

BULL & BEAR *Bulletin*

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European Defense Investments

Like the United States, Europe has its own defense complex made up of companies located primarily in the United Kingdom, France, Germany, and the Nordic countries. Differences do exist considering Europe has underinvested in military defense ever since the fall of the Soviet Union in 1991, when compared to American spending. Recent events between Russia, Ukraine, and a new administration in Washington have brought forth a high demand for European defense contractors.

In effect, the United States is forcing our European allies to build up their military forces. Originally, the goal was to just get Europe to meet its stated 2% of GDP (gross domestic product) toward defense spending. Many European countries, like Italy and Spain, were looking toward the end of the decade to meet these targets, while Germany remained noncommittal. Washington is sending a clear signal and, by forcing Europe to carry out potential peacekeeping duties within Ukraine, it is exposing our E.U. counterparts' inability to forward deploy combat brigades. U.K. Prime Minister Starmer has volunteered British-led forces to act as peacekeepers within Ukraine, but only if there is an American "backstop." Put simply, if European forces get in trouble... we need help, while also needing help getting to Ukraine since their forces lack the troop transports that the United States provides NATO.

In the aftermath, Germany is trying to pass a €200 billion supplemental military bill as of last week. The European Commission proposed extending €150 billion in loans to boost defense spending in the short-term while allowing a waiver of E.U. budget rules that would allow an additional €650 billion in defense spending over the next four years without triggering budget penalties. This has created a wonderful investment environment within European Defense stocks with individual companies reporting gains of 25%-82% year-to-date, as of March 5, 2025.

The bullish investment thesis going forward rests on the United States demanding that allies meet their 2% of GDP requirements for NATO membership, the lack of defense spending by these countries since 1991, and a European initiative that required more weapons purchases to be done within the E.U. instead of outside countries. If this thesis is true, a tailwind should remain for European and American defense firms as NATO countries bolster their capabilities to counter rising threats from the east. The bearish view would be if peace is achieved between Russia and Ukraine, Europe may go back to its post-Soviet Union mentality, leaving military spending levels where they have been for the past decade. In this scenario, recent gains by European defense firms would be fleeting.

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