BearBull
Global Investments Group

ECONOMIC RESEARCH – MARKET FLASH

CROSS-ASSET RESEARCH *Fixed income*

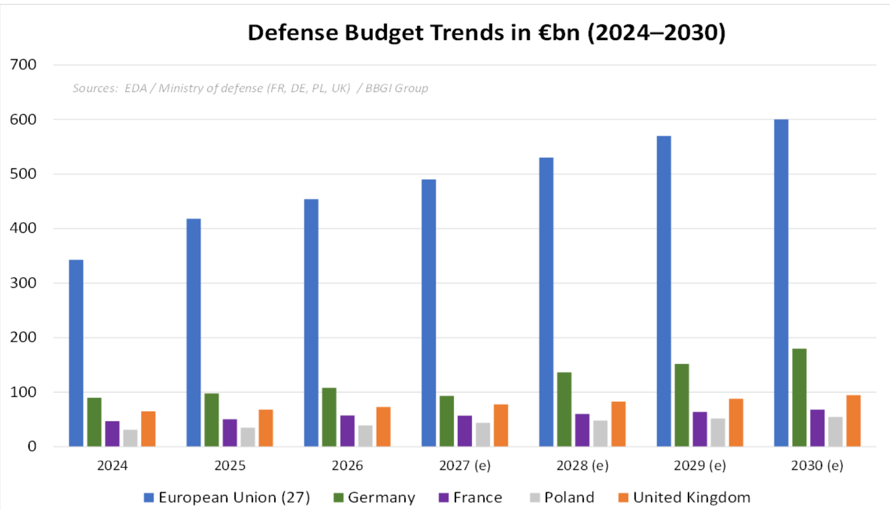
September 2nd,2026

A PARADIGM SHIFT FOR EUROPEAN DEFENSE

A decoupled sector offering high visibility over the next 10–15 years

Structural Budget Expansion & Operational Execution

European defense budgets are experiencing an unprecedented era of secular growth, aggressively propelled by binding NATO objectives and sweeping European Union initiatives such as the Readiness 2030 plan. Following an initial phase of rapid expansion in equity valuation multiples, the sector has matured into a critical delivery phase focused on the operational execution and realization of financial results. The medium-to-long-term outlook for major defense primes and contractors now extends comfortably beyond 2030, underpinned by a multi-year political and financial commitment from member states.



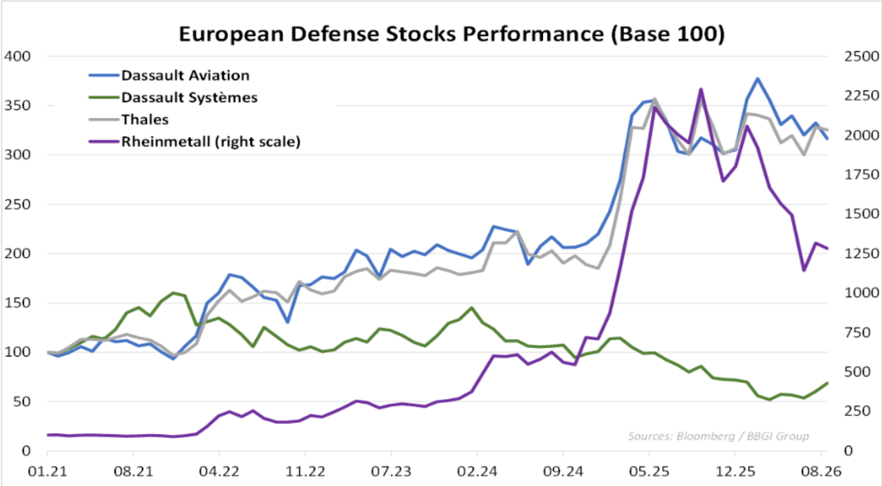
Despite this robust demand environment, critical operational challenges persist around manufacturing bottlenecks and the industrial capacity to scale up heavy production. Furthermore, defense primes are actively expanding their supply chains to meet these soaring long-term delivery requirements. Reflecting this surging demand, the average order backlog across major European defense manufacturers now represents nearly four years of locked-in, guaranteed future revenue. Driven by these operational tailwinds, the sector's projected average earnings per share (EPS) growth is expected to compound at an impressive 20% to 30% annually through 2028.

