Global Defence: security as a secular trend

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Key Takeaways

- Defence is increasingly viewed as a long-term structural investment theme, not a short-term cyclical trade, due to persistent geopolitical tensions and rising multi-year military budgets.
- The opportunity set is expanding beyond traditional contractors into drones, missile defence, cyber, space, electronics, software and C4ISR capabilities.
- The WisdomTree Global Defence UCITS ETF aims to provide a more targeted global defence exposure by focusing on companies generating at least 25% of revenue from defence activities.

From geopolitics to a secular investment theme

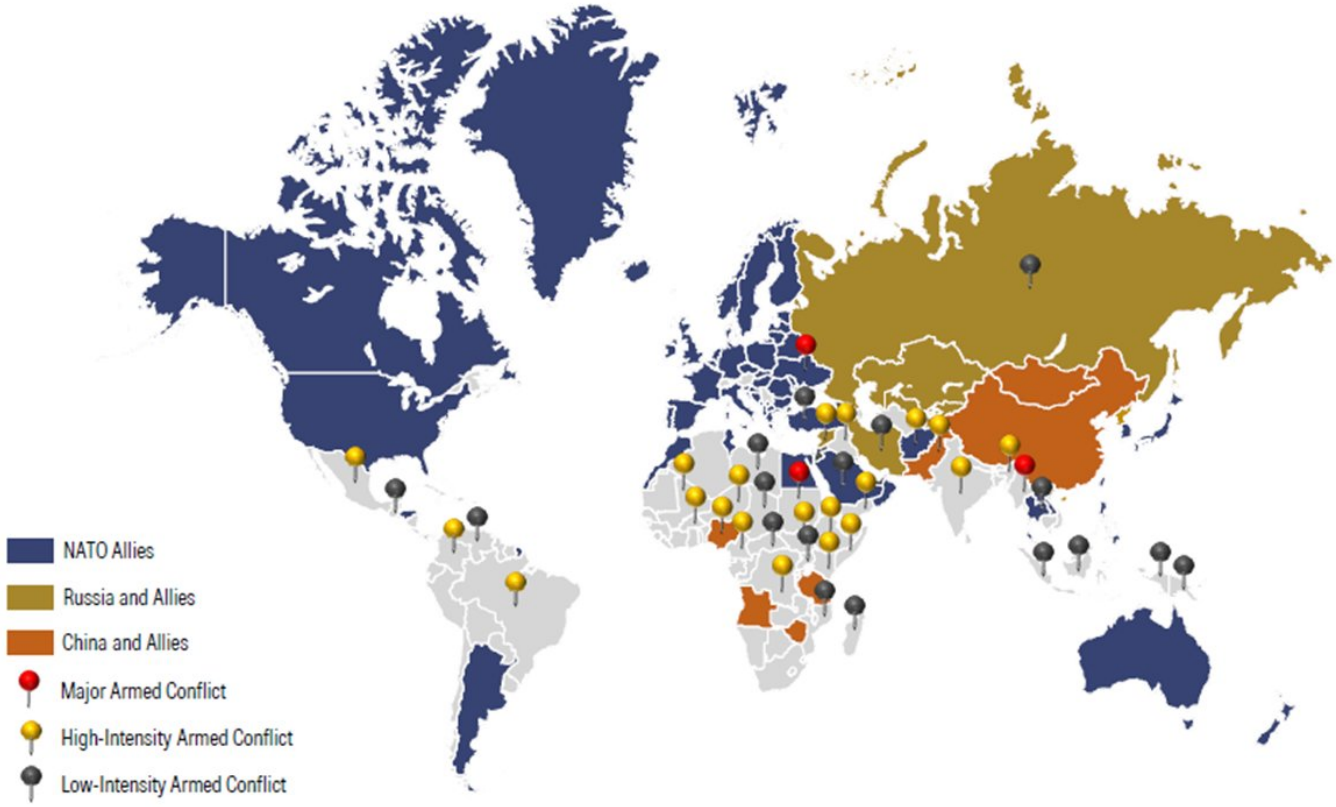
Defence is undergoing a profound re-rating in the minds of policymakers, industrial planners and investors alike. What was once often treated as a cyclical and sometimes controversial corner of equity markets is increasingly being recognised as a structural theme tied to national resilience, strategic autonomy and technological leadership. Despite that shift, defence companies still account for only around 2.5%[1] of the MSCI World Index, underscoring how underrepresented the theme can remain in broad global equity allocations.

