

Defense Stocks: Unlocking Potential in a Changing World

DEFENSE | Date: April 7, 2025

[Read Online](#) 

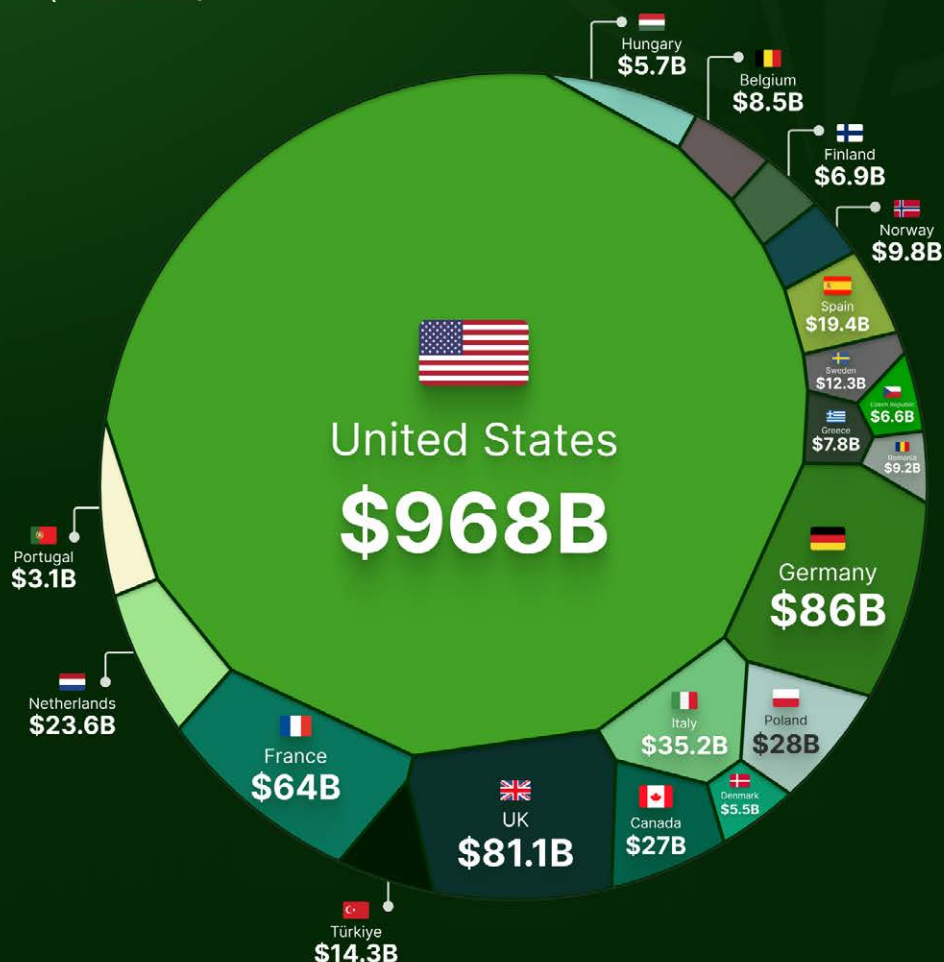
What is NATO?



The North Atlantic Treaty Organization (NATO) is a political and military alliance that was established in 1949 and currently has 32 member countries. At its core is the principle of collective defense, whereby an attack against one member is considered an attack against all. Originally formed to counter the threat of the Soviet Union after World War II, NATO has evolved to address various security challenges. Today, it engages in operations and missions to address crises that affect the security of its members and serves as a forum for member states to consult and cooperate on defense and security issues.

