Welcome to the Era of European Strategic Rearmament

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Key Takeaways

- NATO's shift to 5% of GDP defense spending marks a structural transformation in European security policy, funneling capital directly into the continent's military-industrial infrastructure.
- With multi-decade fiscal frameworks, Europe's rearmament is driving a surge in defense orders and production across companies like Saab, Rheinmetall, BAE Systems and Leonardo, signaling a long-cycle investment opportunity.
- The WisdomTree Europe Defense Fund (WDEF) offers investors exposure to this regional supercycle, with high-growth, defense-focused European companies uniquely positioned for sustained geopolitical tailwinds.

NATO1 just changed the game. At its latest summit, the alliance unveiled a radical commitment: defense spending is to be raised to 5% of gross domestic product (GDP), combining traditional military budgets with infrastructure that supports dual-use resilience.2 This is not posturing—it's policy. Europe is no longer anchoring its defense architecture to Washington's umbrella. It is building a perimeter of its own, with investment-grade capital behind it. What this means for capital allocators is straightforward: the geopolitical burden is being regionalized, and money is flowing—by design—toward European industry.

This Time, It's Structural

This is not a short-term stimulus. The European rearmament is locked into fiscal frameworks that extend beyond electoral cycles. From Poland's doubling of defense outlays to Germany's "Zeitenwende"3 shift and France's industrial joint ventures, a new equilibrium is forming.4 Europe is not just catching up—it is rewiring its military-industrial base for autonomy, resilience and scale. Dual-use logistics, missile shield systems, digitalized ground forces and sovereign production lines are becoming default priorities. NATO is the narrative, but fiscal coordination and political consensus are the implementation force. The implication for investors is that this defense cycle will not look like the last one. It will be bigger, broader and longer-lived.

Companies That Are Already Operating at War-Time Tempo

The operational data within European defense companies is already bearing this out.

- Saab is executing with precision. Q1 2025 was its best quarter ever, with an 11% organic sales jump and 22% earnings before interest and taxes (EBIT) growth. Its SEK 189 billion backlog—up 19% YoY—is evidence of sustained demand from NATO-aligned markets. This isn't just Sweden—it's Colombia, Thailand and the Baltic states. Saab's Sirius EW sensor line and Gripen fighter platform are scaling through both production and export commitments, with new automated facilities coming online.5
- Rheinmetall is operating as Europe's de facto armory. The firm's €47 billion order backlog is 92% NATO-driven. Over 1.5 million artillery shells have been delivered to Ukraine, and vehicle systems revenue is set to more than double by 2027. Joint ventures with Lockheed Martin (missiles) and ICEYE (space surveillance) reflect a strategic expansion into next-generation domains.6
- BAE Systems is absorbing capital at scale. With £77.8 billion in backlog and £2.5 billion in free cash flow in 2024, the firm is operating with the momentum of a macro cycle behind it. Air, maritime and sub-surface domains are all active pipelines, with SSN-AUKUS7 submarine programs and Typhoon/F-35 production driving visibility through the decade.8
- Leonardo has reignited. Revenues and new orders surged nearly 15% and 21%, respectively, in Q1 2025. The 1.7 times book-to-bill ratio9 tells a long-cycle story, as does its new European armored vehicle joint venture with Rheinmetall. Leonardo is also pivoting hard into unmanned systems and cyber defense partnerships, indicating clear alignment with NATO's tech-forward modernization push.10

WDEF: Precision Allocation in a Structural Shift

The WisdomTree Europe Defense Fund (WDEF) is engineered for this moment. Built on a transparent, rules-based methodology, the WisdomTree Europe Defense Index targets European-listed companies generating at least 10% of revenues from defense—and weights them by a tiered exposure score system. The highest conviction names (with more than 50% defense revenue) receive a score of three and can be capped at up to 12.5% of the index at a semi-annual rebalance. These rebalances occur in March and September.

