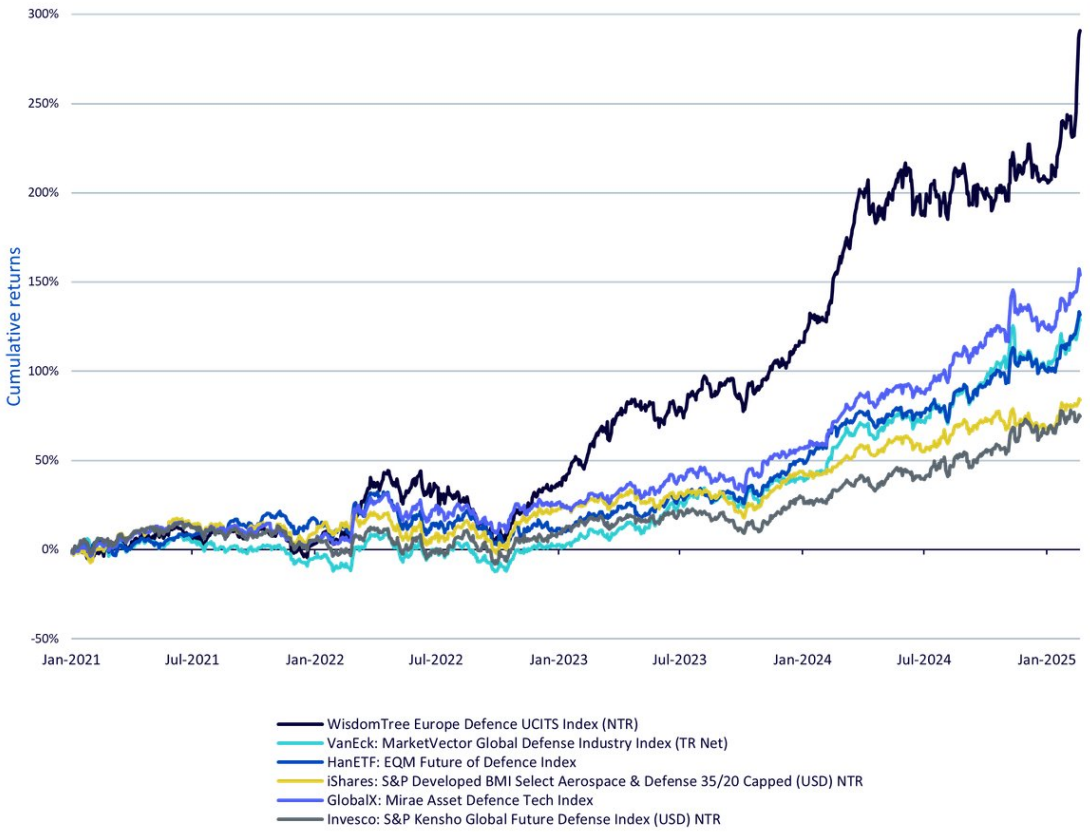
a median US revenue exposure of around 20%, WisdomTree's strategy is notably lower than the peer range of ~50-55%[3]. WDEF exhibits a lower overlap with competitors as it is focused exclusively on the European defence industry, offering a purer more focussed exposure.





Source: WisdomTree, FactSet, as of 31 January 2025. "X" sign denotes the arithmetic average of the revenue exposure of the holdings. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