Annual Spending on Defense by NATO Members

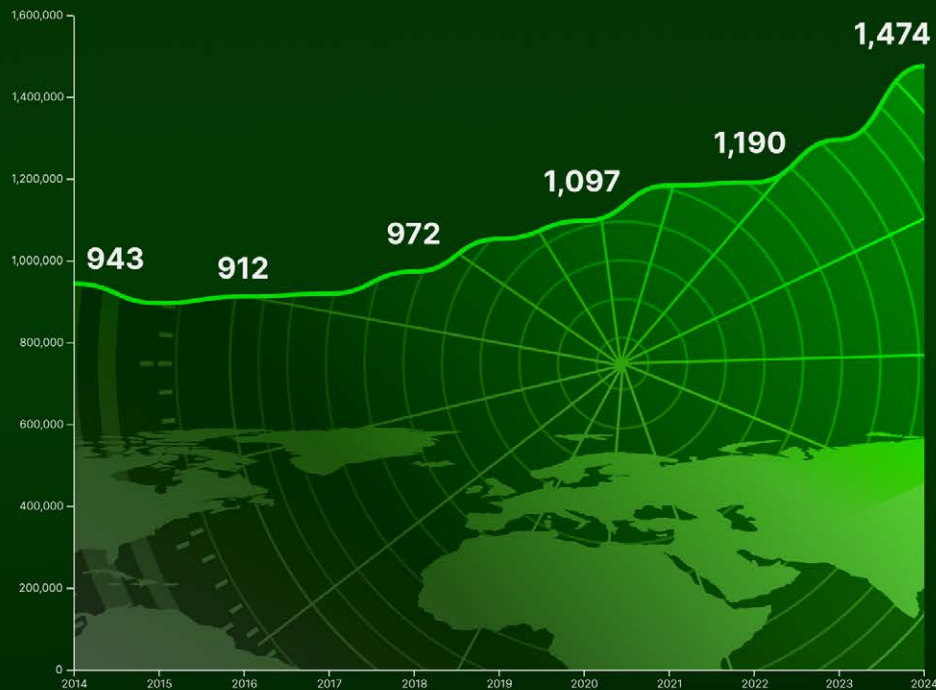
(in billion USD)



Source: International Institute for Strategic Studies (IISS), as of February 12, 2025

Military Spending of NATO Countries from 2014 to 2024

(rounded, in billion USD)



Source: Statista, Military spending of NATO countries from 2014 to 2024, as of July 9, 2024

