Europe’s security crossroads: the shift towards strategic independence

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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.

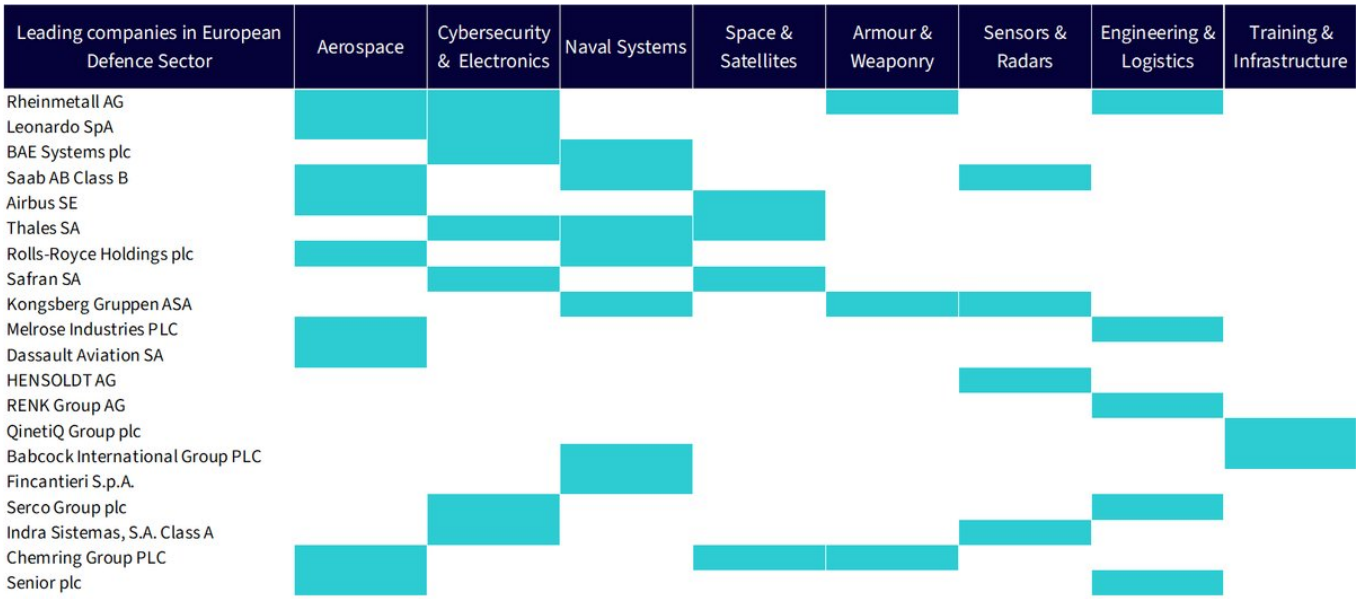
Germany’s defence shift: the election’s impact

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/CSU1 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.

