The UK remains indispensable to Europe's defence rebuild

Published 17 April 2025

Aneeka Gupta
Director, Macroeconomic Research

Key Takeaways

- UK is industrially embedded in Europe's defence ecosystem
- The UK remains a key military and technological partner
- Europe defence valuations reflect future growth, not hype

As Europe accelerates its rearmament agenda, the United Kingdom (UK) remains a vital player in the continent's defence value chain, even though it is no longer part of the European Union (EU). Despite being excluded from the EU's €150 billion defence rearmament fund[1], the UK's deep industrial integration, historical cooperation, and forward-looking strategies place it at the heart of Europe's defence resurgence.

Britain's defence industry and military continue to act as a critical force multiplier for European security, even outside the EU framework. This has significant implications for investors and stakeholders in the defence sector, underscoring that Europe's quest for strategic autonomy still heavily involves British know-how, technology, and leadership.

Industrial and technological integration in European projects

One of the strongest ties binding the UK into Europe's defence resurgence is industrial integration. Major British defence companies are tightly interwoven into multinational European weapons programs. For example, the Eurofighter Typhoon – Europe's flagship multirole fighter jet – is developed and produced by a consortium of firms from four countries. Britain's BAE Systems builds large portions of the Typhoon alongside Airbus (Germany/Spain) and Leonardo (Italy), under a joint venture (Eurofighter GmbH) managed via a NATO[2] agency representing all partner nations. Likewise, the Typhoon's engines (the EJ200 turbofan) are built by an alliance of Britain's Rolls-Royce with Germany's MTU Aero Engines, Italy's Avio and Spain's ITP, a pan-European engine consortium (EuroJet Turbo GmbH) formed specifically for this project.

These arrangements mean that as continental Europe upgrades its fighter fleets, British industry automatically shares in the work and revenue. Another prime example is MBDA, Europe's integrated missile manufacturer. Formed by merging the missile divisions of UK, French, and Italian companies, MBDA is co-owned by BAE Systems (UK), Airbus (Pan-European), and Leonardo (Italy)[3].

It employs over 13,000 staff (4,000+ in the UK alone) and supplies many of the cutting-edge munitions being procured by European militaries. When EU nations invest in missiles like the Meteor air-to-air or Storm Shadow/SCALP cruise missile, they are effectively investing in a British-inclusive supply chain. In fact, MBDA's ownership structure (37.5% BAE, 37.5% Airbus, 25% Leonardo) exemplifies how deeply British technology is embedded in Europe's defence industrial base[2].

Precision and power projections

Additionally, British firms contribute niche technologies and R&D that bolster European projects. QinetiQ, a UK-based defence technology company collaborates on various European defence research initiatives – from robotics and artificial intelligence to test & evaluation of new systems. British aerospace engineering (for example, Rolls-Royce's jet engines or reaction wheels for satellites) and electronics expertise (radar, sensors, cyber security) are frequently part of joint developments with European partners. The UK brings advanced strike capabilities that strengthen Europe's offensive and deterrent options. The Royal Navy's submarines armed with Tomahawk cruise missiles can strike targets at long range, and the Royal Air Force's strike fighters (Typhoons and F-35B Lightning stealth jets) carry Storm Shadow cruise missiles and other precision munitions.

Britain's investment in two new Queen Elizabeth-class aircraft carriers gives Europe its only true carrier strike groups aside from France, capable of deploying fifth-generation F-35 jets globally. This expeditionary air-maritime power provided by the UK significantly enhances NATO's collective reach, from the North Atlantic to the Mediterranean. European allies, while increasing their arsenals, continue to depend on British long-range strike assets and naval air power for high-end operations.

This industrial interdependence means that Europe's rearmament boom directly benefits UK companies and, conversely, European armed forces gain from British innovation. Evidently, Britain's defence sector is still tapped into the surge of European military investment through joint ventures, licensing, and cross-border supply chains established over decades.

Capturing the WisdomTree European Defence opportunity

This reality is reflected in the construction of the WisdomTree Europe Defence UCITS ETF (WDEF), where the UK represents the second-largest country allocation at 26%[4] in the portfolio. The exchange-traded fund (ETF) invests in the UK's world-class defence companies including BAE Systems, Rolls-Royce, Babcock International Group, QinetiQ, Chemring and Cohort indispensable to Europe's multi-decade rearmament cycle. The WisdomTree Europe Defence UCITS Index 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.

Valuations remain reasonable

Despite strong stock performance, European defence stocks are not overpriced relative to their earnings growth potential amid heightened military spending and growing global tensions. Compared to US aerospace and defence stocks, which trade at higher historical P/E[5] ratios, European aerospace and defence stocks still trade at lower price-to-earnings multiples and offer comparatively higher quality metrics such as Return on Equity and Return on Assets as illustrated below.

Figure 1: Comparison of fundamentals

Figure 1a.



Source: Bloomberg, WisdomTree as of 31 March 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 1b.



