What's Hot - Global defence: from depletion to duration

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Punti chiave

- The US–Iran conflict has depleted missile and interceptor stockpiles, creating order bottlenecks that may persist until mid-2029 and a near-10x jump in Tomahawk procurement requests.
- Q2 2026 results converted the narrative into numbers: Lockheed, RTX and Northrop all reported record backlogs (US$230.4bn, US$289bn and US$105bn respectively) and raised guidance.
- The demand is global, not just American — roughly half of Raytheon's H1 bookings came from international customers, while Europe is rearming at the fastest pace since the Cold War.
- Multi-year framework contracts and capacity expansion are transforming a conflict trade into a structural earnings theme with unusual revenue visibility.

Global defence is not just a regional theme. It is now a secular trend rooted in a multi-year investment cycle. The US remains the largest market and still anchors the earnings power of the sector, but Europe, the UK, Israel, Korea and parts of Asia are all contributing to the same rearmament story. The current US cycle is especially important because the war in Iran, alongside the ongoing Russia-Ukraine conflict, has exposed a very practical problem for defence budgets: stockpiles have been depleted and need replacing.

That matters for the outlook of the WisdomTree Global Defence UCITS ETF (Ticker: WDGF LN Equity), built to capture companies directly involved in defence, with a meaningful tilt toward those with material defence revenues.

Stockpile depletion: the accelerant

Since the launch of Operation Epic Fury in late February, the conflict has cost the US an estimated US$37.5bn. The Pentagon has expended thousands of high-end munitions, including more than 1,000 Tomahawk cruise missiles and hundreds of THAAD, Patriot and SM-3 interceptors defending US and allied forces[1]. Layered on top of years of transfers to Ukraine, the drawdowns have created order bottlenecks that may not clear until mid-2029.

The Tomahawk programme illustrates the recalibration starkly: having procured an average of roughly 86 missiles per year over the past decade, the Pentagon has requested 785 for the 2027 budget alone, which marks a near – 10x increase in a single fiscal cycle.

Q2 Earnings Season: Demand converting into delivery

The performance of defence stocks has been weak since fighting broke out in Iran, with investors worried that military spending might have peaked. However, the Q2 reporting season in the US sheds light on the forward growth prospects. It shows that the demand backdrop is translating into actual revenue growth, backlog expansion and guidance upgrades. Lockheed Martin reported Q2 sales up 11% to US$20.1bn, with missile and fire control revenue rising nearly 20% to US$4.1bn. Backlog reached US$230.4bn, helped by a multi-year THAAD contract, and the company raised its full-year sales outlook. The missile ramp has been driven by PAC-3 and precision-strike production, both of which have been deployed in the Iran conflict[2]. That is a classic replenishment signal. The demand is not one-off. The Pentagon is trying to restore inventories while also expanding capacity.

Raytheon (RTX) delivered the same message in a different way. Q2 sales rose 14% to US$24.7bn, adjusted EPS increased 21%, and backlog reached US$289bn, including US$119bn in defence. Sales at Raytheon, the defence arm of the group, rose 18% to US$8.27bn. RTX raised its full-year sales, EPS and free cash flow guidance. Roughly half of Raytheon's H1 bookings came from international customers, with Europe a major contributor[3]. That matters because it shows the opportunity is not only domestic US restocking. It is also allied demand, especially for Patriot, Standard and AMRAAM systems.

Northrop Grumman reinforced the point. The company reported Q2 sales of US$10.9bn, up 5%, with net awards of US$20bn and backlog at a record US$105 bn[4]. It also raised full-year sales and EPS guidance. The quality of that backlog matters. Northrop's awards span strategic systems, mission systems, aerospace and space. This is not a short burst of munitions demand. It is a broader rearmament and deterrence cycle, with programmes that run for years and often for decades.

Taken together, those results show why defence investors are increasingly focused on pipeline rather than just headlines. The Pentagon's push for higher production, longer framework contracts and domestic manufacturing expansion is turning geopolitical stress into a more durable industrial earnings story. Lockheed is tripling PAC-3 capacity, RTX is benefiting from missile demand across the US and Europe, and Northrop is seeing major awards in strategic and space systems. That is the kind of visibility the sector has not always had, and it is why investors are starting to treat defence as a structural earnings theme rather than a temporary conflict trade.

Accessing the theme: WisdomTree Global Defence UCITS ETF (WDGF)

The result is a portfolio that captures both sides of the current defence opportunity. On one side are the traditional primes, where backlog, capacity and multi-year orders are improving. On the other are the newer enablers, such as software, sensors, cyber and data, which are becoming increasingly important in modern warfare. WDGF also stays close to the core of the theme. The fund seeks to track the price and yield performance of the WisdomTree Global Defence UCITS Index (Ticker: WTGDEFUN Index), which requires constituents to derive at least 25% of their revenue from defence activities. That threshold is significant. It helps reduce dilution from diversified aerospace and industrial businesses where defence

may only be a marginal contributor and instead tilts the portfolio towards companies with more direct sensitivity to defence spending outcomes.