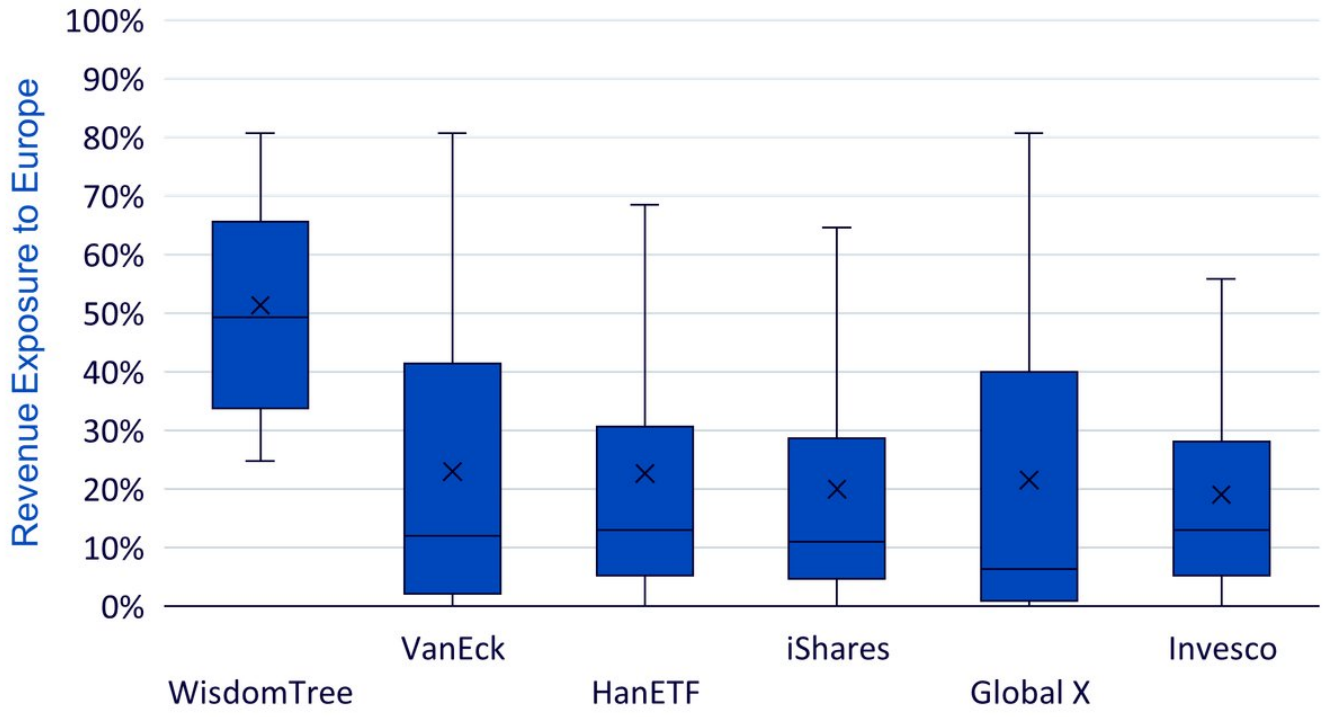
Figure 2: Index weightings of Rheinmetall and Airbus in the WisdomTree Europe Defence UCITS Index

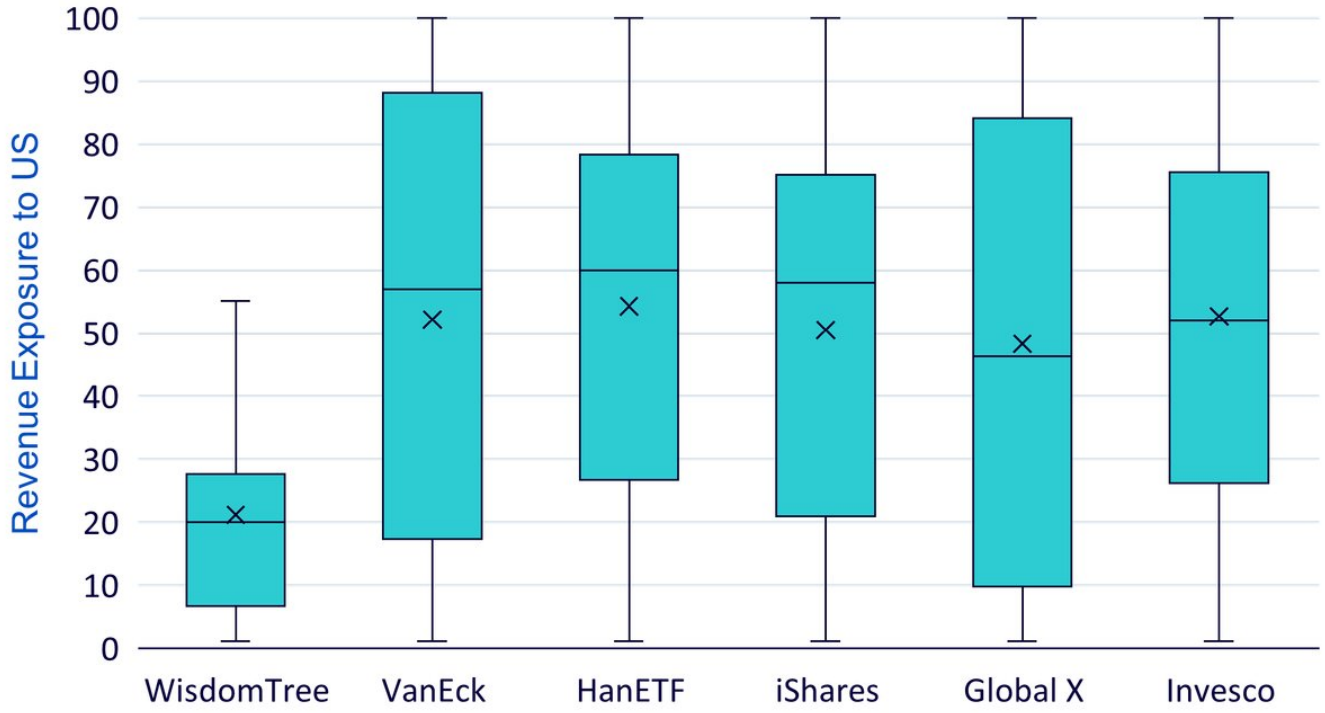
	RHEINMETALL	AIRBUS
Country of Domicile	Germany	France
Core Business Segments	- Defence (land systems, munitions, electronics) - Automotive (engine parts, components)	- Commercial Aircraft - Helicopters - Defence & Space
Market Cap	EUR 34.3 bn	EUR 126.7 bn
Liquidity	High	High
Defence Exposure	High revenue 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