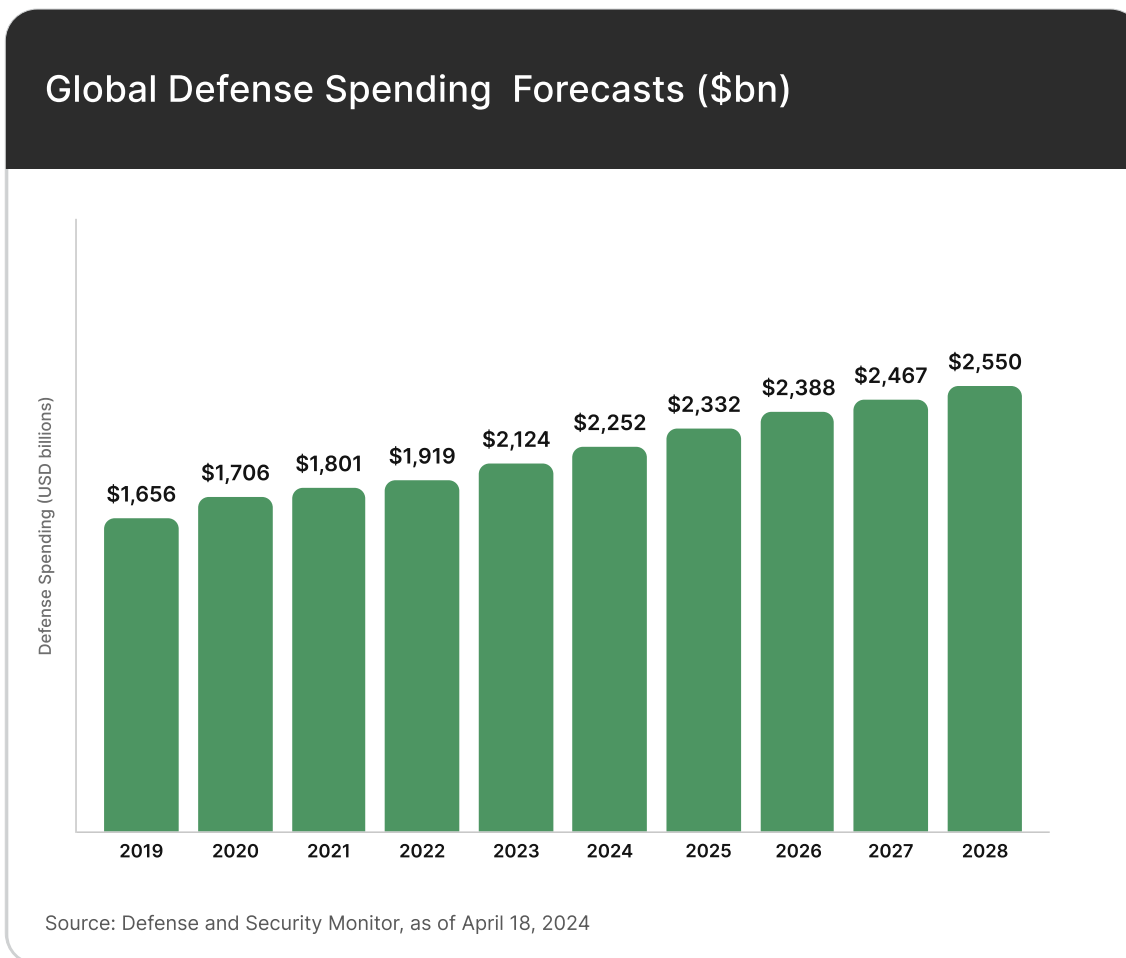


Defense: A Crucial Industry

The defense industry plays a crucial role in national and international security by providing the capabilities and technologies necessary to deter aggression and protect sovereign interests. In today's increasingly unstable geopolitical environment, countries cannot afford to take defense lightly.

A driving force behind technological progress, the defense industry is renowned for fostering innovation in fields such as aerospace, advanced materials, and cybersecurity and this innovation often leads to technologies that benefit civilian sectors. Beyond its security function, the defense industry also contributes significantly to economic stability through job creation, manufacturing, and research and development.