Source: WisdomTree, MSCI, FactSet, Bloomberg, as of 28 February 2025. Holdings of the peers were sourced from Bloomberg. Fundamentals were sourced from FactSet. PEG rations are based on forward P/E ratios and est. long term growth. Please note: MSCI World A&D Index denotes MSCI World Aerospace & Defence Index. MSCI Europe A&D Index denotes MSCI Europe 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.**

In comparison to peers, the WisdomTree Europe Defence UCITS Index offers the highest long-term estimated growth rate estimate at 24%[6]. When viewed in isolation the price to earnings ratio appears high at 27.3x, however on comparing the price-to-earnings to the annual earnings per share growth estimate we arrive at a price-to-earnings growth (PEG) ratio of 1.1x which is lower than the competitive landscape.

What's not in the price?

The WisdomTree Europe Defence UCITS Index is positioned for strong earnings growth, with earnings per share expected to rise by 20% in 2026 and 17% in 2027[7]. This reflects expanding market share, multi-year procurement cycles, and increasing defence budgets across Europe. While cash flow per share may dip temporarily as companies scale operations, debt levels are projected to decline, ensuring financial stability.

Figure 2: Earnings per share forecasts

	2024	2025		2026		2027	
Measure	Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth
Earnings Per Share	10.18	12.11	18.96%	14.56	20.19%	17.07	17.28%
Cash Flow Per Share	16.46	16.15	-1.89%	19.64	21.61%	56.27	186.43%
Dividends Per Share	3.22	4.52	40.10%	5.34	18.29%	6.23	16.59%
Book Value Per Share	57.47	63.6	10.66%	72.13	13.42%	83.02	15.09%
Sales Per Share	147.6	163.47	10.75%	180.11	10.18%	198.46	10.19%
EBITDA Per Share	17.97	23.46	30.56%	26.91	14.74%	30.74	14.24%
Net Debt Per Share	10.71	6.76	-36.90%	0.83	-87.74%	-6.34	
Enterprise Value Per Sha	321.24	317.25	-1.24%	311.33	-1.87%	304.16	-2.30%

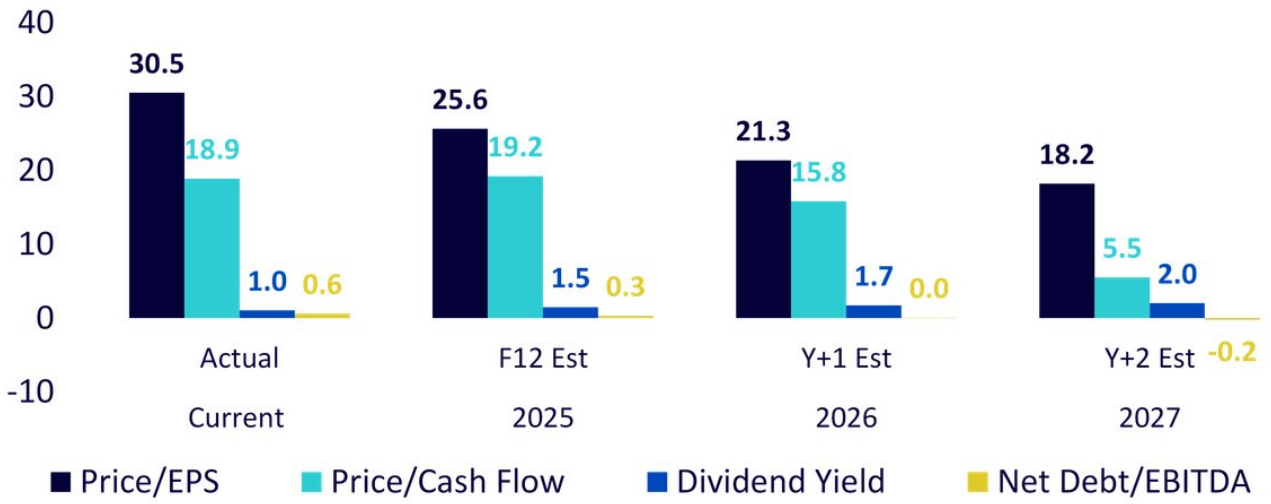
Source: Bloomberg, WisdomTree as of 9 April 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

A higher P/E ratio doesn't mean it's expensive

At first glance, the current price-to-earnings (P/E) ratio for the European defence sector at 30x may appear elevated. However, this is a reflection of current earnings levels, not future profitability. The defence sector operates on long-term contracts, meaning that earnings expansion takes time to materialise.

As order backlogs convert into revenue and profitability scales up over the next few years, earnings growth will drive the P/E ratio down naturally. By 2026 and 2027, with higher earnings expectations already forecasted, valuation multiples will become more attractive.

Figure 3: Fundamental ratios—WisdomTree Europe Defence UCITS Index



Source: Bloomberg, WisdomTree as of 9 April 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Investors looking at short-term valuation metrics may overlook the long-term earnings trajectory of the sector. The forward-looking nature of the defence industry, driven by sustained government contracts and multi-year procurement cycles, makes this a strategic, long-term opportunity rather than an overvalued trade.

[1] European Parliamentary Research Services as of 28 February 2025.
[2] NATO = The North Atlantic Treaty Organization, also called the North Atlantic Alliance, is an intergovernmental transnational military alliance of 32 member states.
[3] Mbda-systems.com
[4] FactSet, WisdomTree as of 21 March 2025.
[5] P/E = price-to-earnings.
[6] WisdomTree, FactSet as of 14 March 2025.
[7] Bloomberg, WisdomTree as of 18 March 2025.

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.