Two stocks at the forefront of European defence

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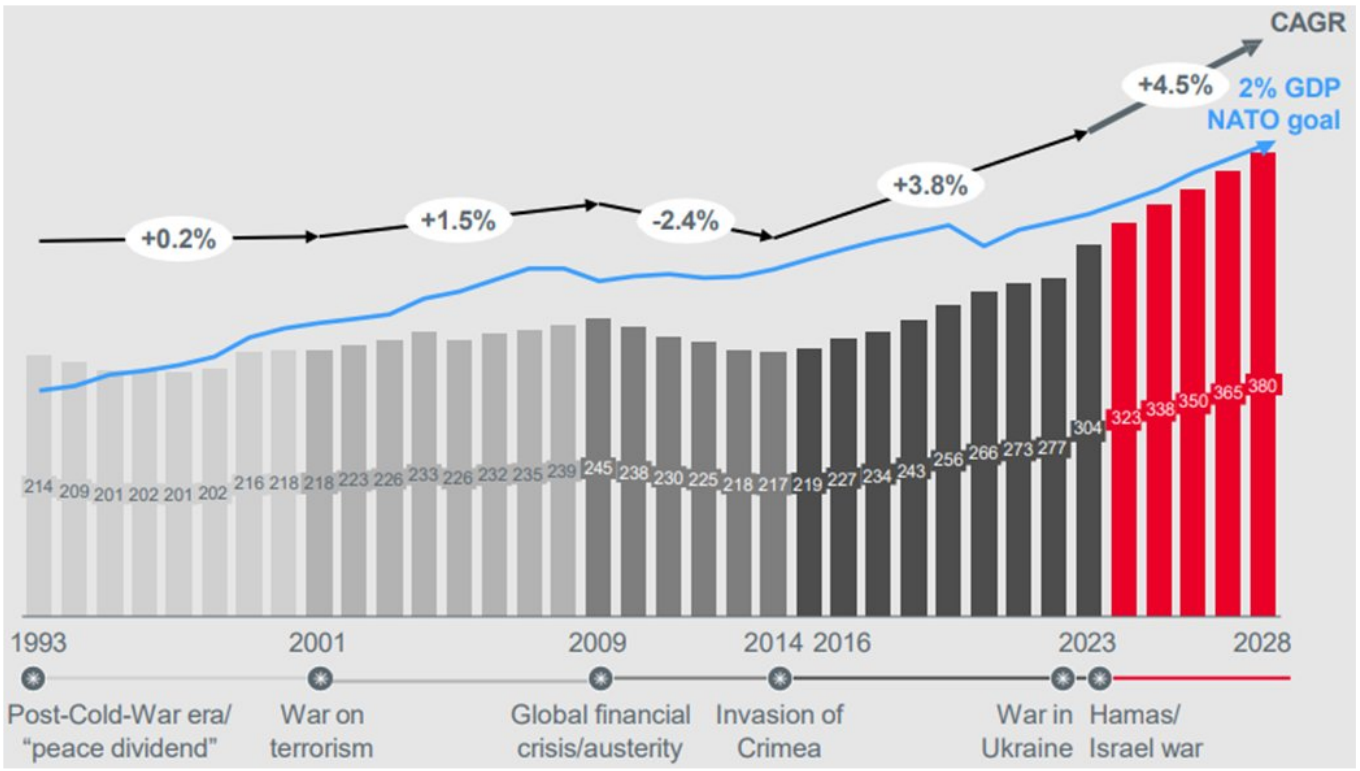
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Key Takeaways

- European defence spending has surged past Cold War levels, with joint EU initiatives and fiscal flexibility boosting investment in air defence and drone production.
- The WisdomTree Europe Defence UCITS ETF (WDEF) offers targeted exposure to companies like Leonardo and Dassault, which are central to Europe's UAV and counter-drone strategies.
- Strategic alliances and combat-tested UAV platforms position Leonardo and Dassault as key enablers of Europe's drive toward defence autonomy and next-generation military capabilities.

