Invest in Europe's defence renaissance

Published 24 March 2025

Aneeka Gupta

Director, Macroeconomic Research

Baoqi Zhu

Associate Director, Quantitative Research & Multi Asset Solutions

Key Takeaways

- The European defence industry is undergoing a paradigm shift.
- The European Defence Industrial Strategy aims to unify and strengthen Europe's defence sector, positioning European defence stocks for long-term growth.
- Governments are being pushed to shift their defence spending away from external actors (like the US) and toward European manufacturers.
- The WisdomTree Europe Defence UCITS ETF (WDEF) was created to capture the upside of Europe's multi-year defence expansion.

Many said it could not be done and would never happen. But the European defence industry is undergoing a paradigm shift. The geopolitical landscape has shifted dramatically, and delayed action is no longer an option. With rising global instability and the return of President Trump to the White House, European leaders must act decisively to ensure security, strategic autonomy, and industrial resilience in defence. This is not just a short-term response—it marks the beginning of a multi-year investment cycle poised to benefit European defence industries over their US counterparts.

A game-changer: The European Defence Industrial Strategy

For decades, Europe has relied too heavily on US defence capabilities, leaving its defence industry fragmented and dependent on non-EU (European Union) suppliers. However, with uncertainty surrounding US military commitments, European nations are fast-tracking plans to build a stronger, more self-reliant defence industry that can meet the security challenges of today and the future.

The European Defence Industrial Strategy (EDIS) is Europe's most ambitious attempt yet to transform its defence capabilities[1]. The strategy aims to unify and strengthen Europe's defence sector by prioritising joint procurement, innovation, and collaboration among member states.

The urgent measures driving this transformation include:

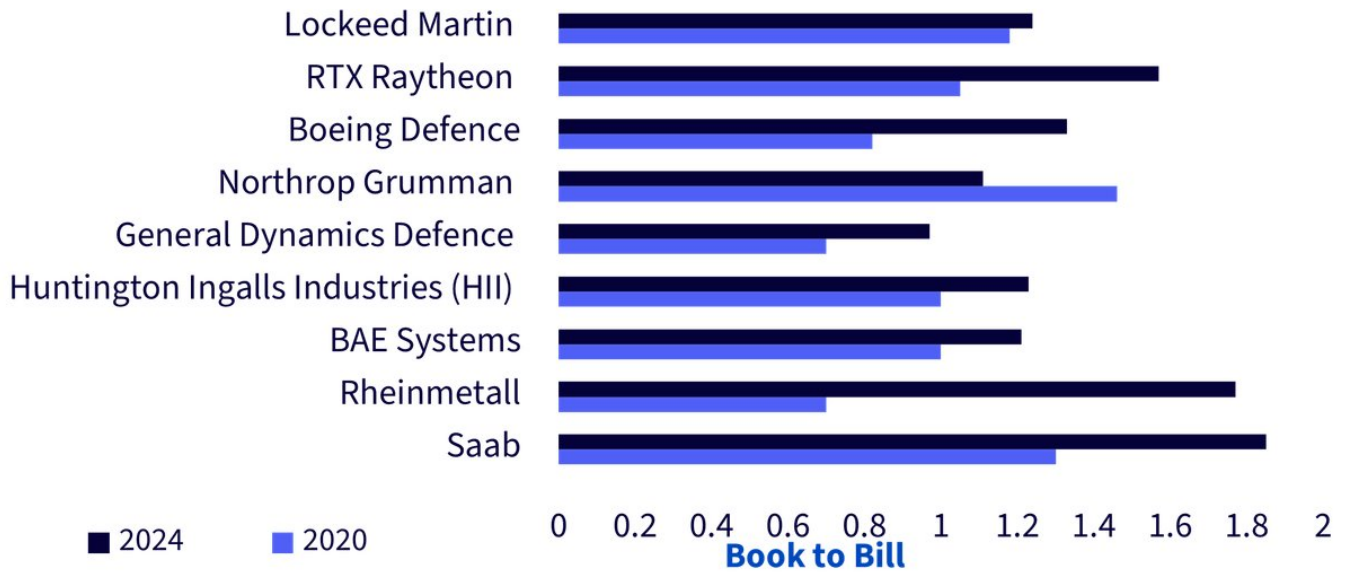
- **Rebuilding European defence manufacturing:** by 2030, at least 50% of EU defence procurement must come from European manufacturers, rising to 60% by 2035. This is essential to reduce reliance on non-EU suppliers, particularly the US.
- **Enhancing intra-European defence trade:** the EU is aiming to boost defence trade within the bloc to 35% of the total defence market value, fostering a stronger, more integrated industrial base.
- **Collaborative procurement surge:** currently, only 18% of EU defence equipment is procured jointly. By 2030, this must rise to 40%, ensuring lower costs, better interoperability, and a more resilient supply chain.
- **Redirecting defence budgets toward Europe:** governments are being pushed to shift their defence spending away from external actors (like the US) and toward European manufacturers, mitigating risks associated with foreign dependency.
- **Incentives to accelerate investment:** the EU is exploring joint procurement tax incentives and VAT waivers to encourage faster and larger-scale European defence collaborations.