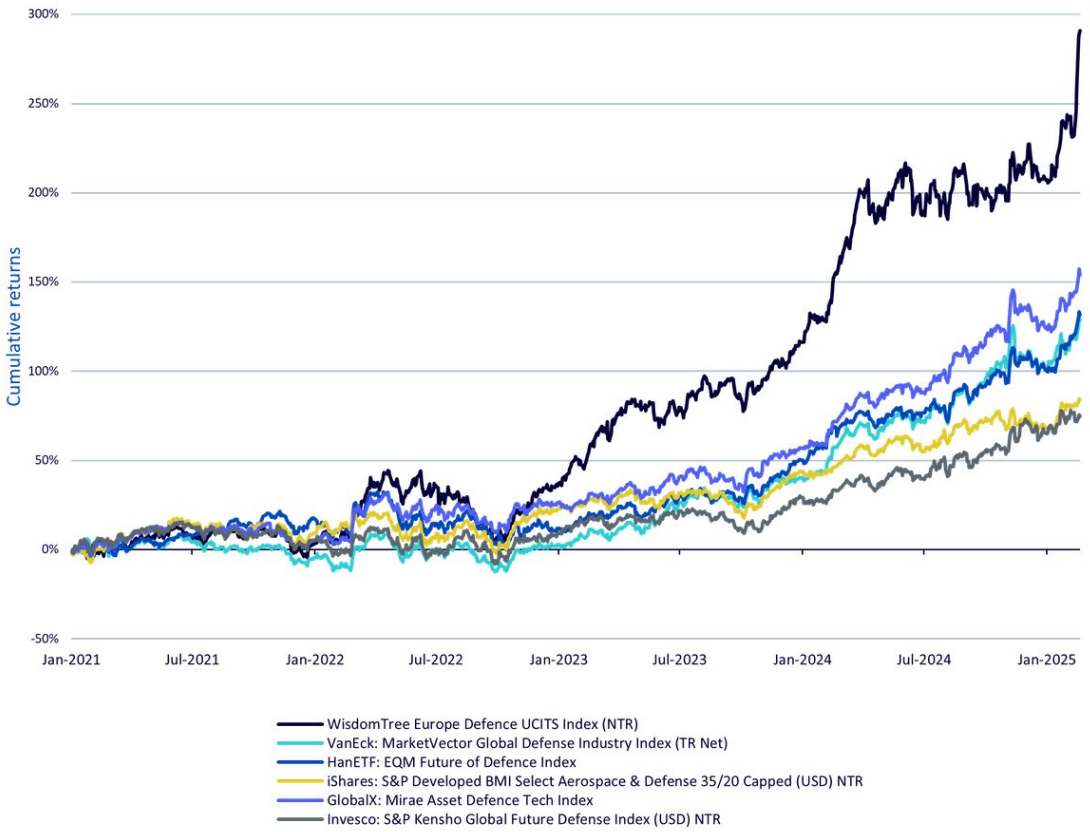
The WisdomTree Europe Defence UCITS ETF (WDEF) has around 50% median exposure to Europe, much higher than peers (around 12-15%)2. This highlights how WDEF is built around a timely and urgent theme focused on Europe's push for strategic autonomy in defence amid rising geopolitical tensions. With a median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