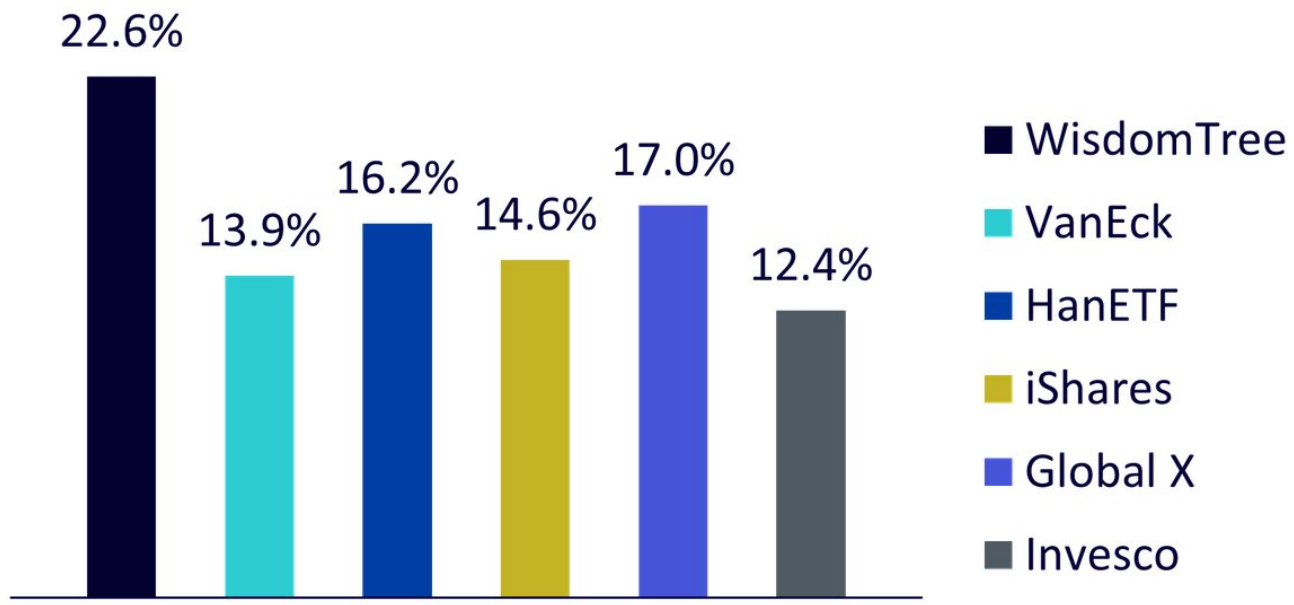
Europe's drive for defence autonomy has significantly impacted financial markets, with defence stocks surging amid strong investor confidence in the sector's long-term growth. The WisdomTree Europe Defence UCITS Index has outperformed its peers, highlighting its effectiveness in capturing this expanding investment opportunity.