These measures collectively aim to build a more self-reliant and resilient European defence industry while reducing dependency on non-EU suppliers.

Policy-driven capital allocation towards European defence companies

While the US defence industry has been a strong performer in the past, European defence stocks are now positioned for superior long-term growth due to this sustained investment cycle and structural policy shift. The US defence budget is already near record highs, limiting future upside for stocks. Not to mention, DOGE[2] is looking to cut costs with defence spending increasingly targeted. In contrast, Europe is at the start of a multi-year rearmament cycle, with significant upside for European contractors. European defence firms are experiencing record-high order books, ensuring stable, long-term revenue growth. Rheinmetall posted a 1.8x book-to-bill[3], on top of its 1.7x ratio in 2023, reflecting robust demand for its portfolio of munitions and combat vehicles[4]. Saab's order intake totalled 79.2 bn krona, or a book-to-bill of 1.8x, with international customers accounting for 80%[2]. In comparison, order activity for US defence contractors is less heated but still healthy, averaging 1.2x[5].

Figure 1: US vs European defence stocks—book to bill trends



Source: Company Filings, WisdomTree, Bloomberg as of 31 December 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Seizing the investment opportunity in Europe's defence sector

Given Europe's historic underinvestment in defence, the WisdomTree Europe Defence UCITS ETF (WDEF) was created to capture the upside of Europe's multi-year defence expansion.

The exchange-traded fund (ETF) invests in European listed companies only that are involved in the European defence industry (which includes manufacturers of civil defence equipment, parts or products, defence electronics and space defence equipment). 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%** 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

The ETF is weighted by free-float market capitalisation, adjusted by the exposure score. This means that companies with higher defence revenues are assigned greater weights, making it a better investment vehicle for the European defence trend than market cap weighted indices. Companies with more than 50% exposure to defence activities are capped at 12.5% while all other securities are capped at 7.5%. These caps represent the highest weighting each index constituent can have when the index rebalances.

The UCITS "20/35" diversification rule, which means one component can go up to 35% and the rest should be capped at 20%, allows us to create a very focused defence strategy in a UCITS ETF tracking a UCITS compliant Index.

In comparison, VanEck defence UCITS ETF (DFNS) provides exposure to global companies, that is, mostly US companies, involved in military or defence industries, making the WisdomTree Europe Defence UCITS ETF (WDEF) a more focused, undiluted play on European defence stocks.

At a time when investors are actively seeking exposure to Europe's decade long rearmament cycle, WisdomTree is offering a unique and differentiated way to invest in this historic defence resurgence. The WisdomTree Europe Defence UCITS Index has a 50% median exposure to European firms and a lower median exposure to the US, thereby positioning the portfolio to benefit from increased defence spending in Europe.