Global defence benchmarks typically carry their largest country weight in the United States, a natural consequence of the US accounting for roughly a third of world military expenditure[5] and being home to the prime contractors reporting the record backlogs, as seen in Q2 2026 earnings results. WDGF therefore provides meaningful exposure to the very companies at the centre of the restocking cycle: the missile, munitions and missile-defence franchises whose order books are being rebuilt over multi-year horizons.

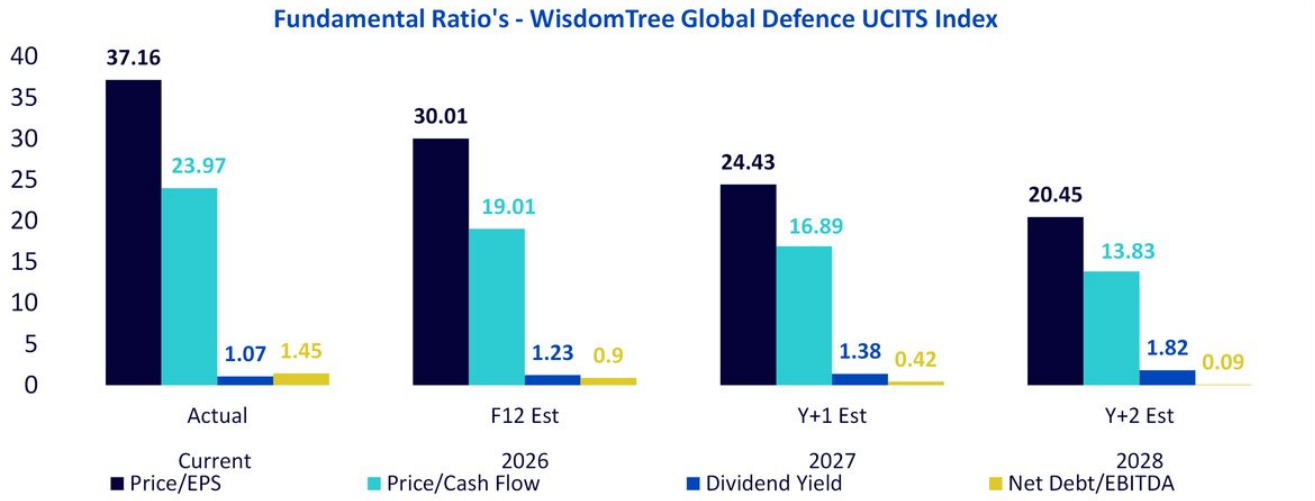
Crucially, however, the opportunity set is not confined to the US, and neither is WDGF. The fund's underlying index captures the European rearmament story, which is the fastest regional spending growth since the Cold War, alongside allied defence champions benefiting from rising Asia-Pacific budgets and the growing international share of US primes' backlogs.

The index methodology is purposefully constructed for thematic purity. Constituents are weighted by their Exposure Score, which reflects the proportion of revenues genuinely derived from defence activities, tilting the portfolio towards companies whose earnings are most directly geared to rising defence budgets rather than diversified industrials with incidental defence exposure.

Valuations Have Moderated

Valuations have become more attractive, not less. The WisdomTree Global defence UCITS Index's trailing P/E has fallen from 40x to 37.1x. The defence sector operates on long-term contracts, meaning that earnings expansion takes time to materialize.

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



Source: Bloomberg, WisdomTree as of 19 May 2026. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

The WisdomTree Global Defence UCITS Index is positioned for strong earnings growth, with earnings per share expected to rise by 23.8% in 2026 and 22.8% in 2027[6]. This reflects expanding market share, multi-year procurement cycles, and increasing defence budgets globally. With cash flow per share expanding as companies scale operations, debt levels are expected to decline, supporting financial stability. Dividends per share are also expected to grow over the next two years.

		2026		2027		2028	
Measure	Current	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth
Earnings Per Share	8.47	10.48	23.82%	12.88	22.86%	15.38	19.42%
Cash Flow Per Share	13.13	16.55	26.12%	18.63	12.55%	22.76	22.12%
Dividends Per Share	3.35	3.87	15.43%	4.33	11.85%	5.73	32.40%
Book Value Per Share	48.72	57.45	17.92%	63.8	11.05%	71.39	11.90%
Sales Per Share	116.74	132.08	13.14%	145.02	9.80%	157.61	8.68%
EBITDA Per Share	14.95	19.38	29.63%	22.71	17.19%	26.28	15.71%
Net Debt Per Share	21.73	17.4	-19.92%	9.44	-45.75%	2.24	-76.30%

Source: Bloomberg, WisdomTree as of 30 July 2026. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Conclusion

The investment case is therefore not just that defence spending is rising. It is that spending is becoming visible in the income statements of the biggest contractors, and in the backlog lines of the most important industrial suppliers. At the same time, the opportunity is broadening geographically. The US is still the engine, but Europe is rearming, allies are replenishing stockpiles, and digital defence is becoming more relevant. WDGF is well positioned for that mix because it combines the US earnings cycle with the global rearmament trade in one portfolio.

[1] Center for Strategic and International Studies (CSIS)
[2] Reuters as of 23 July 2026
[3] Reuters as of 23 July 2026
[4] Northrop Grumman as of 21 July 2026
[5] Source: SIPRI Stockholm International Peace Research Institute as of 31 March 2026
[6] Source: Bloomberg, WisdomTree as of 30 July 2026

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