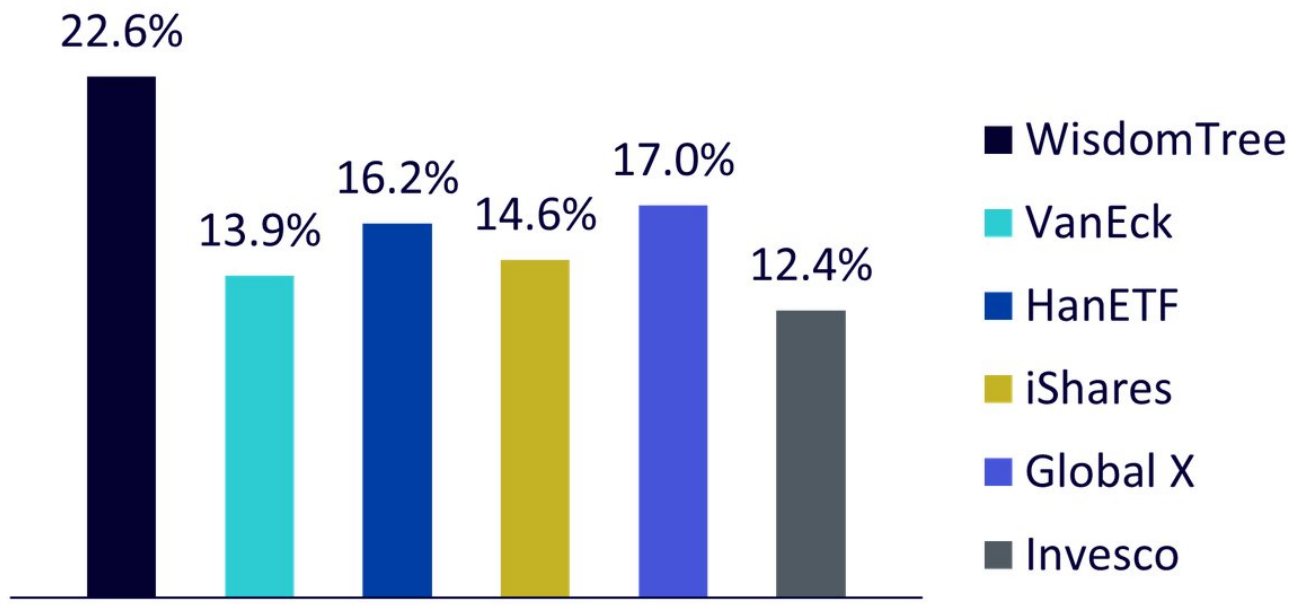
Europe's drive for defence autonomy has significantly impacted financial markets, with defence stocks surging amid strong investor confidence in the sector's long-term growth. The WisdomTree Europe Defence UCITS Index has outperformed its peers, highlighting its effectiveness in capturing this expanding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