Global military expenditure reached around US $2.7tn in 2024[2], marking the tenth consecutive annual increase and the sharpest rise since the end of the Cold War. Importantly, this is not simply a short-term replenishment cycle following recent conflicts. Defence budgets are increasingly being embedded into multi-year procurement plans, industrial policy frameworks and capacity buildouts that could support earnings visibility across the defence value chain for years to come.

Structural forces driving global defence

The first driver is a more persistent and geographically dispersed threat backdrop. Russia's invasion of Ukraine accelerated rearmament in Europe, while tensions in the Indo-Pacific and instability in the Middle East have reinforced the need for deterrence, readiness and stockpile rebuilding on a broader global basis. The result is a higher baseline for defence spending, not only among countries directly exposed to conflict, but also among allies reassessing force posture, resilience and supply security.

Figure 1: Geopolitical tensions and security threats drive defence spending

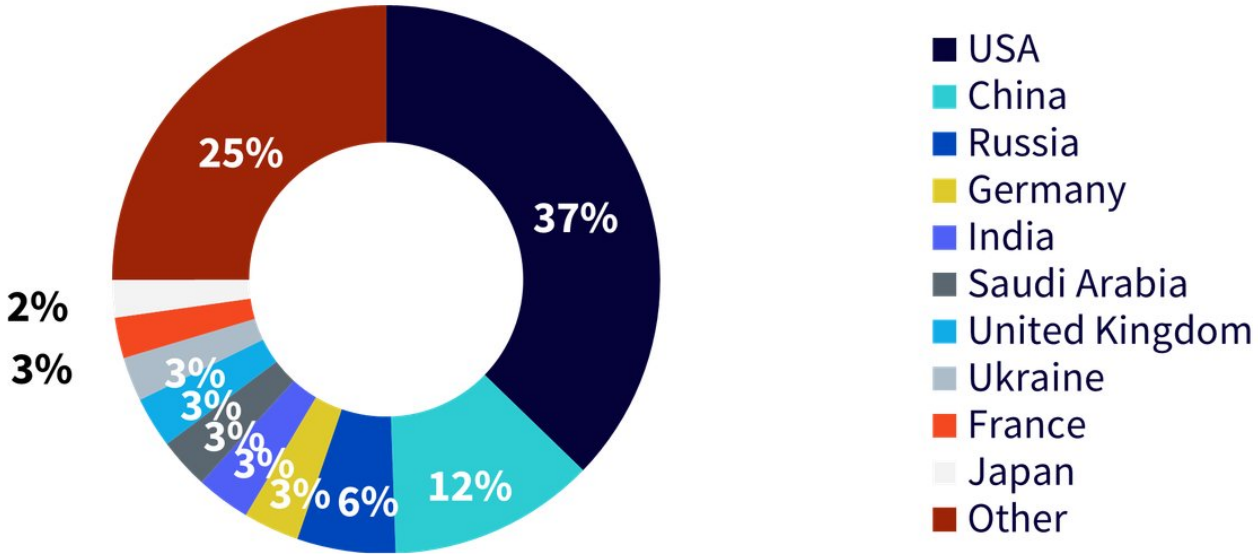


Source: SIPRI Stockholm International Peace Research Institute, WisdomTree as of 10 February 2026.