Figure 2: Revenue exposure Europe vs US

Figure 2a: Revenue exposure to Europe

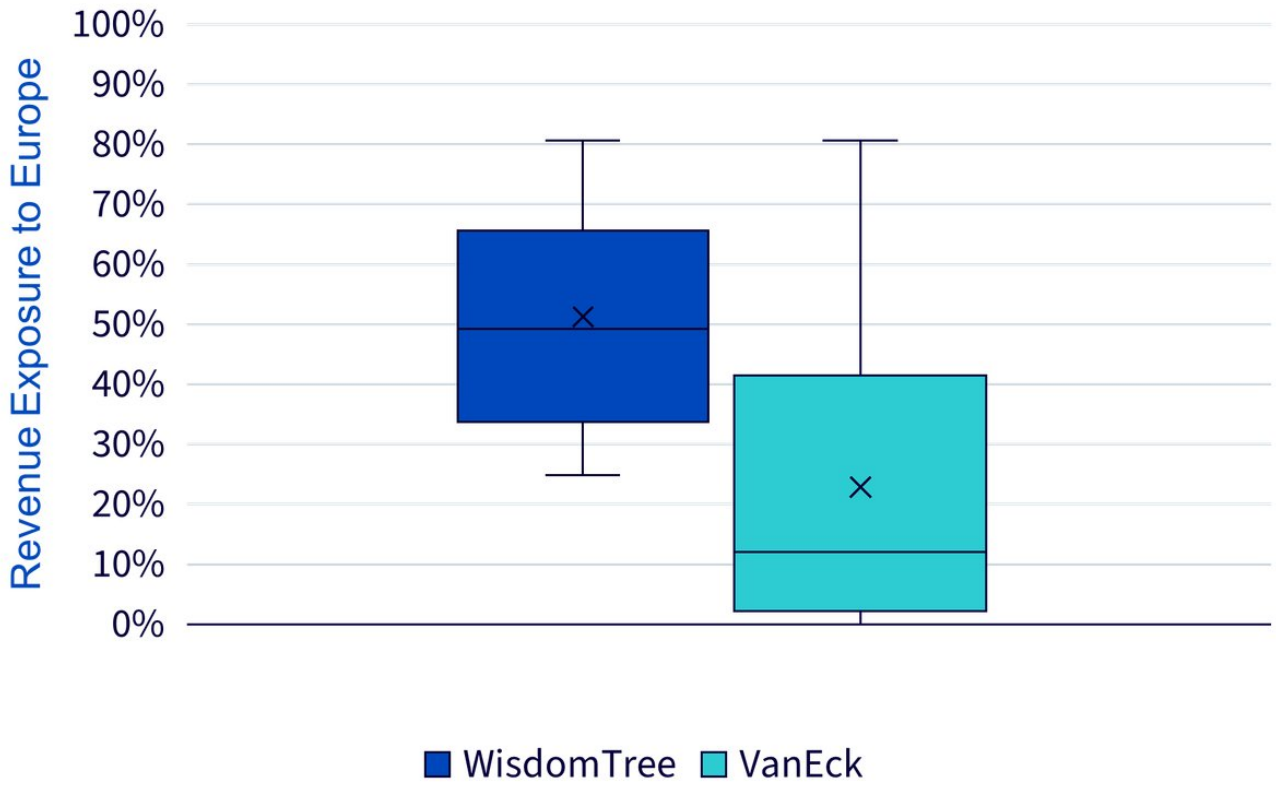
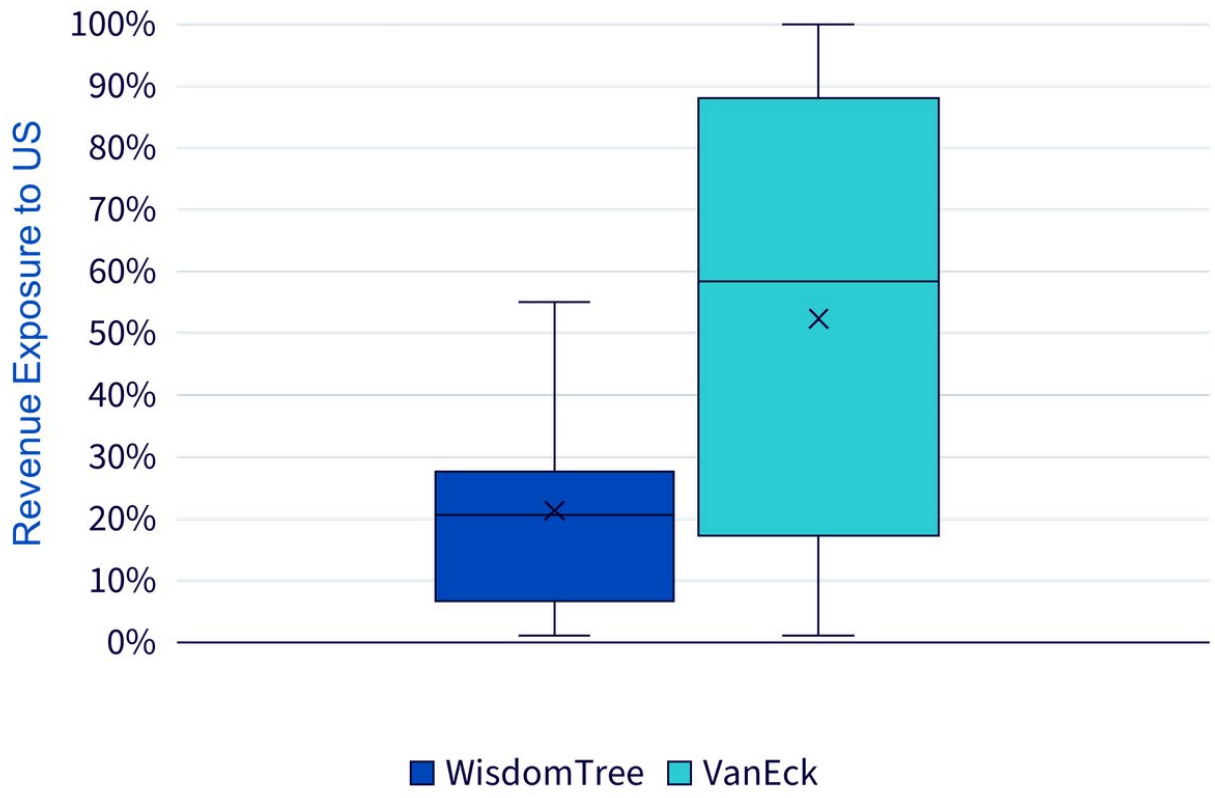