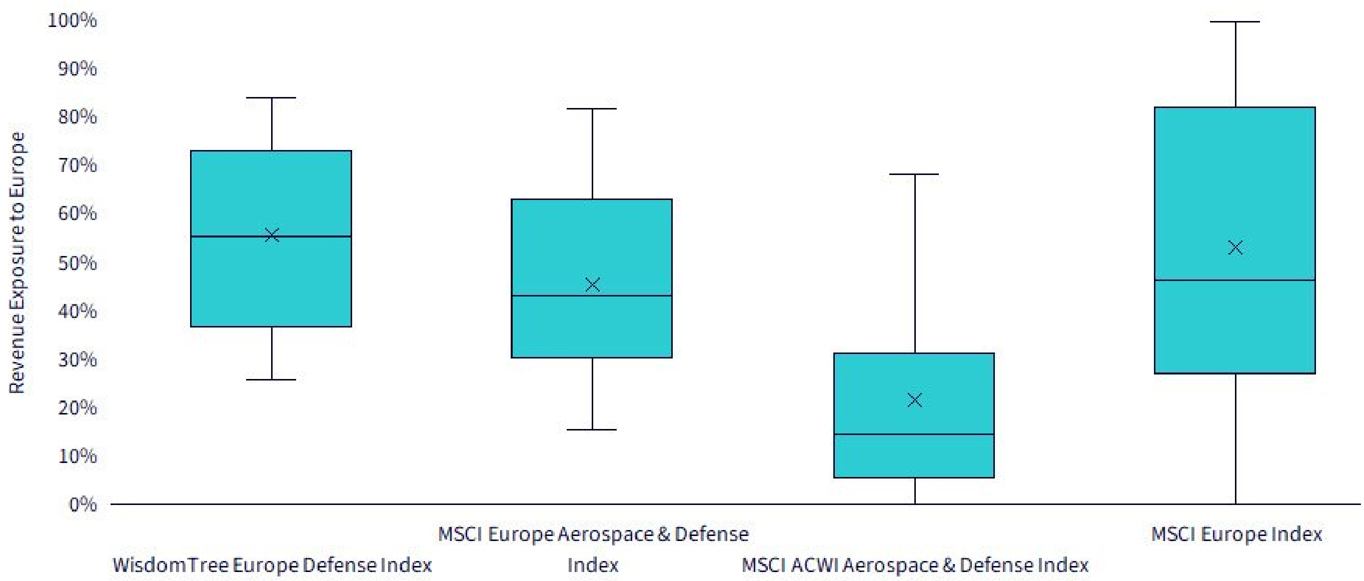
The result is not an aerospace index with defense seasoning—it is a concentrated bet on the reindustrialization of European security. It complements U.S. defense primes by capturing the other half of the geopolitical ledger: the buyers, the builders and the replenishment engines.

In figure 1, it's clear that:

- **European Revenues Are Core, Not Peripheral.** The WisdomTree Europe Defense Index shows the highest concentration of holdings with revenue derived from Europe—far more than traditional aerospace & defense benchmarks.
- **Targeted Exposure to Regional Fiscal Momentum.** The WisdomTree Index is structurally aligned with Europe's rearmament cycle, giving investors direct access to companies positioned to benefit from European government defense spending.

- **Precision over Diversion.** Broader benchmarks dilute exposure with global multinationals. WisdomTree's design prioritizes local operators that reflect and monetize Europe's geopolitical reset.

Figure 1: Europe's Defense Demand Is Local—WisdomTree Captures It



Sources: WisdomTree, FactSet, as of 6/30/25. "X" sign denotes the arithmetic average of the revenue exposure of the holdings to Europe; the line denotes the median, the bottom line of the box the 25th percentile, the top line of the box the 75th percentile, and then the lines denoting the highest and lowest. **You cannot invest directly in an index. Holdings subject to change.**

And then in figure 2, we see:

- **Defense Has Rerated—For a Reason.** The market is assigning higher valuations to defense-focused strategies, reflecting structural government spending, long-cycle backlogs and geopolitical tailwinds.
- **WisdomTree Offers Efficient Exposure.** While trading at a premium to broad European equities, the WisdomTree Europe Defense Index offers comparable valuation to peer indices—with stronger regional focus and targeted revenue alignment.

