

From Angelism to Realism: Europe Rediscovered its Defense Industry

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When reading an article on the theme of war, one generally comes across a quote from Sun Tzu, Machiavelli, or Clausewitz. Yet nothing seems to summarize Europe's current situation as well as Pierre Desproges' quip: *"I don't have cancer, I'll never get it, because I'm against it."*

Traumatized by two world wars, Europe too believed that simply being against war would suffice to never experience it again. The invasion of Ukraine in 2022 cruelly reminded us of an old maxim: *"a country never remains without an army for long; if it's not its own, it will be someone else's."*

A Brutal Awakening for Europe

While wars did not disappear after the Second World War, the United Nations had, more or less, managed to uphold the rule prohibiting territorial expansion by force. Russia's annexation of Crimea had already shaken this principle a few years earlier. The second phase of the invasion of Ukraine became impossible to ignore, both for its brutality and the clarity of its objectives. The UN today appears powerless in the face of a high-intensity war waged by one of its permanent members and a major nuclear power at that.

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The U.S. No Longer the Sole Protector

The second stage of Europe's awakening was the realization that the United States no longer had the means nor, truth be told, the will to guarantee Europe's security alone. Confronted with the growing Chinese threat and weary of "free riders," the Trump administration pushed NATO's European members to drastically increase military spending. The former 2% of GDP target has shifted toward 3.5%, even 5%, now encompassing broader notions of collective security, such as certain infrastructure expenses.

Decades of Underinvestment

The task is colossal: after decades of underinvestment, the so-called “peace dividend”, most European armies are virtually hollowed out. Before the fall of the USSR, Germany had 38 combat brigades of about 5,000 men each; today it has only eight, with questionable operational capacity. France once had more than 1,300 battle tanks; today it fields only about 200.

To grasp the scale: in just over three years of war, Russia is said to have lost more than 4,000 tanks and one million men (including wounded) equivalent to, or greater than, the entire forces available to Europe today. Strategic thinking is being reassessed: nuclear deterrence alone is insufficient, since its use would have such extreme consequences that the capacity for conventional defense is essential to avoid it at all costs.

While awareness is real, reactions vary widely. The Baltic States, Poland, and Scandinavia have taken the threat seriously, while more distant countries remain reluctant. The true turning point, however, has come from Germany, which has made a historic U-turn by promising to build the most powerful army in Europe. Germany also realized that defense investments could help combat the deindustrialization that threatens it.

A Global Surge in Military Budgets

Though attention is focused on Europe, the phenomenon is global: with the taboo on territorial expansion lifted, many countries are revising their defensive strategies, while others adjust them offensively. The result: a considerable and lasting increase in global military budgets.

Defense contracts are inherently long term: even ammunition deals extend over several years. For land or air forces, programs are measured in decades. The most complex systems, such as nuclear submarines, can span more than half a century.

Another feature of the defense market is the prevalence of national champions. This stems partly from nationalist reflexes and, more rationally, from the need to preserve sovereignty over expertise and production capacity, which limits competition and softens the “winner takes all” effect.

Technology Reshaping Warfare

Rapid technological evolution is another crucial factor. It forces the replacement of arsenals that, for the most part, date back to the Cold War. Future conflicts will hinge largely on the ability to collect, organize, and exploit information as efficiently and quickly as possible. Alongside this data revolution is the rise of autonomous systems, set to radically transform how military operations are conducted. These two dynamics, now inseparable, demand a rethinking of military strategy and, consequently, a redirection of budgets.

The Moral Dilemma

Markets have seized on this theme, and valuations, especially in Europe, have soared. But the opportunity is such that multiples are expected to normalize over the next three years, driven by rapid profit growth. Current valuations are in fact very diverse, with many stocks still trading at reasonable levels.

The trend is also truly global, enabling risk diversification, all the more so since correlations between countries and sub-themes are relatively low.

The moral dilemma remains: is it acceptable to invest in defense? Mindsets have shifted significantly in the past three years, and the notion that credible deterrence must be restored is gaining ground. Interestingly, the Scandinavians, pioneers of responsible investment, are now adopting the idea that it is acceptable, even desirable, for the private sector to play a greater role in defense, seen ultimately as the last safeguard of fundamental freedoms.

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