Figure 2b: Revenue exposure to US



Source: WisdomTree, FactSet, as of 28 February 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.**

The WisdomTree Europe Defence UCITS Index has a low overlap compared to the VanEck MarketVector Global Defence Industry Index and the benchmark index MSCI World Aerospace and Defence Index, providing a differentiated approach to accessing the European defence sector.

Figure 3: Low overlap weight vs VanEck MarketVector Global Defence Industry Index

Overlap weight

Overlap Pair	VanEck	MSCI World A&D	MSCI Europe A&D
WisdomTree vs.	28.1%	29.0%	54.3%
VanEck vs.	-	4.7%	10.6%

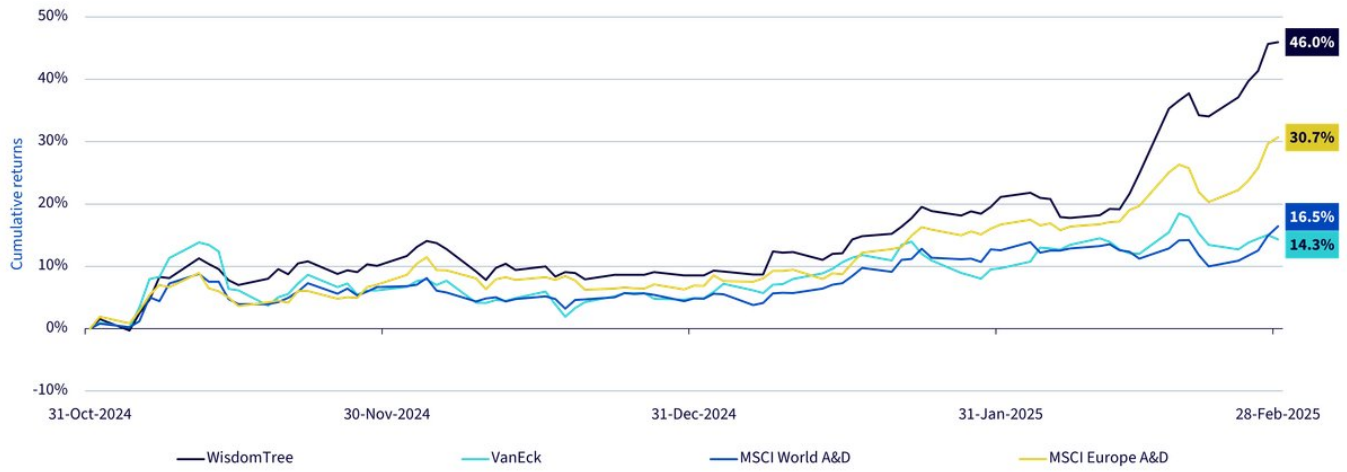
Overlap WisdomTree vs VanEck Top 10 Positions

Name	WisdomTree	VanEck	Overlap
Leonardo SpA	15.0%	9.3%	9.3%
Saab AB	9.4%	4.9%	4.9%
Thales SA	8.1%	10.3%	8.1%
Hensoldt AG	2.1%	1.5%	1.5%
Dassault Aviation SA	2.1%	2.9%	2.1%
Babcock International Group PLC	1.3%	2.2%	1.3%
QinetiQ Group PLC	0.9%	1.1%	0.9%

Source: WisdomTree, Bloomberg. Holdings data as of 28 February 2025. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

The simulated performance since the earliest common history highlights the WisdomTree Europe Defence UCITS Index's outperformance versus the VanEck MarketVector Global Defence Industry Index, alongside the MSCI World and Europe Aerospace and Defence Indices.

Figure 4: Simulated backtested performance since earliest common history



Source: WisdomTree, Bloomberg, from 31 October 2024 to 28 February 2025. Return figures for time periods longer than 1 year are annualised. WisdomTree Europe Defence UCITS Index (WTEUDEFN) calculations include back tested data and are computed in EUR. Historical returns of other indices are also calculated in EUR. Calculations are based on returns in EUR. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Positioning for the future of European defence

Taking into consideration the fundamental ratios, the WisdomTree Europe Defence UCITS Index offers amongst the highest long-term estimated growth estimates versus the VanEck MarketVector Global Defence Industry Index[6]. At the same time, while investors are cautious of the recent rally among European defence stocks, the Price to Earnings to Growth (PEG) estimates shed some light on the comparatively low valuation of the WisdomTree Europe Defence UCITS Index relative to its peers.

