Two stocks at the forefront of European defence

Published 3 April 2025

Samuel Rines
Macro Strategist, Model Portfolios

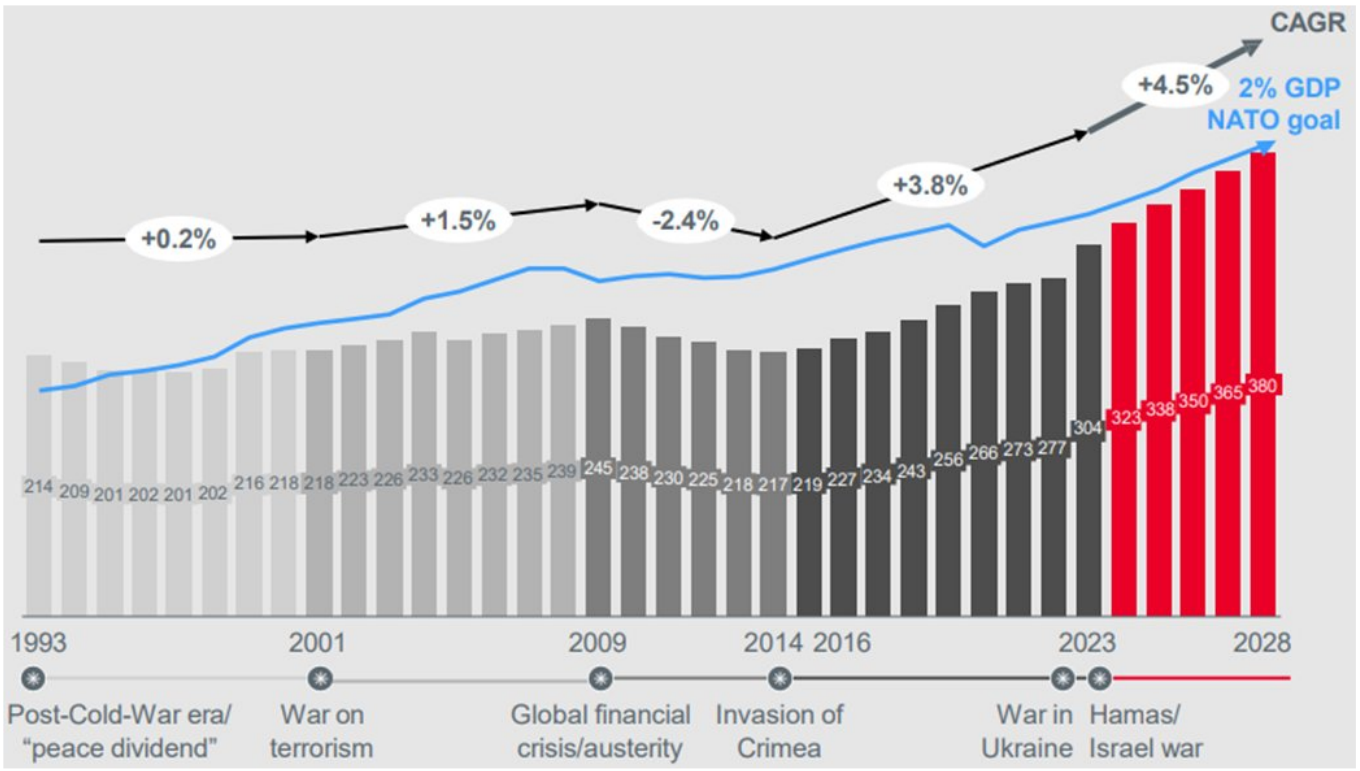
Aneeka Gupta
Director, Macroeconomic Research

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 ended1. 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 rules2. 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

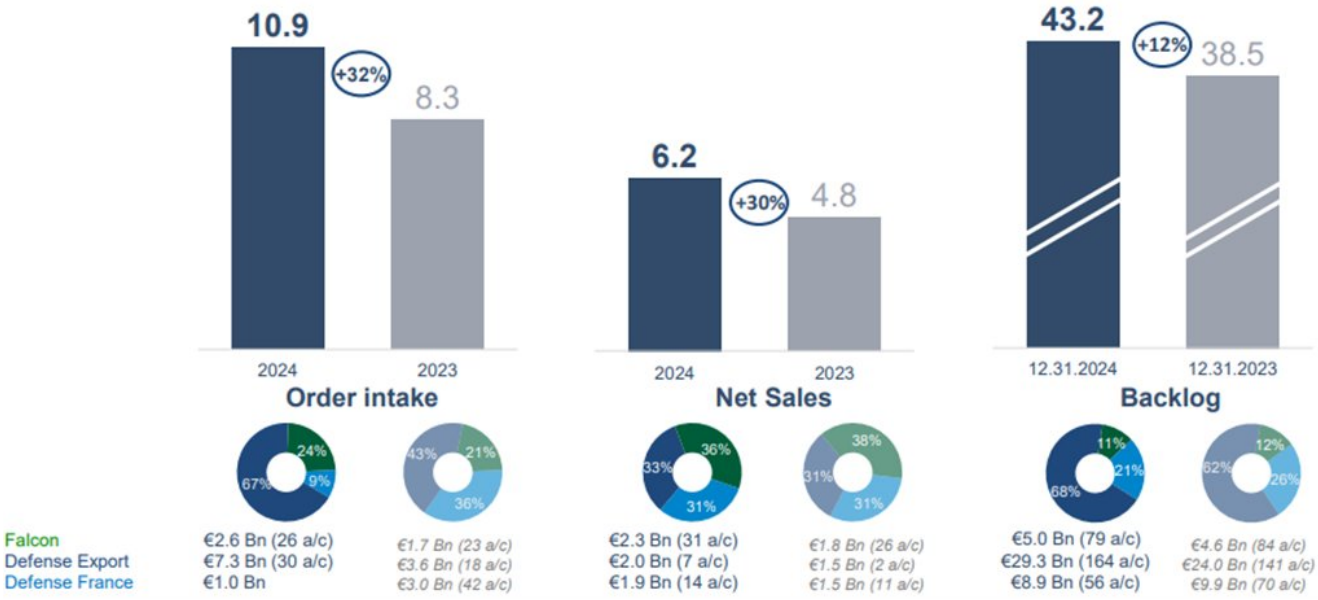
medium drones (such as the Falco UAV series). Not to mention, its collaborations with companies like BAE Systems (another holding in WDEF) in the Eurofighter Typhoon and next-gen Tempest/GCAP fighter programs.

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 neutralisation4.

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.

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

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.