Defense industry in focus as geopolitical risks remain elevated

28 April 2026, 17:11 UTC, written by UBS Editorial Team

A key question for markets is how long the US conflict with Iran will continue. While our base case remains for a cessation of military action within weeks, the conflict is part of a broader increase in geopolitical uncertainties that we expect to drive higher demand for military spending worldwide in the coming years.

The duration of the conflict remains a central question for investors, and the airstrikes have intensified focus on the defense sector. Earlier this month, President Trump met at the White House with the chief executives of seven leading defense suppliers to discuss munitions production. The president said that the defense firms had "agreed to quadruple" output of what he called "exquisite class weaponry."

The conflict has been part of a broader increase in geopolitical uncertainty that has been spurring defense spending. We see a variety of both near-term developments and structural trends supporting various parts of the sector.

Global munitions supplies have been depleted by a series of conflicts, adding to pressure on governments to rebuild inventories. The action against Iran has been the latest in a series of conflicts that have significantly reduced stockpiles of munitions, including US strikes on Venezuela at the start of 2026, the 2025 US bombing of Iran, and the war between Russia and Ukraine. While inventory depletion itself does not change the production capacity of munitions contractors, a greater willingness by governments to agree on long-term procurement deals would incentivize firms to invest in expanding potential output.

Recent talks between President Donald Trump and leading defense chiefs have supported our view that ensuring adequate ammunition stockpiles has become an increasing focus. In Europe, inventories were already low after decades of underinvestment after the fall of the Iron Curtain and have been depleted by the Russia-Ukraine conflict, which has now entered its fifth year. We believe NATO countries will need to invest for years to replenish stockpiles. Many Asian defense firms are reporting double-digit growth in order books, based on our latest analysis, with demand from Europe contributing.

Geopolitical uncertainties have been incentivizing nations around the world to increase defense spending. A variety of risks have intensified. The US administration's new "Donroe Doctrine," (elaborated on after the ouster of Venezuela's President Nicolás Maduro in January), strained relations between China and Japan, the US-Israeli military action in Iran, and fractures within the NATO alliance over the future of Greenland and Ukraine all point to a more volatile world, with geopolitical blocs seeking greater strategic autonomy. This has been reflected in proposed defense spending increases in much of the world.

In the US, President Trump's call for a roughly 50% increase in the US defense budget for fiscal year 2027 marks a dramatic policy pivot. Previously, concerns about fiscal discipline and political gridlock made the US budget a risk factor for the sector. Now, the prospect of a substantial increase is a major catalyst, fundamentally altering investor sentiment. Even if the final figure is lower, the likelihood of year-over-year growth is enough to refocus US defense firms on domestic contracts, thereby reducing competition for European suppliers and creating new opportunities for European companies to benefit from US growth.

Asia Pacific (APAC) is projected to account for nearly one quarter of global defense expenditure in 2025, with regional military spending rising 5.1% year on year in real terms to USD 632bn. China—the world's second-largest defense spender—represents close to half of Asia's total outlays and has set a 7% year-on-year increase in its 2025 defense budget. While that would be the slowest pace since 2021, it has been reported that this does not fully capture spending on paramilitary and maritime forces. China has also invested heavily in emerging technologies, such as AI to enhance decision-making.

Defense self-reliance has also become a political issue in India, spurring efforts to increase domestic manufacturing and reduce import dependence. Since our latest analysis of the global industry outlook "Defense: CIO's views and investment implications" on 2 February, Japan's prime minister, Sanae Takaichi, won a supermajority in parliamentary elections, providing her with a strong mandate for her agenda, which includes boosting the defense budget and bolstering the domestic defense industry.

The drive for increased autonomy is especially powerful in Europe, as strains in relations with the US have eroded confidence in the security guarantees provided by the NATO treaty. Disagreements with the US over how to end the war between Russia and Ukraine have contributed to a greater willingness in Europe to invest in an independent defense capability. In June 2025, NATO agreed to raise defense spending targets to 5% of GDP by 2035 (3.5% for core defense, 1.5% for defense and security-related expenditures). Based on NATO estimates, European NATO countries and Canada are expected to have spent a combined USD 559 billion in 2025 (+16.0% y/y), while the US alone is projected to have spent an additional USD 845 billion (+2.7% y/y). These figures are based on 2021 prices and exchange rates (NATO as of 3 June 2025). The German Bundestag's approval of a EUR 52 billion military expenditure package in December 2025, covering 29 contracts across a broad array of weapons and services, underscores the seriousness of this commitment.