Figure 5: Fundamental comparison

Figure 5a: Est. long-term growth

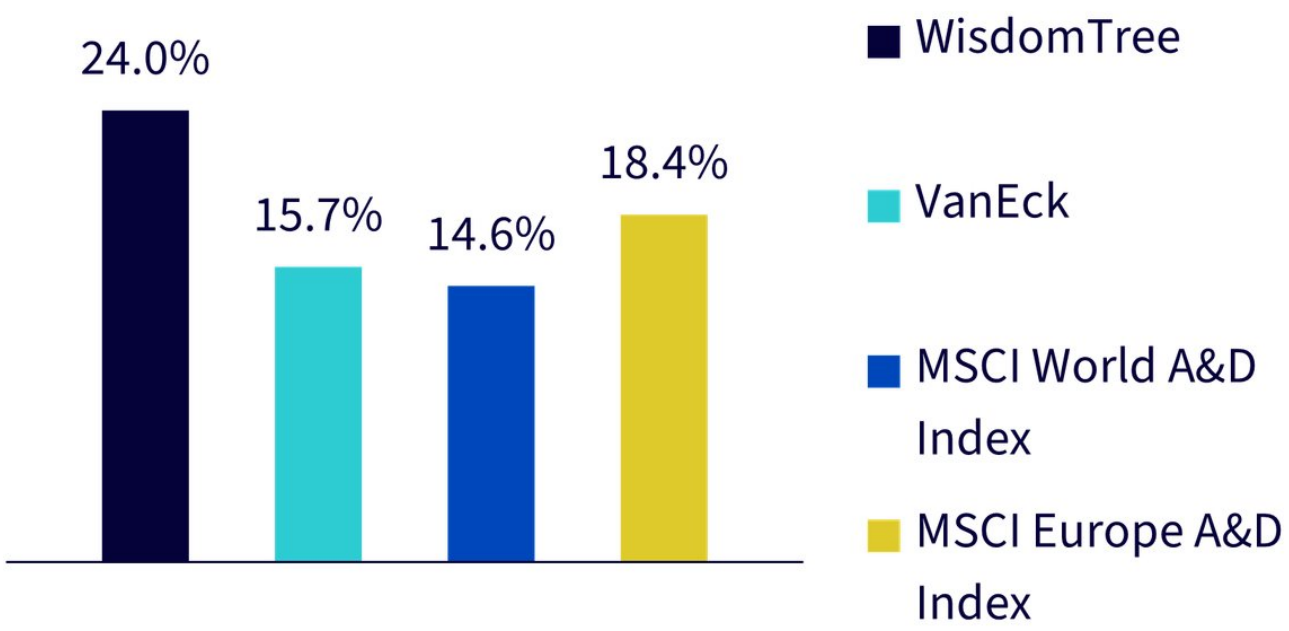


Figure 5b: Price-to-earnings (fwd 12m)