The second driver is that the nature of defence spending is changing. The current cycle is not limited to traditional land, air and sea platforms. New spending is increasingly directed towards air and missile defence, drones and autonomous systems, cyber and electronic warfare, space-based assets, and C4ISR[3] capabilities. That broadens the opportunity set beyond prime contractors to include businesses involved in sensors, software, electronics, secure communications and mission-critical subsystems.

The third driver is that defence budgets are being supported by national strategy and alliance commitments rather than ad hoc responses. The ten largest military spenders account for roughly 75%[4] of total global defence expenditure, highlighting how policy decisions in a relatively concentrated group of countries can shape the industry's revenue outlook. NATO countries, meanwhile, allocate on average 58%[2] of their total defence budgets to equipment, research and development, and maintenance, reinforcing the case that procurement and modernisation remain central to the current cycle.

Figure 2: Top 10 Global Defence spenders in 2024



Source: SIPRI Stockholm International Peace Research Institute, Morningstar, WisdomTree as of 30 June 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

For investors, this combination of geopolitical persistence, technological change and longer funding horizons points to something more durable than a short-lived sentiment trade. In our view, global defence markets appear to be in the early stages of a new supercycle, supported by both sovereign demand and industrial investment.

How to capture the global defence cycle

Following the framework established in WisdomTree's regional defence strategies, the WisdomTree Global Defence UCITS ETF (Ticker: WDGF) is designed to provide targeted exposure to listed companies with meaningful participation in the global defence industry, but across a much broader opportunity set. The strategy extends beyond any single geography, spanning the US, Europe and selected other developed and emerging markets where domestic defence capability and industrial depth are increasingly important.

The WisdomTree Global Defence UCITS ETF tracks 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.

Eligible companies must also meet minimum size and liquidity requirements, including a market capitalisation of at least US $200mn and a three-month median daily traded volume of at least US $1mn. The Index further applies controversial weapons screening and excludes companies that support certain nuclear weapons programmes outside the Treaty on the Non-Proliferation of Nuclear Weapons framework.

To sharpen the exposure further, each selected company is assigned an Exposure Score based on the share of revenues linked to defence activities.

- Exposure Score 3 includes companies with more than 50% defence revenue
- Exposure Score 2 includes companies with 25% to 50% revenue exposure from the defence sector

Constituents are then weighted by market capitalisation adjusted by Exposure Score, subject to capping rules. Exposure Score 3 stocks are capped at 5%, while the remainder are capped at 2.5%. The Index is rebalanced quarterly. This design seeks to balance purity, scalability and diversification. It gives greater prominence to businesses with deeper defence exposure, evident in Figure 3, while still recognising the importance of investability and liquidity for exchange-traded fund (ETF) implementation.

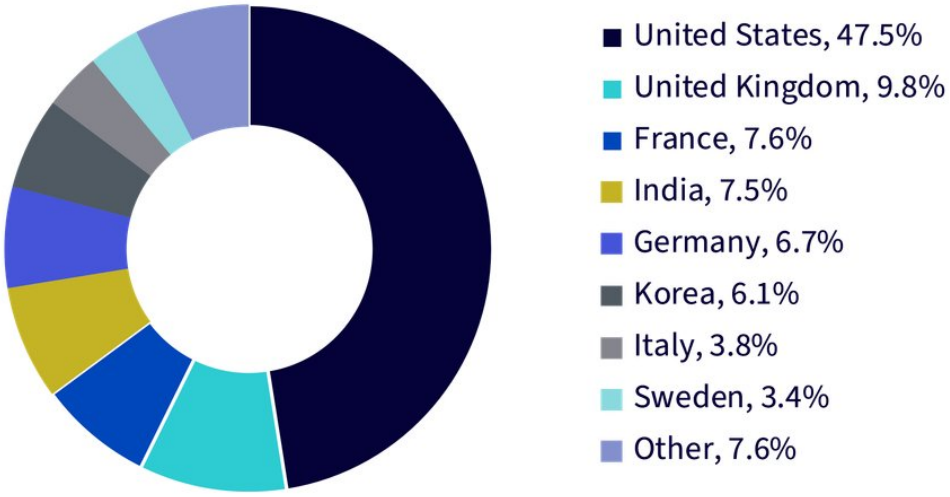
Figure 3: Purity of exposure - companies with a higher defence revenue exposure obtain a higher weight