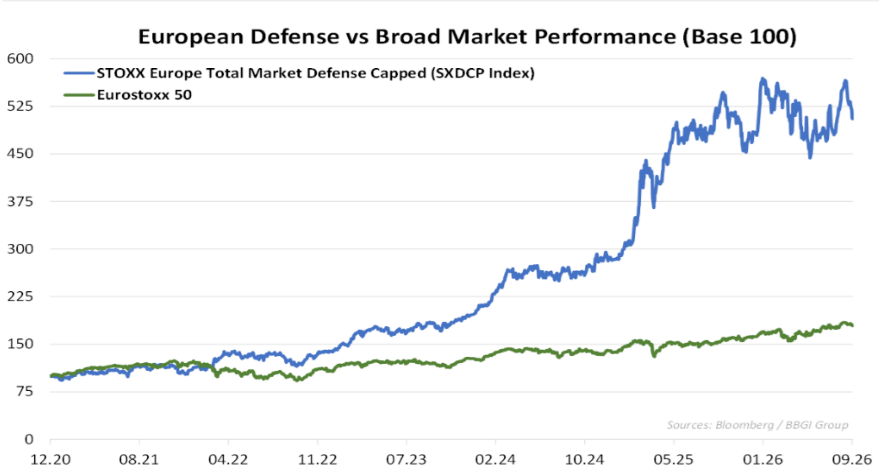
Prime Beneficiaries & Attractive Re-entry Points

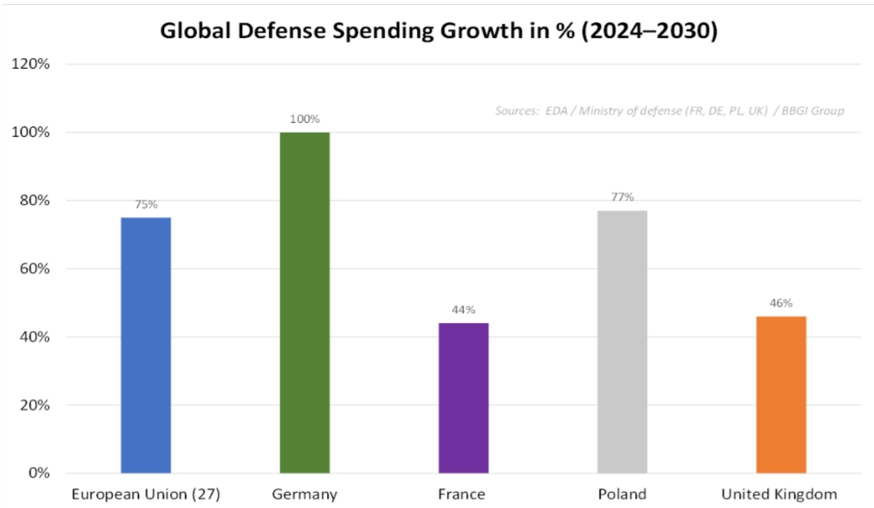
In terms of public market performance and investable universe, the European defense sector is heavily anchored by key tier-one players located in France and Germany. Rheinmetall stands out as the quintessential heavy weapons manufacturer, serving as the primary beneficiary of the German Bundeswehr's historic rearmament cycle and broader European joint procurement initiatives. Meanwhile, Thales offers a more balanced investment profile due to its industrial diversification, positioning it to capture a dominant share of budgets allocated to command and control (C2) systems, advanced electronic warfare, and integrated air defense.

Furthermore, Dassault Aviation acts as a premier pure-play aerospace company positioned squarely at the heart of Europe's next-generation air combat capabilities, boasting a record-shattering order backlog of 45 billion euros, representing roughly five years of revenue visibility, alongside a strategic 26% equity stake in Thales that unlocks deep financial synergies. Following an initial wave of speculative euphoria and subsequent profit-taking, the sector has entered a healthy consolidation phase that offers investors significantly more attractive and fundamentally solid entry points.

The structural 10- to 15-year budget visibility, reinforced by NATO targets aiming for defense spending between 3.5% and 5% of GDP by 2035 and Germany's dedicated rearmament funding plans, establishes a guaranteed cash-flow floor for manufacturers. Ultimately, the profound geopolitical shifts catalyzed by the conflict in Ukraine have permanently realigned the sector's long-term fundamentals, breaking its traditional high correlation with broader cyclical equity markets. In our view, European defense equities now provide exceptional portfolio diversification while insulating investors against broader macroeconomic volatility.







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