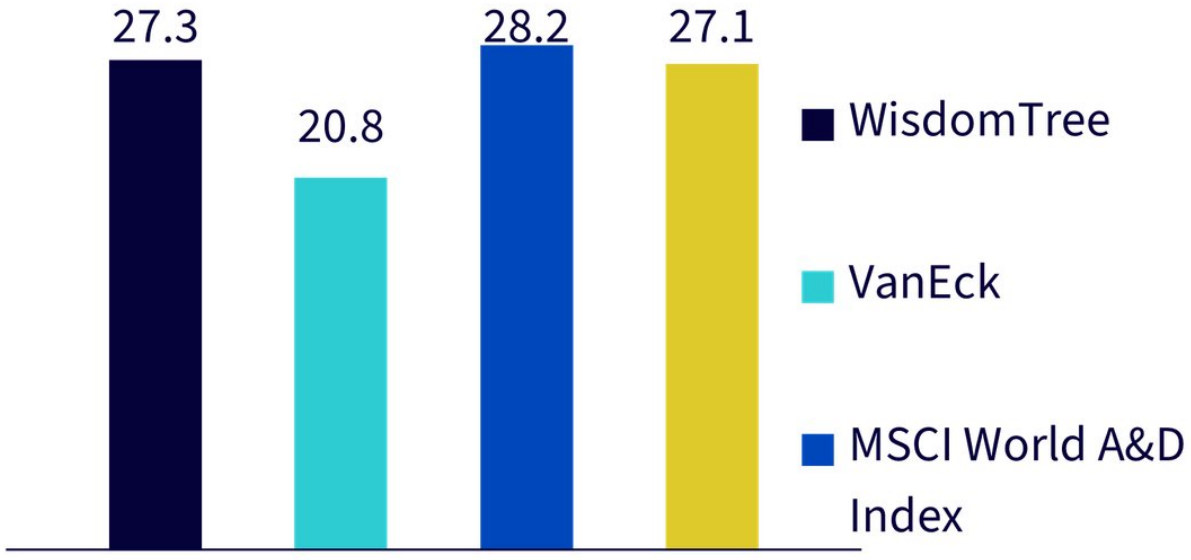
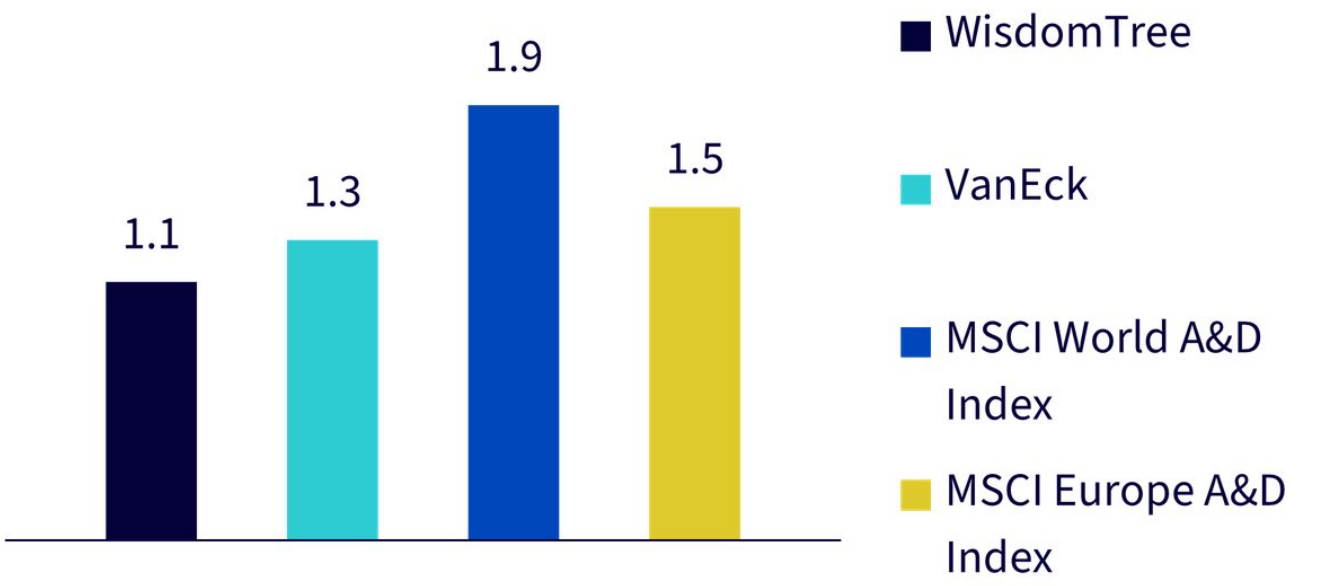


