Two Ways to Access European Defense: Market Capitalization vs. Thematic Conviction

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Christopher Gannatti, CFA
Global Head of Research

Key Takeaways

- Europe's historic defense spending surge is making it increasingly important for investors to distinguish between broad aerospace exposure and portfolios with direct exposure to the continent's rearmament cycle.
- While the Select STOXX Europe Aerospace & Defense ETF (EUAD) is dominated by commercial aerospace leaders, the WisdomTree Europe Defense Fund (WDEF) offers broader exposure to defense contractors and specialized suppliers benefiting from rising military procurement.
- As defense budgets drive record order backlogs across Europe's military supply chain, WDEF provides more targeted exposure to the region's long-term defense buildout.

European defense spending is rising at a pace not seen since the Cold War. The question for investors is not whether to have exposure, it is what kind of exposure they are actually getting.

A Geopolitical Moment That Changes the Investment Calculus

The investment case for European defense has shifted from cyclical to structural. Russia's invasion of Ukraine made visible what had been building quietly for years.

*Europe's defense capabilities had atrophied, its ammunition stockpiles were thin, and its reliance on U.S. security guarantees had left NATO's eastern flank*1 *dangerously exposed.*

The political response has been emphatic. At the June 2025 NATO Summit in The Hague, alliance members formally committed to investing 5% of gross domestic product (GDP) annually on defense by 2035, structured as at least 3.5% on core military requirements and 1.5% on related infrastructure and industrial capacity, more than doubling the 2% benchmark that all 32 members met for the first time only in 2025. Progress is already accelerating ahead of schedule. By the 2026 meeting, five allies are expected to reach the 3.5% core defense threshold, with 17 meeting the 1.5% defense-related investment guideline.2

We can review a few specific country examples:

Germany's *Zeitenwende*, Chancellor Scholz's February 2022 declaration of a historic turning point in security policy, established a €100 billion special defense fund and a commitment to exceed NATO's 2% spending threshold. That trajectory has only accelerated. Germany's 2026 defense budget reaches

approximately €108 billion in total, and spending is projected to climb toward €153 billion by 2029 as Berlin pursues what Chancellor Merz has described as "the strongest conventional army in Europe."3

Poland, now spending approximately 4.7% of GDP on defense in 2025, the highest share of any NATO member, has budgeted a further increase toward 4.8% in 2026, with the government having previously stated an ambition to reach 5%.4

The spending commitments now extend well beyond declarations.

- **France** has accelerated its military planning law, targeting a defense budget of €64 billion by 2027, double the 2017 figure, while adding a further €36 billion across 2026–2030 focused on munitions, drones, and air defense.5
- The **United Kingdom's** June 2026 Defense Investment Plan commits £298 billion over four years, with the Ministry of Defense budget on track to reach £79 billion by 2029.6
- **Sweden** raised its defense appropriations by 18% for 2026 alone, described as the most comprehensive reinforcement since the Cold War, with procurement spanning air defense, rocket artillery, and new naval vessels.7
- **Norway**, now spending 3.3% of GDP on defense and the first European ally to surpass the United States in per-capita defense spending, committed a further NOK 115 billion over the coming decade in March 2026.8

This is not a temporary procurement spike. It reflects a fundamental reassessment of what European security requires, and it has years, likely decades, to run. An investor seeking to align with that thesis faces a choice that is less obvious than it appears.

Not all European aerospace and defense strategies are equally sensitive to the rearmament cycle.

Select STOXX Europe Aerospace & Defense ETF (EUAD): The Market Capitalization Benchmark

EUAD tracks the total return performance of, before fees and expenses, the STOXX Europe Total Market Aerospace & Defense Index. The reason we are focusing on it here is that, as of July 31, 2026, the strategy had over $1.1 billion in assets under management, and it represented the largest ETF option for U.S. investors thinking about a specific European defense exposure.9 The methodology behind this index is straightforward.10

- Begin with the broad European equity universe
- Retain companies classified in the Aerospace & Defense sector under the Industry Classification Benchmark
- Weight them by free-float adjusted market capitalization.

Importantly, it is not screening revenues, order backlogs or defense activities.

The result is a portfolio that reflects where European aerospace and defense equity value currently resides in the public markets. As of June 30, 2026, three companies, specifically Rolls-Royce, Safran, and Airbus, represented approximately 61% of the fund. The top ten holdings captured over 95%.11

This is the output of an uncapped market-capitalization approach applied to a market segment where a small number of very large, long-established franchises dominate publicly-listed equity value. These are exceptional businesses with deep engineering capabilities, loyal customer bases, and durable competitive advantages built over decades. The concentration simply reflects the reality of where the equity market has already assigned value.