	BAE SYSTEMS	Rolls-Royce
Market Cap	USD 79.1bn	USD 130.6 bn
Defence Exposure	High revenue exposure ~90%	Low revenue exposure ~26%
Exposure Score	**3**	**2**
Weight at the Last Rebalancing	**5.0%**	**2.5%**

Source: WisdomTree, Bloomberg, FactSet. Market cap data as of 19 September 2025, the latest rebalancing date. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

It also broadens the regional footprint beyond the dominant US primes to include defence champions and suppliers across Europe and a range of other strategic markets such as India and Korea. The result is a portfolio that reflects the increasingly global nature of defence modernisation and procurement.

Figure 4: Geographical allocation



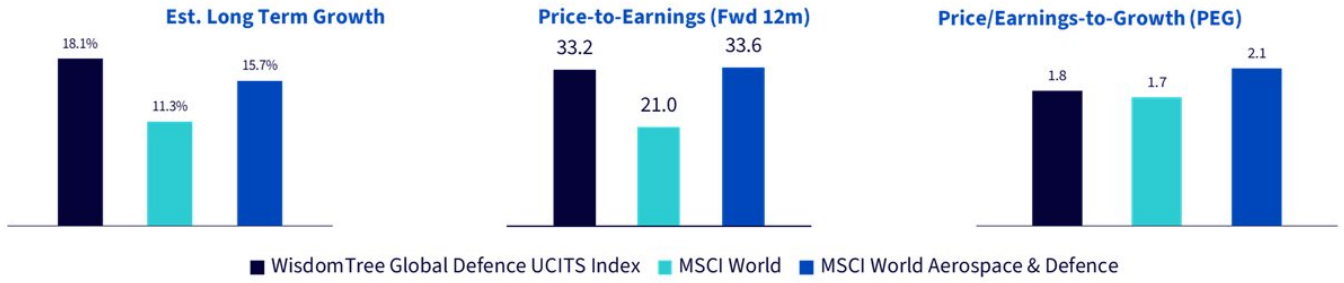
Source: WisdomTree. Holdings are based on target weights as of 31 December 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Why a targeted global approach matters now

A purely regional defence allocation can be powerful, but a global approach may be especially compelling at this stage of the cycle. The United States remains central to defence technology and procurement. Europe continues to accelerate rearmament and industrial coordination. At the same time, other markets are becoming increasingly important as both buyers and suppliers of defence equipment. A global strategy can therefore capture a broader mix of prime contractors, subsystem manufacturers and emerging industrial champions positioned to benefit from rising defence budgets, modernisation programmes and export demand.

The WisdomTree Global Defence UCITS Index (Ticker: WTGDEFUN Index) currently has the highest estimated long-term growth rate among its peers at 18.1%. While its price-to-earnings (P/E) ratio appears elevated at 33.2x in isolation, this looks more reasonable when considered alongside its expected earnings growth. On this basis, the Price/Earnings-to-Growth (PEG) ratio is 1.8x, which is lower than that of benchmark indices.