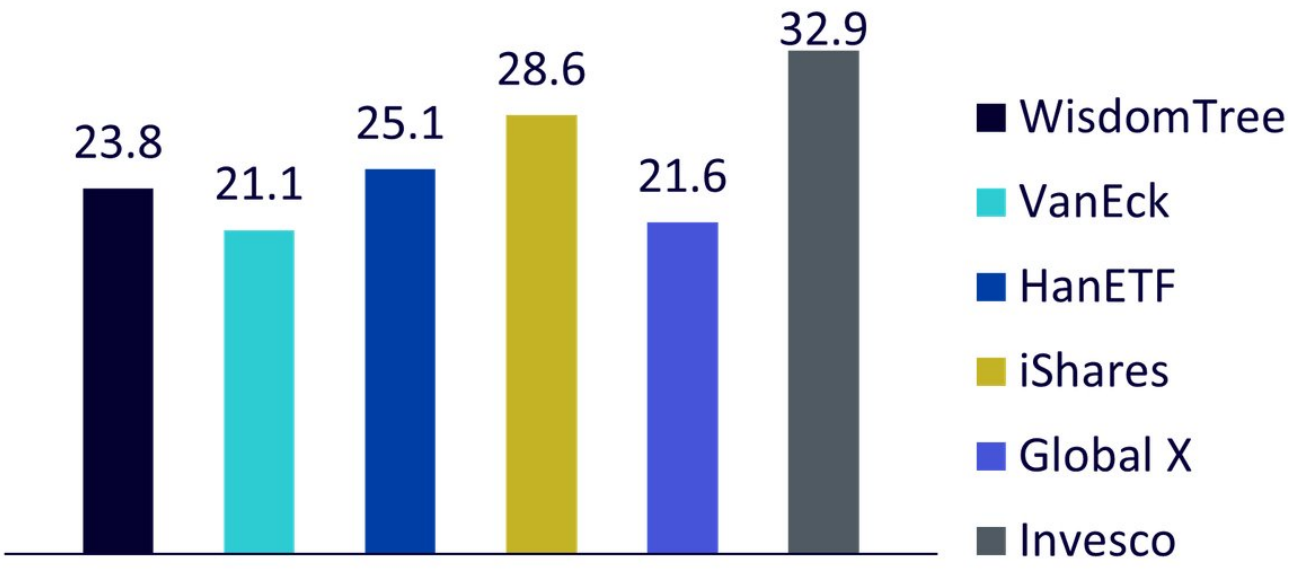


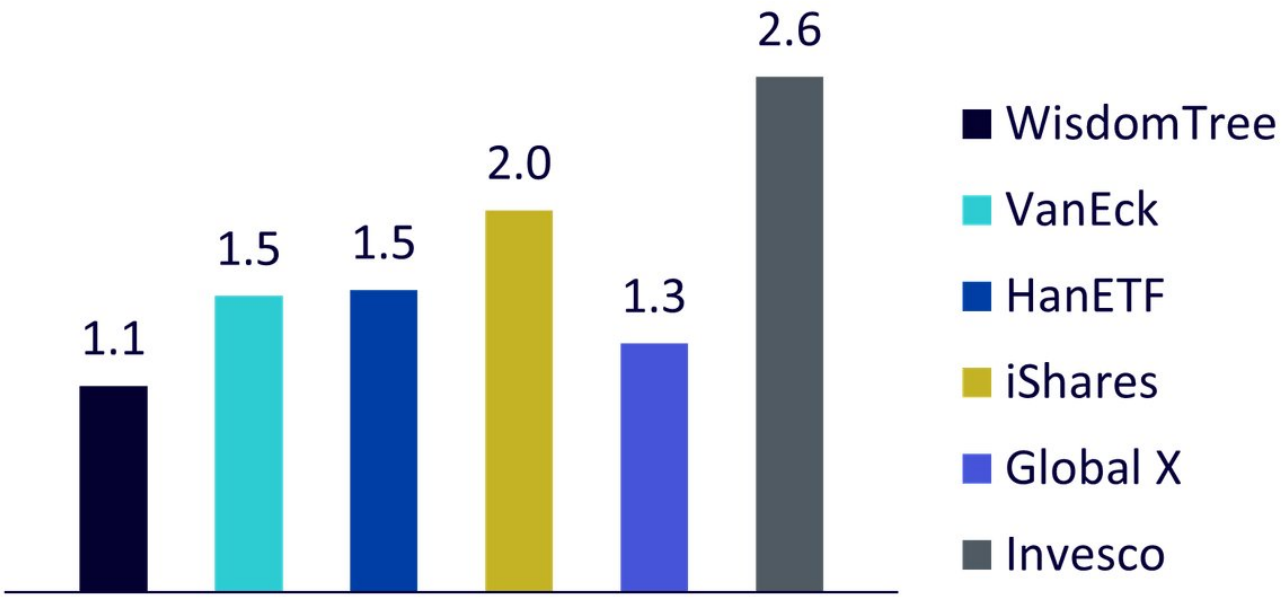
In comparison to peers, the WisdomTree Europe Defence UCITS Index offers amongst the highest forward long-term growth estimates alongside the lowest Price/Earnings to Growth ratio (PEG) ratio.