But the composition of that value matters for investors who are specifically trying to gain exposure to the European rearmament cycle described earlier.

- Rolls-Royce derives a substantial portion of its earnings from civil engine flying hours and aftermarket services, revenue that moves with global air traffic, not European defense budgets.
- Safran's largest business lines are similarly tied to commercial aircraft production and engine programs.
- As of June 30, 2026, Airbus's commercial aircraft backlog stood at 9,222 aircraft, a figure that represents years of production visibility but remains primarily a wager on constrained global aircraft supply rather than European rearmament.12 That backlog represents extraordinary revenue visibility, but it is primarily a wager on the constrained global supply of narrow-body aircraft, not on Europe rebuilding its military stockpiles. Airbus Defence and Space is a meaningful business, but it sits inside a company whose center of gravity is commercial aviation.

An investment in EUAD is, therefore, substantially an investment in the largest existing European aerospace and defense market capitalizations, with the commercial aviation cycle playing a significant and sometimes dominant role in driving portfolio returns.

WisdomTree Europe Defense Fund (WDEF): A Thematic Strategy Built Around the Defense Build-Out

The WisdomTree Europe Defense Fund (WDEF) takes a different approach. Rather than starting with an existing market-capitalization structure and accepting the resulting exposures, WDEF is constructed to reflect the thesis that European defense spending is entering a structural expansion, and to identify the companies most directly positioned to convert that spending into deployable military capability.

The construction methodology deliberately prevents any single company from consuming the portfolio.13

WDEF holds many of the same large franchises, and Rolls-Royce, Safran, and Airbus are represented, but in the range of 5-6% each rather than 18–22% each, as seen in Figure 1. That reduction in concentration is not an act of skepticism about those businesses. It is an allocation decision that creates room for the companies whose order books, production capacity, and revenues are being most directly reshaped by the trend of European rearmament that we described earlier in this piece.

Figure 1: A Comparison of the Top 10 Holdings

WDEF	
Company Name	**Weight**
BAE Systems	10.20%
Thales	10.14%
Rheinmetall	8.70%
Safran	5.62%
Rolls-Royce Holdings	5.57%
Airbus	5.34%
SAAB	4.83%
Leonardo	4.79%
Kongsberg Gruppen	4.60%
Dassault Aviation	4.14%
Total	**63.93%**

EUAD	
Company Name	**Weight**
Rolls-Royce Holdings	22.31%
Safran	20.59%
Airbus	18.25%
BAE Systems	10.12%
Rheinmetall	7.35%
MTU Aero Engines	5.13%
Leonardo	3.57%
Thales	3.57%
SAAB	2.73%
Hensoldt	1.49%
Total	**95.11%**

Sources: WisdomTree and Select Funds factsheets for WDEF and EUAD, with data as of June 30, 2026.
Holdings subject to change.

Where the Portfolios Diverge: The Transmission Mechanism of Defense Spending

To understand the difference, it helps to think about how a defense budget actually becomes military capability.

1. Governments authorize spending.
2. Ministries place platform orders and framework agreements.
3. Prime contractors win major programs.
4. Sensor, electronics, and propulsion suppliers receive follow-on demand.
5. Manufacturing capacity is expanded.
6. Equipment is delivered, and then maintained, upgraded, and supported for years.

Each step in that chain has different listed-equity representation.

EUAD's concentration naturally emphasizes the first and largest node, represented as step 3, the established primes whose size already reflects decades of accumulated contract value. WDEF's broader

construction allows it to capture more of the chain of activity, including the specialists that may be experiencing the most acute order acceleration right now.

Consider several examples from the current data.

Rheinmetall holds 8-9% of WDEF versus 7-8% of EUAD, per Figure 1, both meaningful, but the WDEF weight is proportionally higher relative to the fund's overall construction. Rheinmetall's backlog reached €63.8 billion at year-end 2025, up 36% in a single year, and has continued accelerating through 2026, surpassing €73 billion by end of Q1 and breaching €80 billion following Q2 results released in late July, with Q2 revenue rising 69% year-on-year to €3.3 billion, beating the company's own guidance.14 This is not a mature defense incumbent enjoying normal cycle growth. It is a company moving through a pronounced demand and capacity inflection in ammunition, armored vehicles, air defense, and electronic systems.