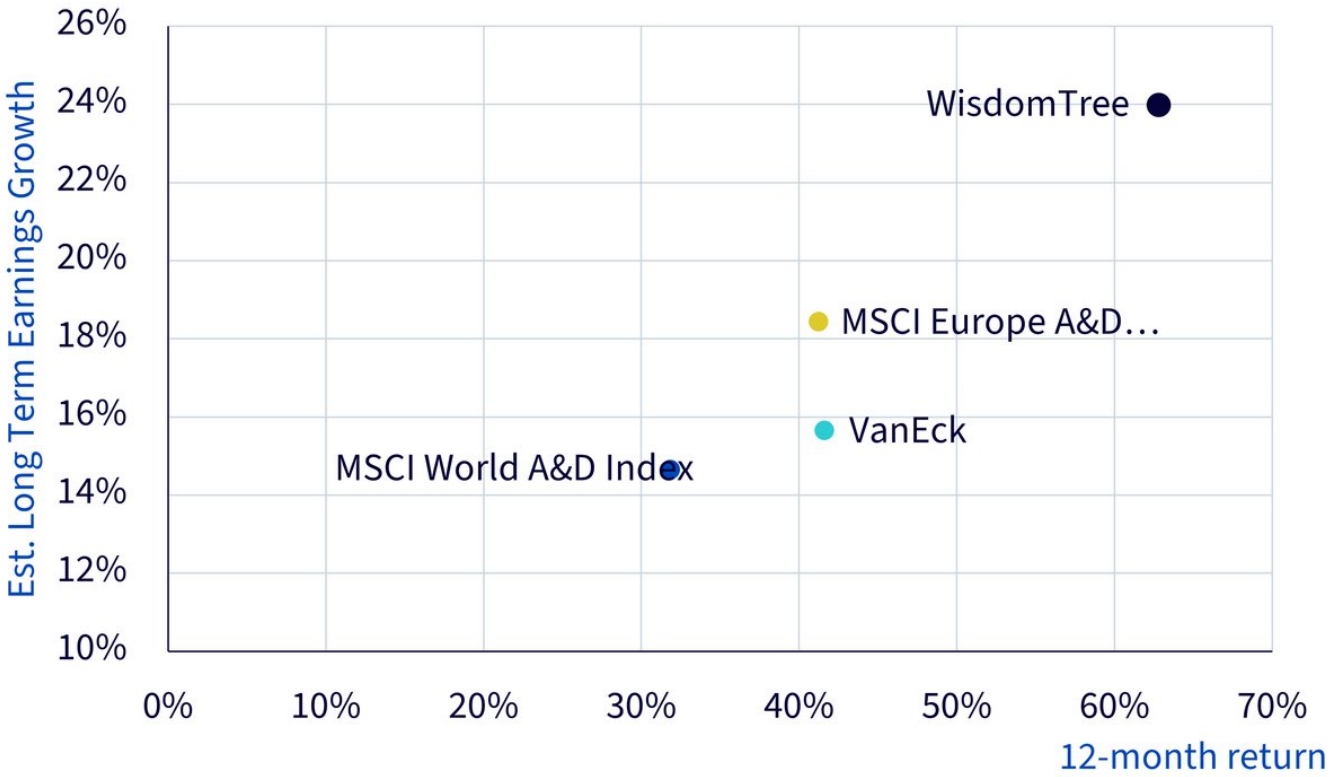
Figure 5c: Price/earnings-to-growth (PEG)



Source: WisdomTree, FactSet, Bloomberg, as of 28 February 2025. Holdings of the peers were sourced from Bloomberg. Fundamentals were sourced from FactSet. PEG ratios are based on forward P/E[7] ratios and estimated long-term growth. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

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.

Figure 6: Estimated long-term earnings growth vs 12-month return



Source: WisdomTree, Factset, Bloomberg, as of 31 January 2025. WisdomTree. Returns are based on 28 February 2024 – 28 February 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.**

The shift in European defence spending is not temporary—it is structural. With Europe entering a multi-year defence upcycle, investors have a rare opportunity to participate in one of the most significant industrial transformations of our time, but the choice of investment vehicle will be critical for unlocking that potential.

[1] European Commission: Joint communication to the European Parliament, the Council as of August 2024.
[2] Department of Government Efficiency.
[3] Book-to-bill is a key metric used in the defence and manufacturing industries to measure the strength of incoming orders relative to completed sales.
[4&5] Company Filings, WisdomTree, Bloomberg as of 31 December 2024.
[6] WisdomTree, FactSet as of 28 February 2025.
[7] P/E = price-to-earnings.

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.

Product Comparison

This document contains a comparison of financial products contained within the relevant prospectus and/or based on publicly available information, some of which has been prepared by third parties. While such sources are believed to be accurate as at their date of publication, WisdomTree does not warrant, guarantee or otherwise confirm the accuracy or correctness of any information contained herein and any information or opinions related to the products detailed herein may change over time. Any third parties used to source the information in this document make no warranties or claims of any kind relating to such data. Investors should read the prospectus and other applicable offering documents for each product and consider the investment objectives, risks, charges and expenses carefully before investing.

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.