Figure 5: Comparison of fundamentals

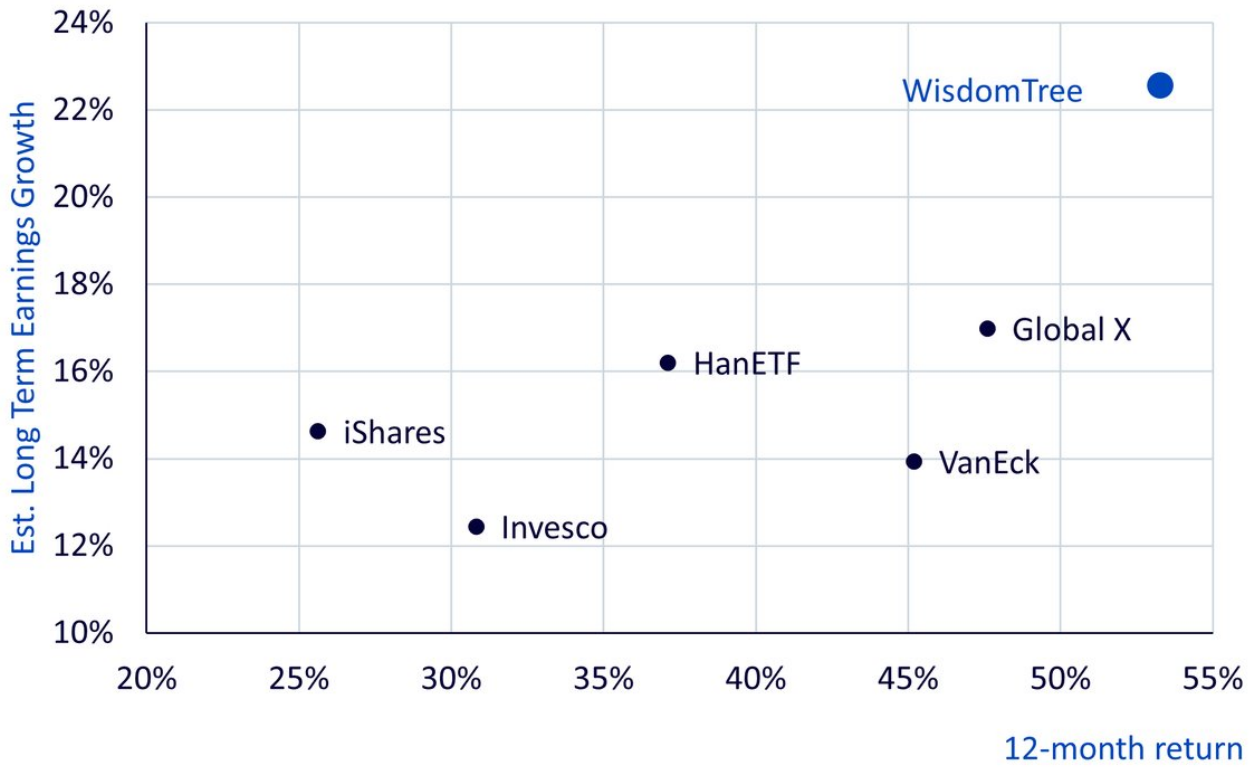
Figure 5a: Estimated long-term growth


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.

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

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