Hensoldt, Europe's leading independent radar and electronic warfare specialist, sits at 4-5% of WDEF but only about 1.8% of EUAD. Hensoldt's 2025 order intake rose to €4.7 billion from €2.9 billion the prior year, a 62% increase, and its book-to-bill ratio reached 1.9x. The acceleration has continued. In H1 2026 alone, order intake doubled year-on-year to €2.8 billion, the backlog exceeded €10 billion for the first time in company history, and the book-to-bill ratio reached 2.4x for the half, and 3.0x in Q1 alone.15

Kongsberg Gruppen appears only in WDEF, at approximately 4.3% of the portfolio. Kongsberg provides exposure to missiles, air defense, naval systems, and remote weapon stations, each a priority area for European governments responding to the lessons of the Ukraine conflict. It is simply not large enough to register in a market-cap-weighted index dominated by Airbus and Rolls-Royce.

Saab holds roughly 4-5% of WDEF versus approximately 2-3% of EUAD. Saab's 2025 order intake rose 63% to SEK 96.8 billion, with a record-breaking Q4 alone generating SEK 100 billion in bookings and pushing total backlog to SEK 275 billion, roughly 3.5 times annual sales. By Q2 2026, the backlog had climbed further to a record SEK 318 billion, with Q2 order bookings rising 141% year-on-year, driven by a SEK 47 billion submarine contract with Poland and Gripen fighter contracts with Ukraine.16

Beyond the large primes, WDEF also holds companies that EUAD does not. Some examples include:17

- Exosens, 1.53%,in night-vision and optronics
- TKMS, 2.93%, in submarines
- Theon International, 1.27%, in soldier night-vision systems
- MilDef, 0.44%, in ruggedized battlefield computing
- Bittium, 0.54%, in secure tactical communications
- Cohort, 0.34%, in electronic warfare and naval sensors

These are smaller companies with narrower exposure, but their revenues are almost entirely driven by defense procurement. They represent the emerging and specialist layer of the European defense supply chain, the layer potentially most sensitive to the marginal amount of new spending.

Two Questions, Two Portfolios

Framed plainly, these strategies are answers to different questions.

EUAD answers: *What does the publicly traded European aerospace and defense sector look like when weighted by current free-float market capitalization?*

WDEF attempts to answer: *Which listed companies provide the most relevant and broadly distributed exposure to Europe's ongoing defense spending cycle?*

Neither question is wrong. Investors entering the European defense space in 2025 and 2026, motivated by NATO's structural shift, the ongoing Ukraine conflict, and the European Commission's defense investment agenda, are almost certainly asking the second question. They want to know how much of their portfolio is genuinely sensitive to the European rearmament thesis, not how much is influenced by the commercial aviation cycle or the aftermarket economics of civil jet engines.

The portfolio-level data on driver sensitivity reinforces this. EUAD carries high sensitivity to global passenger aviation, commercial aircraft production, and civil engine aftermarket economics. WDEF carries higher sensitivity to European ammunition replenishment, ground-based air defense, radar and electronic warfare, naval recapitalization, and soldier systems modernization. Both portfolios share meaningful exposure to large diversified primes, for example, BAE Systems, Rheinmetall, Leonardo, and Thales, but WDEF is less dependent on those names dominating the return profile.

Figure 2: Standardized Performance

Fund Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree Europe Defense Fund (NAV)	WDEF	7/17/25	0.45%	-6.09%	N/A	N/A	N/A	N/A	-7.64%
WisdomTree Europe Defense Fund (MP)	WDEF	7/17/25	0.45%	-6.56%	N/A	N/A	N/A	N/A	-7.85%
Select STOXX Europe Aerospace & Defense ETF (NAV)	EUAD	10/22/24	0.50%	7.34%	5.47%	N/A	N/A	N/A	42.41%
Select STOXX Europe Aerospace & Defense ETF (MP)	EUAD	10/22/24	0.50%	6.54%	4.44%	N/A	N/A	N/A	41.79%

Sources: WisdomTree, Morningstar, FactSet, specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed August 1, 2026 with returns for Figure 2 as of June 30, 2026. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click the relevant ticker: WDEF, EUAD.**