Global Defense Spending is Rising



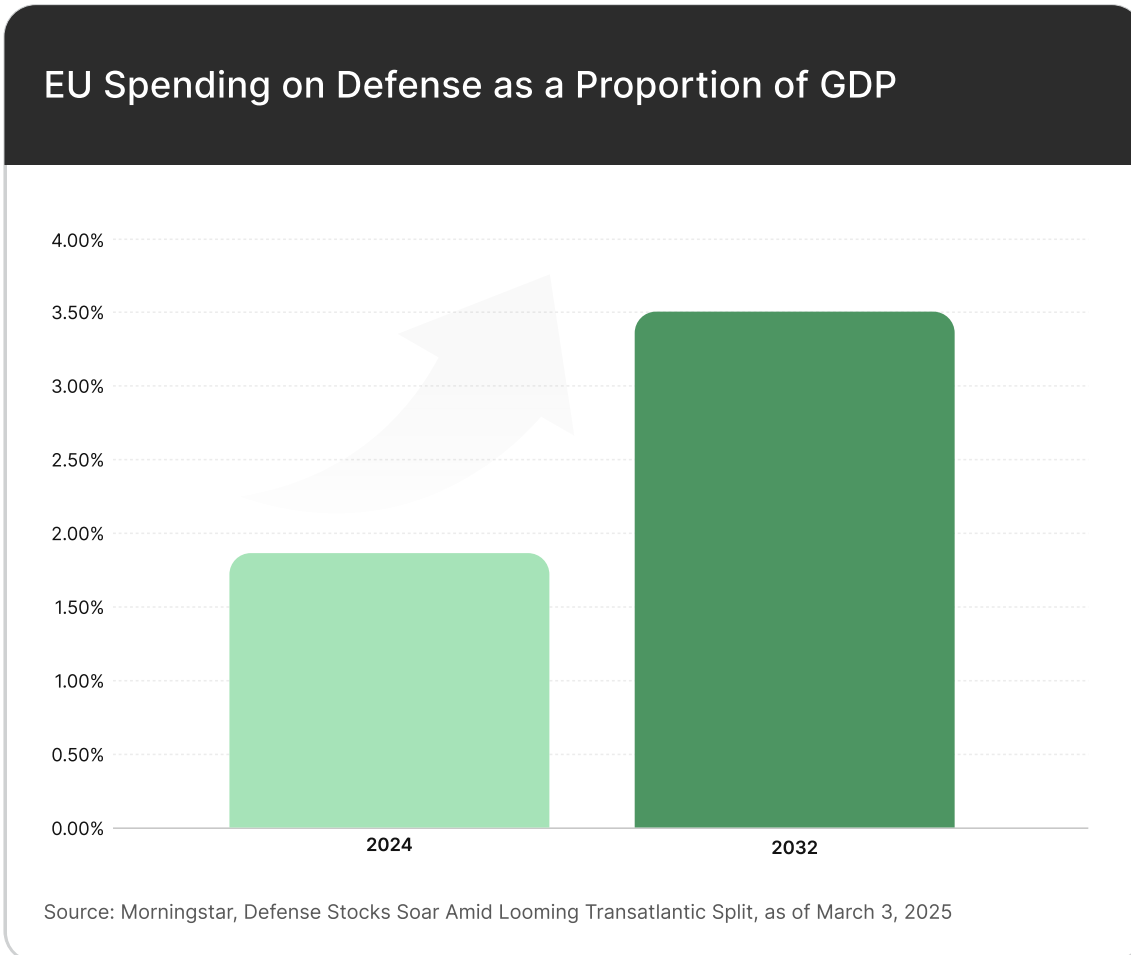
Over the past decade, global defense spending has increased significantly, driven by a convergence of factors that have reshaped the international security landscape. In Europe and the Middle East, wars have served as a stark reminder of the potential for large-scale conventional warfare, prompting countries to dramatically increase their defense budgets. Growing concerns over certain countries' strategic power ambitions, cybersecurity threats, and advancements in weaponry have also fueled substantial increases in defense spending across the world.

Europe has Underspent on Defense Since the Cold War

Since the end of the Cold War in the early 1990s, European countries have underspent on defense. According to JP Morgan, there is a €1.8 trillion gap between what was spent on defense over this period and what would have been spent if the NATO target of 2% of GDP had been met¹.