It is not a secret that Europe's defence landscape has shifted dramatically to a pace unseen since the Cold War. In 2022, Central and Western Europe's combined military outlays reached $345 billion, surpassing 1989 levels as the Cold War ended[1]. Where there is a commonly cited "peace dividend", this is the era reaping the rearmament rewards. Even traditionally pacifist countries are upping their defence outlays, while frontline states like Poland and the Baltic nations are planning well above 2% of GDP (the NATO defence spending target) to bolster their militaries.

Of note, European officials, including the European Central Bank (ECB) (monetary) policymaker Olli Rehn, have explicitly called for joint EU programs to fund air defence and drone production to support Ukraine and strengthen Europe's own defence, even if it means loosening fiscal rules[2]. When the monetary policy folks start weighing in on defence spending, it is best not to ignore it.



The WisdomTree Europe Defence UCITS ETF (WDEF) is particularly well positioned to benefit from this trend by investing exclusively across the European defence value chain and providing exposure to more than 20 leading European defence companies. Those companies have strong exposure to land-based systems (for example, vehicles) and air defence (for example, drones) and are particularly well-aligned with projected increased European military expenditures. The exchange-traded fund (ETF) focuses only on European listed companies with at least 10% of their revenue from the defence industry and the weight for each company is directly linked to the proportion of their revenues coming from defence. This is why a smaller company, like Rheinmetall (obtaining 70% of revenue from defence), gets a 12.5% weight while a bigger company, like Airbus (obtaining only 20% of revenue from defence), only gets 7.5% weight.

Two integral European defence stocks

Two of the holdings in the WisdomTree European Defence UCITS ETF (WDEF), Dassault Aviation and Leonardo SpA, are integral to Europe's defence-industrial base and they will be pivotal beneficiaries of the continent's rearmament. Crucially, unmanned aerial vehicles (UAVs)—from surveillance drones to combat-capable systems—are an area where both firms are actively developing capabilities, aligning with Europe's defence priorities.

Dassault Aviation, long synonymous with fighter jets, spearheaded Europe's stealth unmanned combat air vehicle (UCAV) demonstrator nEUROn. Launched in the 2000s as a multinational project, nEUROn was led by Dassault Aviation with contributions from several European partners including Leonardo SpA (then Alenia)[3]. nEUROn combines many of the critical components of modern warfare systems including autonomous flight controls and low-observable (stealth) design. The project is also demonstrative of pan-European collaboration in UAVs. Not to be outdone, Leonardo SpA has developed its own family of

