



Defense Stocks: A Play on Global Security

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The world stage is rarely static, but recent months have seen a particularly rapid and unsettling shift in geopolitical dynamics. From US President Donald Trump's stance on Ukraine to the tension between China and Taiwan, the global security landscape is undergoing a profound transformation.

As countries re-evaluate their defense postures and prioritize national security, the defense sector is experiencing a surge in activity and investment. This is illustrated by the performance of the [Themes Transatlantic Defense ETF \(Ticker: NATO*\)](#), which has produced strong gains in 2025 and outperformed the S&P 500 index by a wide margin.

In this article, we'll delve into the specific events driving this trend and explore the resulting opportunities within the defense sector. Can investors afford to ignore defense stocks today in light of the elevated level of geopolitical instability globally?

Trump Paused Military Assistance to Ukraine

While the world is currently grappling with an array of geopolitical challenges, the most notable – and alarming – event recently has been Donald Trump's move to pause US military assistance to Ukraine. This move came shortly after a disastrous Oval Office meeting in which Trump and Vice President JD Vance tore into Ukrainian President Volodymyr Zelenskyy for what they perceived as insufficient gratitude for the near-\$200 billion in military aid the US has provided to Ukraine since Russia's invasion in 2022, and told him he was "gambling with world war three".

In recent days, the pause – designed to pressure Ukraine to engage in peace talks with Russia – has been lifted. However, whether Trump will achieve his goal of peace between Russia and Ukraine remains to be seen.

Uncertainty Over NATO Protection

On top of this, Trump has cast doubt on his willingness to defend North Atlantic Treaty Organization (NATO) allies. NATO is a 75-year-old transatlantic alliance with a mutual assistance clause in which an

attack on one member is considered an attack on all.

Trump has made it clear that he believes that many NATO members are not spending enough on their own defense and has stated that he is not prepared to defend these countries. *“If they don’t pay, I’m not going to defend them,”* he told reporters in the Oval Office in early March.

Major Implications for Europe

Naturally, Trump’s move to pause military assistance to Ukraine and his stance on defending NATO allies have triggered alarm bells in Europe. The US has been the single largest provider of military aid to Ukraine since the war with Russia started and further pauses in assistance could create substantial gaps in the country’s defense capabilities, potentially leaving it vulnerable to Russian advances. Meanwhile, a weakened NATO alliance could potentially lead to further Russian aggression beyond Ukraine.

Recently, the Danish Defense Intelligence Service (DDIS) warned that if Moscow perceives NATO to be weak, Russia could launch a regional war within two years and a “large-scale” war in Europe within five years¹. *“Russia is likely to be more willing to use military force in a regional war against one or more European NATO countries if it perceives NATO as militarily weakened or politically divided,”* wrote the DDIS in a report. *“This is particularly true if Russia assesses that the US cannot or will not support the European NATO countries in a war with Russia,”* it continued.

European Defense Spending is Set to Soar

Given the growing security threat, countries across Europe are scrambling to increase their defense budgets. Not only do they want to enhance their national security, but they also want to demonstrate to Trump that Europe can defend itself.

In the UK, prime minister Keir Starmer has announced that Britain will increase its spending on defense to the equivalent of 2.5% of GDP by 2027, three years earlier than planned and up from 2.3%. This represents the biggest increase in defense spending since the Cold War.

In Germany, Friedrich Merz, who is expected to become the country’s next chancellor, has announced a political deal to raise a substantial amount of capital for extra spending on defense. At the heart of his proposals is a special €500 billion fund to repair Germany’s infrastructure and allow investment in defense.

As for the European Commission, it has announced a five-part plan to mobilize up to €800 billion in new defense spending over the next four years. Declaring that Europe had entered an *“era of rearmament”*, President Ursula von der Leyen presented the *“ReArm Europe”* package in Brussels in early March, proposing more fiscal space for member state defense investments, as well as €150 billion in loans for those investments.

Europe Has Underspent on Defense for Decades

It's worth pointing out that Europe has underspent on defense for decades now. Last year, analysts at JP Morgan noted that since the end of the Cold War in the early 1990s, the European defense industry had seen more than 30 years of under-investment, and that there was a €1.8 trillion gap between what was spent on defense over that period and what would have been spent if the NATO target of 2% of GDP had been met².

This underspending – which has left European defense inventories worryingly low – is now being acknowledged. *“After a long time of underinvestment, it is now of utmost importance to step up the defense investment for a prolonged period of time,”* said von der Leyen in March.

Analysts believe that the increase in European defense spending will be a multi-year trend. According to Morningstar's Loredana Muharremi, European defense expenditure will reach 3.1% of GDP by 2029 and 3.5% by 2032³. Should Europe reach 3.5% of GDP by 2032, that would translate to an additional \$300 billion in spending per year on average, marking a 70% increase from 2024 levels.

A Long-Term Investment Theme

As a result of the current geopolitical climate, defense stocks have outperformed this year. Many have produced double-digit percentage gains in a short space of time. However, with defense spending across Europe forecast to rise significantly over the next decade, experts believe that there could be further outperformance to come in the years ahead. *“We believe that this is likely to be the beginning of a fundamental realignment that will shape markets for the foreseeable future,”* said Nigel Green, CEO of wealth manager deVere Group recently. *“The biggest mistake investors could perhaps make is underestimating the scale of change unfolding before them,”* he added.

5 European Defense Stocks That Could Benefit

While defense contractors globally look set to benefit from higher defense spending across Europe, European and UK-based suppliers could benefit disproportionately. Currently, 60-70% of suppliers to the region are based in the US but this is likely to change as European nations prioritize strategic autonomy.

In terms of specific companies that could benefit from Europe's defense spending spree, some names include**:

- **Rheinmetall** – Rheinmetall specializes in tanks, armored vehicles, and ammunition, and with minimal exposure to US defense contracts it stands at the forefront of Europe's defense revival.
- **BAE Systems** – A UK defense powerhouse, BAE Systems offers a comprehensive suite of military solutions from fighter jets to submarines.
- **Leonardo** – An Italian defense company, Leonardo is renowned for its helicopters, electronics, and combat systems.

- **Thales** – Thales offers a wide range of defense solutions, including air defense systems, communication and information systems, sensors and radar systems, and **cybersecurity** solutions.
- **Rolls** - Royce Holdings – Rolls-Royce is a key supplier of engines for military aircraft and also provides nuclear propulsion systems for naval vessels, particularly submarines.

Get Exposure to Defense Stocks with the Themes Transatlantic Defense ETF

Those looking to invest in defense stocks may want to take a look at the **Themes Transatlantic Defense ETF (Ticker: NATO*)**. This tracks an index of aerospace and defense companies headquartered in NATO member countries. Top holdings currently include the likes of Rolls-Royce Holdings, BAE Systems, Safran, Rheinmetall, and Lockheed Martin. In total, the ETF provides access to around 60 companies involved in defense and national security.

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¹Politico, Russia could start a major war in Europe within 5 years, Danish intelligence warns, as of February 11, 2025

²Proactive, European defence rearmament cycle will last a decade, says investment bank, as of March 26, 2024

³MorningStar, Defense Stocks Soar Amid Looming Transatlantic Split, as of March 3, 2025

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