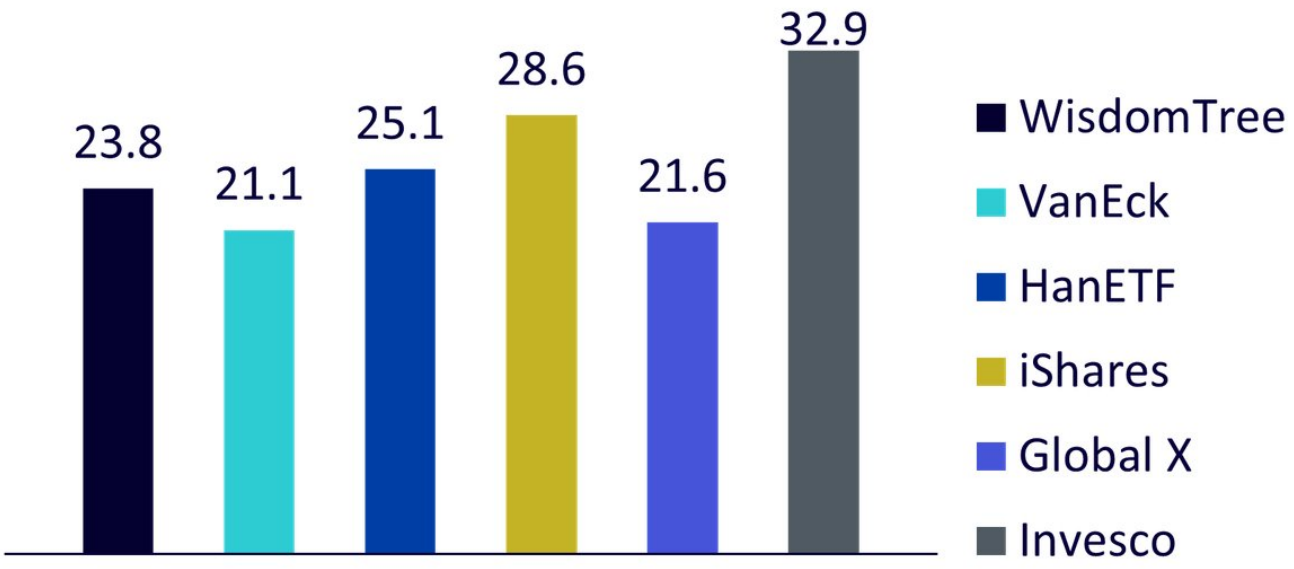


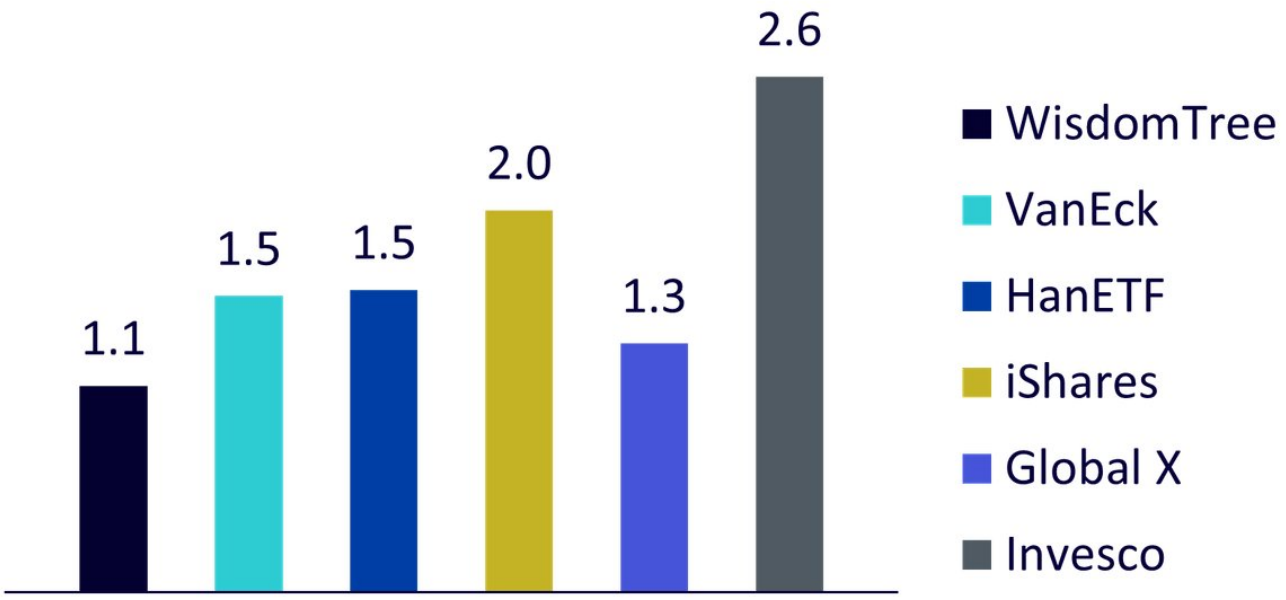
In comparison to peers, the WisdomTree Europe Defence UCITS Index offers amongst the highest forward long-term growth estimates alongside the lowest Price/Earnings to Growth ratio (PEG) ratio.