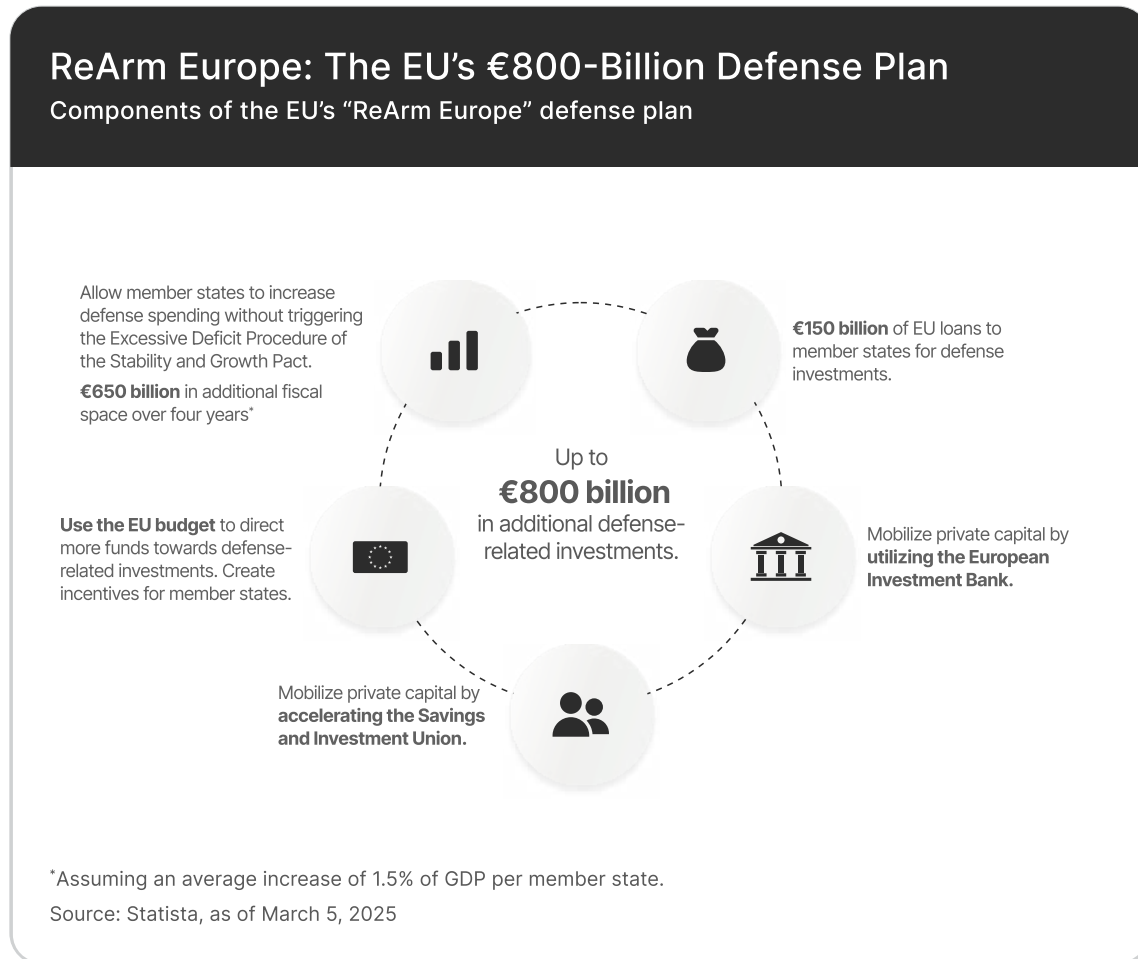
This underspending – which has left European defense inventories very low – is now being acknowledged. As a result, European countries are scrambling to increase their defense budgets.

According to Morningstar, European defense expenditures as a proportion of GDP will reach 3.1% by 2029 and 3.5% by 2032², up from 1.9% in 2024. Should European defense spending reach 3.5% of GDP by 2032, that would translate to an additional \$300 billion in spending per year on average.



Europe's Plan to Enhance its Defense Capabilities

In March 2025, the European Commission announced a five-part plan to bolster Europe's defense capabilities. Declaring that Europe had entered an *"era of rearmament"*, President Ursula von der Leyen presented a defense package called *"ReArm Europe"*, proposing more fiscal space for member state defense investments, as well as €150 billion in loans for these investments.



The Technologies Reshaping the Defense Industry

Today, the defense industry is undergoing rapid transformation due to technological advancements. Here are five technologies that are reshaping the industry:

- **Robotics and Autonomous Systems** – Unmanned aerial vehicles (UAVs), autonomous underwater vehicles (AUVs), and ground robots are changing the way military operations are conducted. These systems can conduct surveillance, perform dangerous missions, and provide logistical support, reducing the risk to human lives.
- **Artificial Intelligence (AI)** – AI is revolutionizing various aspects of defense, from threat detection to decision-making. One key advantage of AI is that it can analyze vast amounts of data to provide real-time situational awareness.
- **Cybersecurity** – With increasing reliance on digital systems, cybersecurity has become paramount for the defense industry. Today, defense organizations globally are investing in cybersecurity technologies to protect their networks and critical infrastructure from attacks.