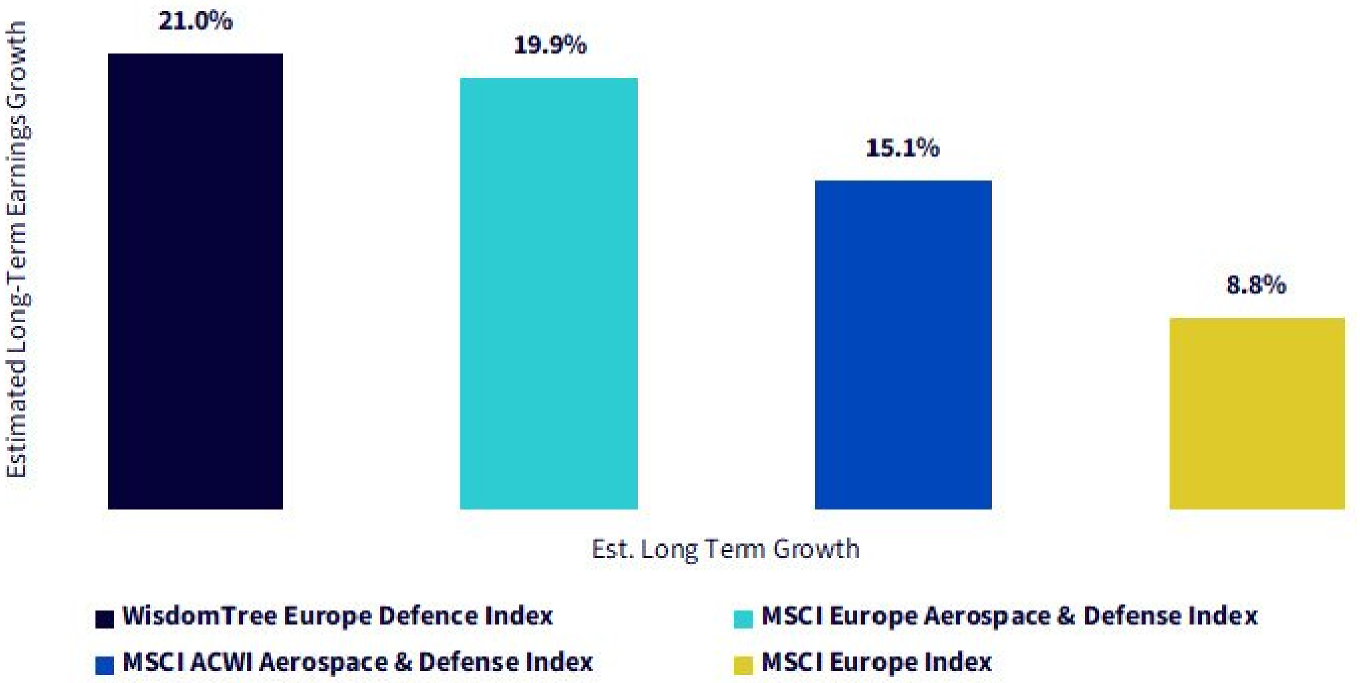
Figure 2: European Defense: Rerated and Repositioned

Sources: WisdomTree, FactSet, Bloomberg, MSCI, as of 6/30/25. **You cannot invest directly in an index. Holdings subject to change.**

With any thematic approach, expected growth potential is foundational, which is visible in figure 3:

- **Growth Is the Core Thesis.** The WisdomTree Europe Defense Index leads on forward earnings growth expectations—outpacing both global and European peers by a wide margin.
- **Structural Tailwinds, Not Cyclical Noise.** Defense is no longer just a geopolitical hedge—it's a capital expenditure megatrend embedded in multi-year government commitments across Europe.

Figure 3: High Conviction, High Growth: The Earnings Engine behind Europe's Rearmament