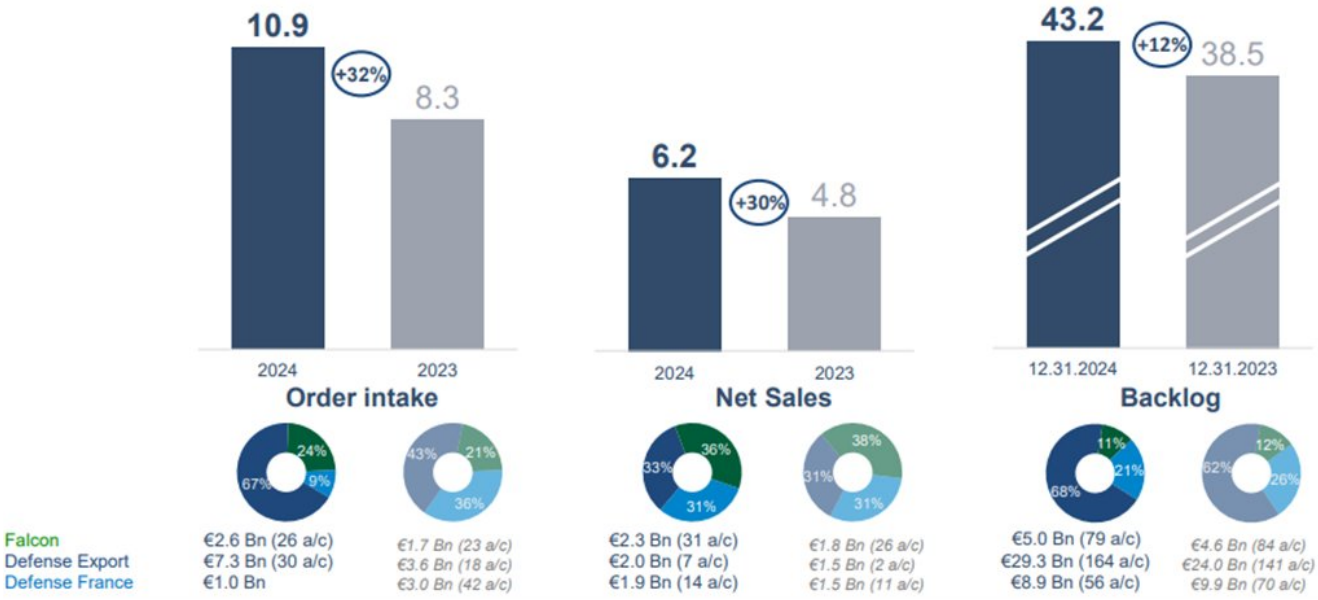
medium drones (such as the Falco UAV series). Not to mention, its collaborations with companies like BAE Systems (another holding in WDEF) in the Eurofighter Typhoon and next-gen Tempest/GCAP fighter programs.

In essence, Dassault Aviation and Leonardo SpA are key enablers of Europe's push for strategic autonomy in defence and are poised to benefit from the pivot to UAVs—a shift that began slowly at the beginning of the 21st Century and accelerated meaningfully with the experience gained from the conflict in Ukraine. European militaries have been paying attention; drones have proven their value for reconnaissance, target acquisition, and even precision strikes, fundamentally changing battlefield dynamics. It is a UAV world; legacy tech is just living in it.

While Dassault Aviation and Leonardo SpA aren't major producers of small drones, it is not as though the two are going to be left behind. Leonardo SpA is developing anti-drone defences and electronic jamming systems. This makes sense. Increased drone usage increases demand for counter-UAV technologies, an area where Leonardo SpA's electronics division is poised to benefit from radar and laser-based drone neutralisation[4].

Alliances are the way forward

The surge in European defence spending is expanding the pie for industry, but it's also intensifying both competition and collaboration among defence contractors. Interestingly, in the realm of UAVs, collaboration is often seen as the fastest way to close capability gaps. Both Dassault Aviation and Leonardo SpA have shown a willingness to team up with traditional competitors or even non-European firms when strategic.



Dassault Aviation and Leonardo SpA find themselves at the nexus of this transformation—bolstered by macroeconomic trends and political resolve and delivering the technologies that will define European security in the coming decades. The unfolding emphasis on UAVs is a microcosm of the broader story: drones have moved from peripheral acquisitions to must-have capabilities. UAV development, in particular,

stands out as both a growth avenue and a strategic imperative. Dassault Aviation and Leonardo SpA are leveraging their deep expertise and forging new partnerships to ensure Europe's militaries have the drones they require.

Conclusion

The narrative? Reallocation and rearmament. The timeline might be best described as "defence for the long run". The beneficiaries are those positioned to meet Europe's capability gaps. Dassault Aviation carries the mantle of Europe's aerospace prowess and is now backed by a strong wind of political will and funding.

[1]World military expenditure reaches new record high as European spending surges | SIPRI
[2]ECB's Rehn calls for joint European investment in air defence, drones | Reuters
[3]Dassault nEUROn to fly again, driving France's new combat drone development - AeroTime
[4]Leonardo projects €30 billion in revenue by 2029 | Shephard
[5]Italy's Leonardo, Turkey's Baykar to set up drone joint venture | Reuters
[6]Leonardo CEO denies talks with automakers on military production | Reuters

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