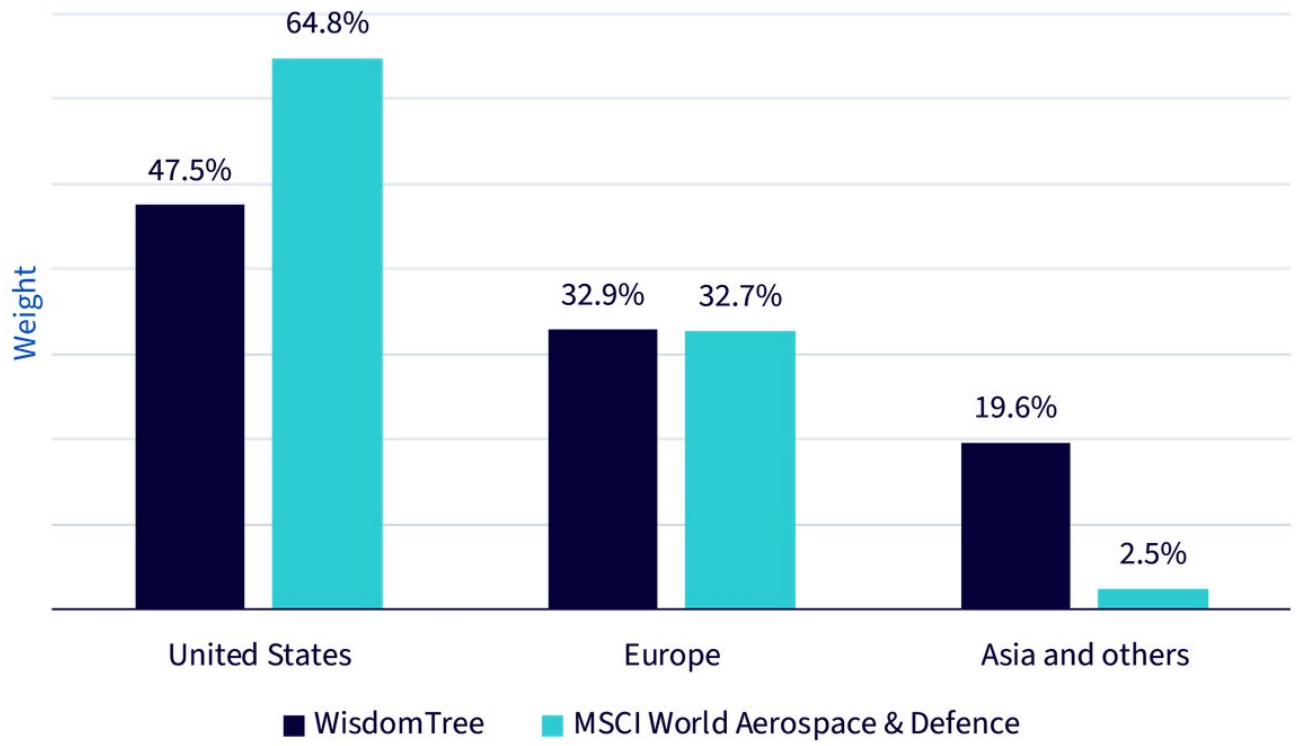
Figure 5: Long-term growth and valuation metrics (forward P/E and PEG)



Source: WisdomTree, FactSet, Bloomberg, as of 31 December 2025. Holdings of the peers were sourced from Bloomberg. Fundamentals were sourced from FactSet. PEG ratios are based on forward P/E ratios and est. long term growth. MSCI World denotes MSCI World Index. MSCI World Aerospace & Defence denotes MSCI World 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.**

Compared with broader aerospace and defence benchmarks, WisdomTree's approach tilts towards companies with higher direct revenue exposure to defence, while allocating more meaningfully beyond the US and Europe. That may help investors gain access to a wider opportunity set and a more focused expression of the theme than conventional indices.

Figure 6: WisdomTree overweight companies outside the US and Europe



Source: WisdomTree. Holdings are based on target weights as of 31 December 2025. **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

As security priorities harden and defence budgets become more deeply embedded in national industrial strategies, the investable case for the sector is evolving. Defence is increasingly moving from a niche satellite exposure to a more strategic allocation candidate within global equities.

[1] Source: MSCI Inc., latest available data as of February 2026.
[2] Source: SIPRI Stockholm International Peace Research Institute, WisdomTree as of 10 February 2026.
[3] C4ISR represents Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance.
[4] Source: SIPRI Stockholm International Peace Research Institute, Morningstar, WisdomTree as of 30 June 2025. Historical performance is not an indication of future performance and any investments may go down in value.

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