Positioning Portfolios for the Rise of Defense ETFs

Published October 2, 2025

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Key Takeaways

- As of August 2025, more than $5.5 billion in net flows into industrial ETFs, with 88% going into funds labeled “defense,” signals a pivotal shift in equity allocations amid rising global security tensions.
- With NATO nations pledging to increase defense spending targets by 2035 and Germany launching a €500 billion modernization fund, defense exposure is fast becoming a strategic portfolio play.
- Advisors can leverage WisdomTree’s new defense suite, including WDGF, WDAF and WDEF, as core equity components, supported by hands-on portfolio consulting to integrate and explain these strategies effectively.

Defense Funds Are on the Rise: What Advisors Need to Know

Advisors today are navigating portfolios in an environment shaped by rising geopolitical tensions and shifting government priorities. As of the end of August, Industrials sector ETFs have drawn more than **$5.5 billion** in estimated net inflows year-to-date—and remarkably, **88% of those flows have gone into ETFs with "defense" in their name**.1 For many investors, defense exposure is no longer a niche theme but an increasingly core component of equity allocation.

This surge in flows mirrors the headlines. At the 2025 NATO Summit in June, member nations pledged to raise defense and security spending to **5% of GDP annually by 2035**—more than double the previous 2% benchmark.2 Europe is moving quickly in the same direction. In March, German Chancellor Friedrich Merz unveiled plans for a **€500 billion (~$530 billion) infrastructure fund** to modernize the nation's transport, energy and digital networks while also supporting its expanded military commitments. And this is not just a European story. Globally, defense spending is projected to climb in 2025, fueled by geopolitical tensions, modernization efforts and new commitments from governments around the world.

WisdomTree's Defense Suite

At WisdomTree, we've responded to this growing demand by introducing our **suite of defense ETFs this year**. These funds—including the WisdomTree Global Defense Fund (WDGF), WisdomTree Asia Defense Fund (WDAF) and WisdomTree European Defense Fund (WDEF)—are designed to provide targeted exposure to the companies shaping the future of global security.

Defense in Action: Portfolio Consulting for Advisors

Advisors have been quick to take notice. In our **portfolio consultations**, we're seeing defense ETFs appear more frequently as dedicated allocations within the equity sleeve. And we expect that presence to grow as more investors look to balance long-term growth potential with the opportunity that defense-oriented exposures can bring in today's markets.

Selecting a defense ETF is only the first step. The greater challenge is knowing how to integrate that strategy into an existing model portfolio. Our Portfolio Consulting team works alongside advisors to identify funding sources, evaluate allocation impacts and provide clear guidance every step of the way.

Whether you're considering WDGF, WDAF, WDEF or another defense strategy, we provide:

- **Implementation strategies** tailored to your models, showing where defense can be funded without disrupting core allocations.
- **Impact analysis** highlighting how defense exposure shifts factor weights, risk and potential performance drivers.
- **Clear comparisons and rationale** you can use directly with clients to explain why defense funds may enhance resilience and growth potential.

As investor interest in defense grows, we can help you position portfolios to meet that demand—while keeping client objectives at the center.

Important Risks Related to this Article

There are risks associated with investing, including the potential loss of principal. Foreign investing involves specific risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

WDGF: To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is more likely to be impacted by events or conditions affecting that country or region. Investments in non-U.S. securities involve political, regulatory and economic risks that may not be present in investments in U.S. securities. Investments in non-U.S. securities may be subject to the risk of loss due to foreign currency fluctuations, political or economic instability or geographic events that adversely impact issuers of foreign securities. Investments in non-U.S. securities also may be subject to withholding or other taxes and may be subject to additional trading, settlement, custodial and operational risks. These and other factors can make investments in the Fund more volatile and potentially less liquid than other types of investments. These risks may be heightened to the extent the Fund invests in companies domiciled in or otherwise tied to developing or emerging market countries. The Fund invests in the securities included in, or representative of, its Index. The Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WDAF: Because the Fund invests primarily in the securities of companies in Asia, the Fund's performance is expected to be closely tied to social, political and economic conditions within Asia and to be more volatile than the performance of more geographically diversified funds. Many countries in the region have historically faced political uncertainty, corruption, military intervention and social unrest. To the extent that such events continue in the future, they can be expected to have an unpredictable effect on economic and securities market conditions in the region and may impact the ability of the Fund to buy, sell or otherwise transfer securities and cause the Fund to decline in value. Investments in non-U.S. securities involve political, regulatory and economic risks that may not be present in investments in U.S. securities. The Fund invests in the securities included in, or representative of, its Index. The Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WDEF: This Fund focuses its investments in Europe, thereby increasing the impact of events and developments in Europe that can adversely affect performance. Europe has and may continue to experience security concerns, war, threats of war, aggression and/or conflict, terrorism, economic uncertainty, sanctions or the threat of sanctions, natural and environmental disasters, the spread of infectious illness, widespread disease or other public health issues and/or systemic market dislocations that lead to increased short-term market volatility and have adverse long-term effects on European and world economies and disrupt the orderly functioning of securities markets generally, which may negatively impact the Fund's investments. European countries that are members of the European Union ("EU") and the European Economic and Monetary Union ("EMU") are subject to certain economic and monetary policies and controls and the risks associated with such coordinated economic and fiscal policies. Investments in non-U.S. securities involve political, regulatory and economic risks that may not be present in investments in U.S. securities. The

securities of small-capitalization companies generally trade in lower volumes and are subject to greater and more unpredictable price changes than larger-capitalization stocks or the stock market as a whole. The Fund invests in the securities included in, or representative of, its Index. The Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.