

Defence: positioned for a long-term structural evolution despite near-term pressure



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- ▶ The prospect of credible peace settlement in some of the main current conflicts, particularly Iran/Ukraine, could temporarily reduce the risk premium in the defence sector. This comes as investors have taken profits following the sector's strong rally of the recent years, while the prolonged conflict in the Middle East has also raised concerns that a weaker global economy could eventually weigh on defence spending (although this concern appears misplaced).
- ▶ While a peace scenario could certainly lead to some short-term pressure in the sector, we do not believe it would fundamentally weaken our medium- to long-term investment case in defence as the theme should not be viewed only as a purely "war trade".
- ▶ The key driver today is not one specific conflict, but a much broader and more structural global rearmament cycle, as governments across the world have now clearly recognised that they can no longer afford the same level of military underinvestment as in the past.
- ▶ Years of underinvestment, combined with the ongoing conflicts, have left global military and defence capabilities weaker than they should be. This comes in an environment where rising geopolitical divisions and security risks remain elevated especially now that the US is not willing anymore to act as the main provider of global security. According to the Peace Research Institute in Oslo, the number of armed conflicts globally is at its highest level since 1946.

- ▶ Global spending trends clearly confirm that defence is a structural, long-term theme rather than a cyclical pattern. According to the Stockholm International Peace Research Institute, global military spending (excluding the US) increased by 9.2% in 2025, showing how broad-based and global the trend has become.
- ▶ NATO's 32 member countries now account for around 55% of global military spending and is moving toward its new 5% of GDP target by 2035 (3.5% core military and 1.5% broader security such as cybersecurity).
- ▶ Europe is definitely at the centre of this rearmament cycle, with defence spending rising 14% in 2025. Since 2016, European military expenditure has doubled (up 102%), mainly due to the Russia - Ukraine conflict. At the same time, spending in Asia and Australia reached its highest level since 2009 last year.
- ▶ Thus, even in a more peaceful geopolitical environment, significant replenishment of depleted inventories and modernisation of defence capabilities will still be needed for many years. This is expected to drive multi-year defence investment plans across air and missile defense, drones/counter-drone technologies, cybersecurity and intelligence/surveillance, among others. In the meantime, this year's NATO Summit (in Ankara 7-8 July) will be closely watched for indications about defence spending commitments and military strategy.

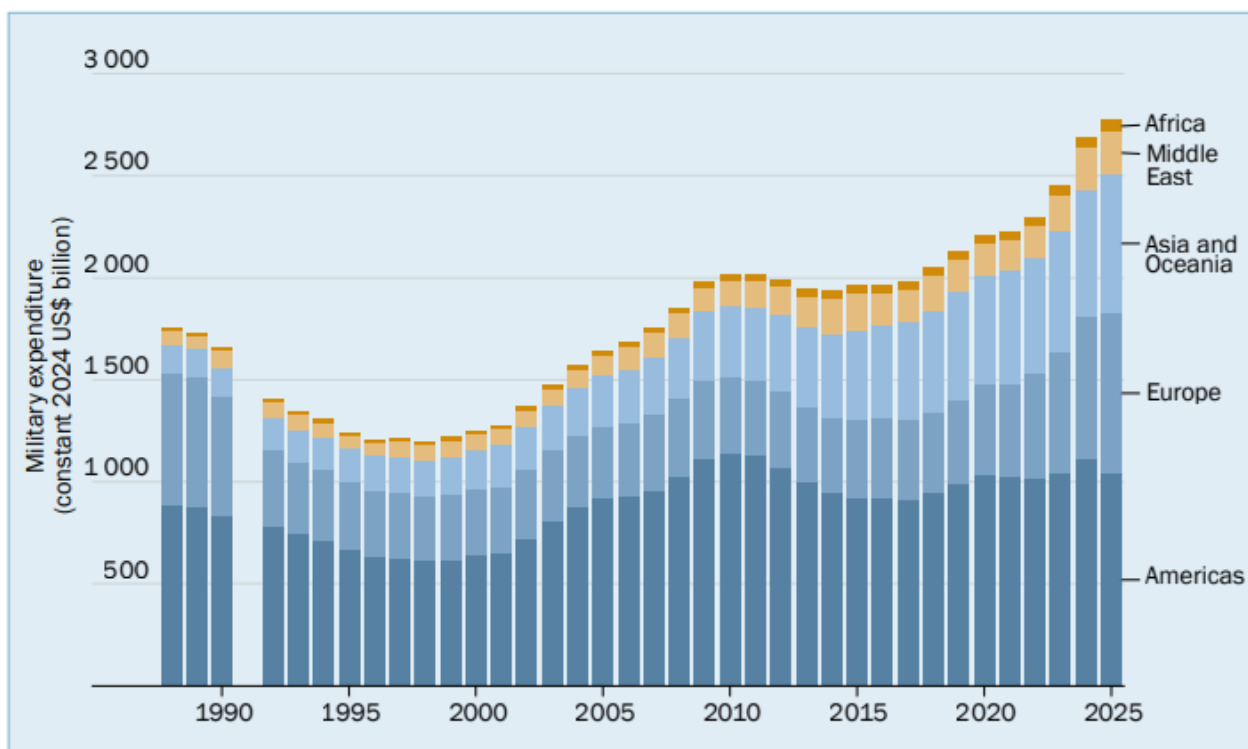


Figure 1. World military expenditure, by region, 1988–2025

Sources: Stockholm International Peace Research Institute (SIPRI) *Trend in World Military Expenditure, 2025* (April 2026); VanEck; Peace Research Institute Oslo (PRIO).

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