Figure 5: Comparison of fundamentals

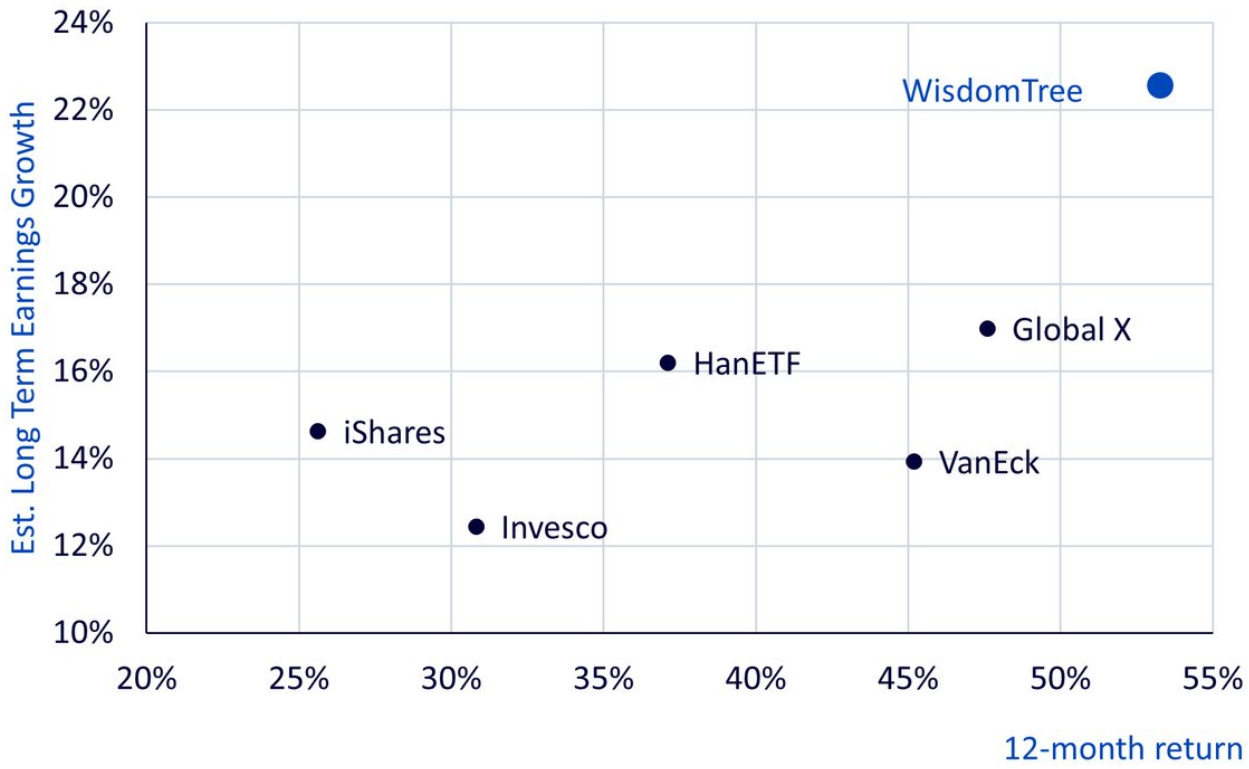
Figure 5a: Estimated long-term growth


22.6%
13.9%
16.2%
14.6%
17.0%
12.4%
WisdomTree
VanEck
HanETF
iShares
Global X
Invesco


23.8
21.1
25.1
28.6
21.6
32.9
WisdomTree
VanEck
HanETF
iShares
Global X
Invesco



On analysing the WisdomTree strategy's long-term earnings growth forecast among peers compared to historical performance over the prior 12-months, we find the WisdomTree Europe Defence UCITS Index's strong growth potential, alongside performance, positions it ahead of its competitors.



Source: WisdomTree, Factset, Bloomberg, as of 31 January 2025. WisdomTree. Returns are based on 31 January 2024 – 31 January 2025. Europe Defence UCITS Index (WTEUDEFN) calculations include back tested data and are computed in USD. Historical returns of other indices are also calculated in USD**. Backtest disclosure**: WTEUDEFN uses the static datasets as of 31 October 2024, which are not redefined retrospectively in the backtest process. Such datasets including the initial universe of companies, and their revenue data, category classification, and companies' ESG assessment, as well as companies; market capitalisation and daily dollar volume requirements. Calculations are using Bloomberg PORT function on and on GTR (gross total return) basis. **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: a defining moment for European security

The current geopolitical climate has created a defining moment for Europe's security strategy. As the US reorients its global priorities, European nations must take decisive action to safeguard their future. This requires not only higher defence spending but also a stronger, more coordinated approach to military procurement, industrial strategy, and strategic alliances. For investors looking to capture this transformation, the WisdomTree Europe Defence UCITS ETF (WDEF) offers a unique, targeted exposure to Europe's growing defence sector.

[1]Christian Democratic Union/Christian Social Union.
[2]WisdomTree, FactSet, as of 31 January 2025.
[3]Ibid.

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 offering 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 affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer 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 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

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 Factors' 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.

Notice to Investors in Switzerland – Qualified Investors

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

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

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 shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds 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.

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