Figure 3: Additional Information

Fundamentals	WisdomTree Europe Defense Fund	Select STOXX Europe Aerospace & Defense ETF
Objective	The WisdomTree Europe Defense Fund seeks to track the price and yield performance, before fees and expenses, of the WisdomTree Europe Defense Index. The WisdomTree Europe Defense Index tracks companies that are domiciled and listed in developed European markets and generate at least 10% of their revenue from defense-related activities, such as military hardware, electronics, propulsion, and space or cyber-defense systems. Eligible constituents must have a minimum free-float market capitalization of USD 300 million and an average three-month daily trading volume of at least USD 2 million. Each company is assigned an "Exposure Score" of 1 to 3, based on the percentage of revenue derived from defense: 10–25% earns a score of 1, 25–50% earns a 2, and more than 50% earns a 3. The index targets a minimum of 20 constituents. If fewer than 20 companies meet the criteria, the revenue threshold is relaxed in 1% increments—never going below 5%—until the minimum count is achieved. At each semi-annual rebalance (in March and September), constituents are weighted by free-float market cap multiplied by their exposure score, with weight caps of 12.5% for Exposure Score 3 names and 7.5% for all others.	The Select STOXX® Europe Aerospace & Defense ETF (the "Fund") seeks to provide investment results that, before fees and expenses, track the total return performance of the STOXX® Europe Total Market Aerospace & Defense Index. All securities in the broad STOXX Europe Total Market universe that STOXX classifies in the ICB Aerospace & Defense sector, weighted by their free-float market capitalization, with no constituent caps.
SEC 30-Day Yield	0.57%	N/A
Total Expense Ratio	0.45%	0.50%
Total Assets Under Management (millions)	$97.25	$1,196.76

Sources: WisdomTree and Select Funds websites and fund pages. The SEC 30-Day Yield for EUAD did not appear on the 6/30/2026 fund factsheet and did not appear on the fund's website as of July 31, 2026.

1 NATO stands for North Atlantic Treaty Organization.

2 Source: North Atlantic Treaty Organization. (2026, July 7). *Defence investment update: Record spending in Europe and Canada*.

3 Source: Bundesministerium der Verteidigung. (2022). *Over EUR 100 billion for the Bundeswehr – and for our security*.

4 Source: Notes From Poland. (2025, August 29). *Poland plans record defence spending of 4.8% GDP in 2026 budget along with lower deficit*.

5 Source: Breaking Defense. (2025, July). *France to raise military spending to $75B in 2027, three years earlier than planned*.

6 Source: House of Commons Library. (2026). *Defence Investment Plan: Key decisions*.

7 Source: Swedish Ministry of Defence. (2025, September 15). *The government presents defence investments for a stronger Sweden*.

8 Source: MilitarySpend. (2026). *Norway military spending 2026: $17B defense budget*.

9 Source: EUAD fund page on the Select Funds website. Data as of July 31, 2026. **Subject to change.**

10 Source: STOXX Ltd. (2026, July). *STOXX® index methodology guide (portfolio based indices)*.

11 Source: EUAD factsheet, **holdings subject to change.**

12 Source: Airbus SE. (2026, July 29). *Airbus reports half-year (H1) 2026 results*.

13 Companies earning more than 50% of their revenues from defense would face a cap of 12.5% exposure, representing the highest single company exposure within the methodology as of a rebalance.

14 Sources: Rheinmetall AG. (2026, May 7). *Financial report for Q1 2026 – Profitable growth and full order books*; Global Banking and Finance. (2026, July 29). *Rheinmetall Q2 revenue surges 70% as profit beats expectations*.

15 Sources: HENSOLDT AG. (2026, May 6). *HENSOLDT starts financial year 2026 with record order intake and rising profitability*; HENSOLDT AG. (2026, July 31). *HENSOLDT doubles order intake in the first half of 2026 – revenue and earnings rise significantly*.

16 Sources: Quartr. (2026). *SAAB Q1 2026 summary*; Investing.com. (2026, July). *Saab Q2 2026 slides: record backlog, 141% order growth on major wins*.

17 Source: WisdomTree, WDEF fund page, as of July 31, 2026. **Holdings subject to change.**

Important Risks Related to this Article

There are risks associated with investing, including potential loss of principal. This Fund focuses its investments in Europe, thereby increasing the impact of events and developments associated with the region which can adversely affect performance. Foreign investing involves specific risks, such as risk of loss from currency fluctuation or political or economic uncertainty. A Fund focusing its investments on certain sectors and/or regions increases its vulnerability to any single economic or regulatory development. This may result in greater share price volatility. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.