- **Advanced Materials** – The development of new materials is leading to lighter, stronger, and more durable military equipment. These materials are used in everything from body armor to aircraft to vehicles.
- **3D Printing** – 3D printing is transforming defense manufacturing by enabling on-demand production of parts and equipment. Using this technology, organizations can reduce their reliance on traditional supply chains.

The Advantages of Investing in Defense Stocks

Investing in defense stocks can offer several potential advantages including:

- **Stability and Predictability** – Government defense budgets tend to be relatively stable. This can provide predictability in revenue streams for defense companies and a degree of resilience during economic downturns.
- **A Geopolitical Hedge** – Defense stocks can potentially act as a hedge against geopolitical instability. When tensions rise, investors often gravitate towards defense stocks in a phenomenon known as a “flight to arms”.
- **Technological Innovation** – Defense companies are often at the forefront of technological innovation, particularly in areas such as aerospace, cybersecurity, and advanced materials. This can lead to long-term growth in revenues.
- **High Barriers to Entry** – The defense industry generally has high barriers to entry due to stringent regulations, strict security clearances, and specialized manufacturing processes. This can create competitive advantages for established companies.
- **Dividend Income** – Many defense companies have a history of paying dividends. Therefore, defense stocks can potentially offer two sources of return.

The Themes Transatlantic Defense ETF

Investors seeking exposure to defense stocks may want to look at the [Themes Transatlantic Defense ETF \(Ticker: NATO*\)](#). This tracks an index of aerospace and defense companies headquartered in NATO member countries and provides access to around 60 different companies in total.

Footnotes:

*The Fund is not endorsed by NATO (North Atlantic Treaty Organization) and is not affiliated with or in any way related to NATO (North Atlantic Treaty Organization).

¹Proactive, European defence rearmament cycle will last a decade, says investment bank, as of March 26, 2024

²Morningstar, Defense Stocks Soar Amid Looming Transatlantic Split, as of March 3, 2025

*The Fund is not endorsed by NATO (North Atlantic Treaty Organization) and is not affiliated with or in any way related to NATO (North Atlantic Treaty Organization).

ALPS Distributors, Inc (1290 Broadway, Suite 1000, Denver, Colorado 80203) is the distributor for the Themes ETFs Trust.

Investing involves risk, including the possible loss of principal. Concentrated investments in a particular sector tend to be more volatile than the overall market. International investments may involve the risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. The Themes Transatlantic Defense ETF is neither sponsored by nor affiliated with The North Atlantic Treaty Organization. NATO is non-diversified.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share, and do not represent the returns you would receive if you traded shares at other times. NAVs are calculated using prices as of 4:00 PM Eastern Time. Indices are unmanaged and do not include the effect of fees, expenses, or sales charges. One cannot invest directly in an index.

Carefully consider the funds' investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the funds' summary or full prospectus, which may be obtained by calling 1-866-5Themes (1-866-584-3637) or by visiting themesetfs.com. Please read the prospectus carefully before investing.

Themes Management Company LLC serves as an adviser to the Themes ETFs Trust. The funds are distributed by ALPS Distributors, Inc (1290 Broadway, Suite 1000, Denver, Colorado 80203). Solactive and STOXX have been licensed by Solactive AG and ISS STOXX, respectively, for use by Themes Management Company LLC. Themes ETFs are not sponsored, endorsed, issued, sold, or promoted by these entities, nor do these entities make any representations regarding the advisability of investing in the Themes ETFs. Neither ALPS Distributors, Inc, Themes Management Company LLC nor Themes ETFs are affiliated with these entities.