This impulse was underlined again by the Munich Security Conference in February. German Chancellor Friedrich Merz admitted that "a deep divide has opened between Europe and the United States" and that Europeans must be ready to make "sacrifice" to guarantee their freedom. Meanwhile, French President Emmanuel Macron said "Europe has to learn to become a geopolitical power. It was not part of our DNA."

Investing in novel defense technologies has become an increasing priority for nations. In our view, innovation is at the forefront of the sector's transformation. Increased spending is driving demand for advanced weapon systems, munitions, armored vehicles, missiles, radars, aircraft, drones, and warships. As digital and space domains become more contested, cybersecurity and space technology providers are growing in relevance. The civilian security sector is also seeing major beneficiaries in cybersecurity software vendors and managed security service providers, reflecting the importance of digital resilience.

So, while attention is focused on the fast-moving developments in the Middle East, we see a longer-term global push to boost or rebuild defense capabilities—with a focus on developing autonomy and resilient supply chains. We are constructive on European defense, favoring a selective approach focused on diversified suppliers. European firms with significant US sales or ambitions to expand in the US market are particularly well positioned, in our view, as are those with strong exposure to German and broader European government contracts.

Asian firms are rapidly emerging as global exporters, with strengths in artillery, missile-defense, aerospace, electronics, and next-generation technologies like counter-drone and space-based systems. For example, South Korean companies have emerged as Asia's leading suppliers of armaments to European nations increasingly seeking to diversify procurement beyond NATO suppliers. Their competitive positioning spans artillery, missile defense, aerospace solutions and aircraft, complemented by broader industrial capabilities. Their ability to provide timely delivery, competitive pricing, and high-quality systems has materially shifted defense procurement dynamics to their favor.

Our outlook is more nuanced for large traditional US defense companies (known as primes), given their reliance on a single customer—the US government. This makes them vulnerable to annual budget negotiations, regulation, and policy shifts. Many have struggled with legacy fixed-price contracts, which ran into post-pandemic cost inflation. While we have a Neutral stance on US defense overall, we prioritize diversified missiles and munitions manufacturers, subcomponent suppliers, and companies with commercial aerospace exposure over pure-play defense primes.

This piece is based on research by Alexander Stiehler, Nathaniel Gabriel, and Kayden Lee. Read more in our publication "**Defense: CIO's views and investment implications**" by Kiran Ganesh, Nathaniel Gabriel, Kayden Lee, Mircea Tanasie, and Matthew Carter.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Disclaimer
Hong Kong / Singapore: For Global Wealth Management clients of UBS AG Singapore / Hong Kong branch, please refer to the HK/SG Marketing Material Disclaimer .
This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.
This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.
Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.
Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS**. Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.
All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.
Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.
Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of it its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.
Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website https://www.credit-suisse.com. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.
Please visit https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html to read the full legal disclaimer applicable to this document.

Important information
Disclaimer
This material is published solely for informational purposes, may be distributed only under such circumstances as may be permitted by applicable law, and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. This information is general in nature and does not take into account the specific investment objectives, financial situation or particular needs of any recipient.
All information and opinions represent our current views on the topics covered which are based, in part, on information and data obtained from third party and/or publicly available sources. While we believe those sources to be reliable, no

representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS and its affiliates) of that information.

The information presented is not intended to be a complete statement or summary of the securities, markets or developments referred to in the materials. It should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this material are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein.

Cautionary statement regarding forward-looking statements. This report contains statements that constitute "forward-looking statements", including but not limited to statements relating to the current and expected state of the securities market and capital market assumptions. While these forward-looking statements represent our judgments and future expectations concerning the matters discussed in this document, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these devel-opments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.

About Our Wealth Management Services

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate agreements. It is important that investors understand the ways in which UBS conducts business, that they carefully read the agreements and disclosures that UBS provides to them about the products or services offered. A small number of UBS financial advisors are not permitted to offer advisory services to you, and can only work with investors directly as UBS broker-dealer representatives. Your financial advisor will let you know if this is the case and, if you desire advisory services, will refer you to another financial advisor who can help you. UBS' agreements and disclosures will inform investors about whether we and our financial advisors are acting in our capacity as an investment adviser or broker-dealer. For more information, please see www.ubs.com/workingwithus. In providing financial planning services, UBS may act as a broker-dealer or investment adviser, depending on whether we charge a fee for the service. The nature and scope of the services are detailed in the documents and reports provided to you as part of the service.