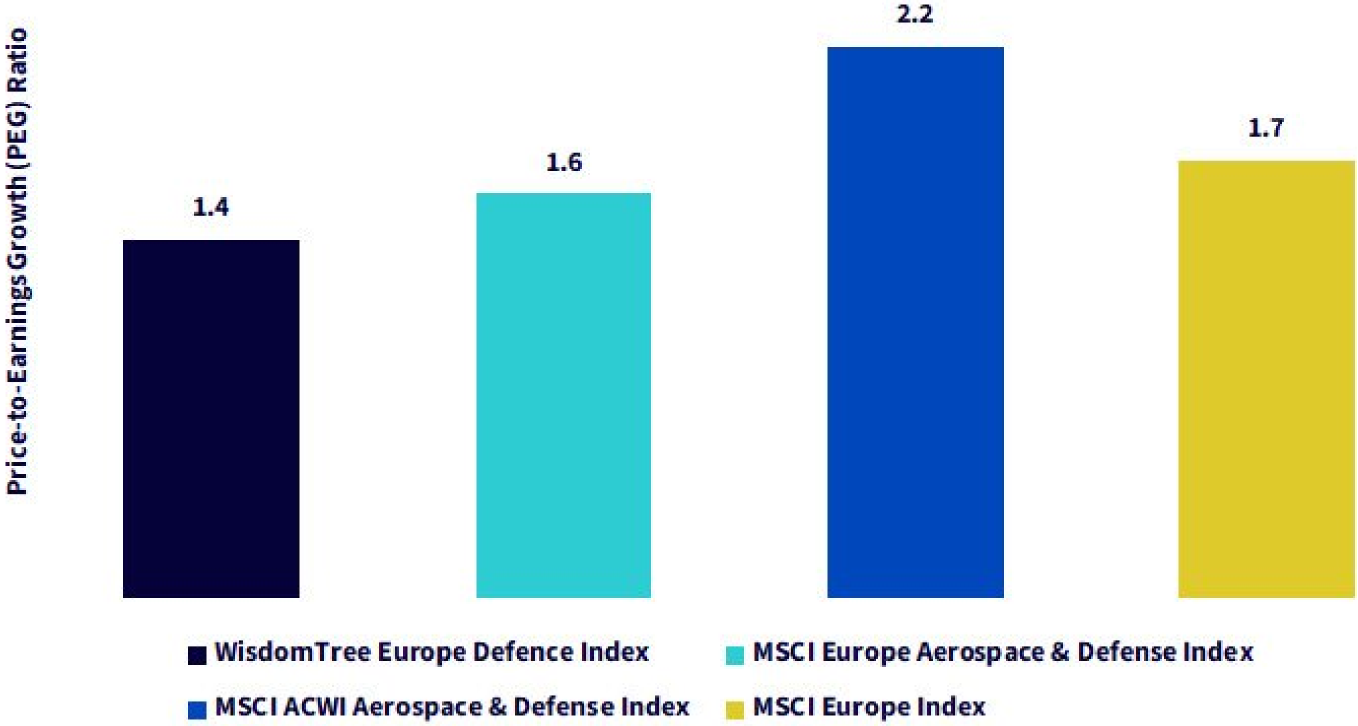


Sources: WisdomTree, FactSet, Bloomberg, MSCI, as of 6/30/25. **You cannot invest directly in an index. Holdings subject to change.**

The price-to-earnings growth (PEG) ratio is a simple way to consider both expected growth and valuation within a single measure. In figure 4:

- **Growth at a Discount.** Despite higher defense valuations, the WisdomTree Europe Defense Index delivers superior earnings growth—resulting in a lower PEG ratio than even the MSCI Europe Index.
- **Efficiency of Exposure Matters.** Investors are paying less per unit of expected growth with WisdomTree's strategy, signaling an efficient entry point into Europe's defense supercycle.

Figure 4: Paying Less for More Growth: The PEG Advantage in Europe's Defense Supercycle



Sources: WisdomTree, FactSet, Bloomberg, MSCI, as of 6/30/25. **You cannot invest directly in an index. Holdings subject to change.**

Macro Meets Manufacturing

This is a moment when capital meets cadence. Fiscal policy, industrial strategy and geopolitics are no longer operating on parallel tracks—they are now colliding into a unified, directional force. The result isn't just higher defense budgets. It's the remapping of supply chains, balance sheets and risk premia across both sovereigns and sectors.

Recent events offer a preview. When Israel executed strikes deep into Iran, the U.S. didn't lead—but it didn't stand down either. It enabled. It backed. It surged assets in quietly. That kind of tactical backing without primary burden may well be the emerging doctrine under a second Trump administration: allies on the front line, the U.S. in a supporting—but still decisive—role.

Apply that logic to Europe, and you begin to see the framework for distributed deterrence and localized rearmament. If America becomes the arsenal of last resort, then Europe must become its own first line of production. That's not a theory—it's a capital allocation thesis.

WDEF captures that thesis. It expresses a reality where defense is no longer a policy afterthought—it is the backbone of Europe's economic and strategic recalibration.

1 Refers to North Atlantic Treaty Organization.

2 Source: *DefenceExpenditures and NATO's 5% Commitment*, North Atlantic Treaty Organization, 6/27/25. https://www.nato.int/cps/en/natohq/topics_49198.htm

3 German word meaning "watershed moment" and used in context of a **fundamental shift in Germany's foreign, defense and security policy**, breaking with decades of military restraint and underinvestment.

4 Sources: "Poland's Defense Giant PGZ Lags behind Rivals Despite Higher State Arms Spend," Bloomberg News; W. Beaver, "Next Steps for Germany'sNational Security Zeitenwende,"(Backgrounder No. 3900), The Heritage Foundation, 3/26/25; *France and Germany Formalize MGCS Joint Venture to Advance Next-Gen Tank Program*, The Defense Circuit, 4/28/25.

5 Source: "Q1 2025 Interim Report: Growing in a Dynamic Market Reality," Saab AB, 4/25/25. https://www.saab.com/newsroom/reports/2025/q1-interim-report.

6 Source: *Strengthening Horizons: Investor Presentation,* Rheinmetall AG, May 2025. https://www.rheinmetall.com/en/media/publications/presentations

7 SSN-AUKUS refers to Ship Submersible Nuclear Australia, U.K. and U.S.

8 Source: *Annual Report 2024*, BAE Systems, 2025. https://www.baesystems.com/en/investors/financial-results.

9 The **book-to-bill ratio** compares new orders to fulfilled sales; a ratio above 1.0 signals rising demand, while below 1.0 suggests a slowdown.

10 Source: *Q1 2025 Results Presentation*, Leonardo S.p.A., May 2025.

Important Risks Related to this Article

For current holdings of WDEF, please click here. Holdings are subject to risk and change.

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. 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. Many countries within Europe are closely connected and their economies and markets are largely interdependent. As such, economic and political events in one European country, including monetary exchange rates between European countries and armed conflicts among two or more European countries, may have adverse effects across Europe. 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. Because the Fund invests primarily in the securities of companies in Europe, the Fund’s performance is expected to be closely tied to social, political and economic conditions within Europe and to be more volatile than the performance of more geographically diversified funds. 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.