



If Congress cannot agree on FY24 spending priorities, the defense industry may need to navigate a government shutdown or another temporary continuing resolution, which slows progress and constrains new contract awards. (UBS)

Escalating conflicts spur presidential request for additional defense investment

14 February 2024, 8:43 pm CET, written by UBS Editorial Team

Regretfully, geopolitical tensions continue to rise. The conflict in Ukraine has persisted for 20 months since the invasion in February 2022, and the country is locked in a challenging counteroffensive. The threat environment has been magnified further by the Israel/Hamas crisis unfolding in recent weeks.

In light of these rising tensions, President Biden is requesting USD 106bn in supplemental spending, separate from his USD 842bn defense budget request—USD 61bn for Ukraine, USD 14bn for Israel, USD 14bn for border protection, USD 10bn for humanitarian assistance and USD 7bn for Indo-Pacific deterrence. Stated goals for the funds include supporting Israel's defense readiness, replenishing drawn-down munitions stocks and providing additional equipment to help Ukraine on the battlefield, as well as strengthening deterrence capabilities in the Pacific region.

While this supplemental provides healthy upside to Department of Defense funding agreed upon during debt ceiling negotiations, there are still roadblocks to passing this year's budget, not least of which is the absence of a US House Speaker. If Congress cannot agree on FY24 spending priorities, the defense industry may need to navigate a government shutdown or another temporary continuing resolution, which slows progress and constrains new contract awards.

Overall, we have a positive view on the defense industry into 2024. The stocks tend to move with current events and the magnitude of changes to government spending, though it takes time for authorized funds to show up in contractors' revenues. Given that defense companies are only now beginning to see business related to Ukraine, we do not expect

a meaningful boost from Israel in the near term; however, rising spending should add to backlogs and extend revenue visibility in the out years.

In our view, valuations already underestimated the geopolitical risk environment before recent developments and still embed a level of defense spending growth inconsistent with the need to modernize the decades-old nuclear triad, replenish heavily-depleted munitions stockpiles and transition from counter-terrorism to great power deterrence. We also note that sales to foreign militaries are typically more profitable than business with the DoD.

Finally, while past performance is never a guarantee, we note that major defense primes have beaten the S&P 500 by an average of 11 percentage points in presidential election years since 1980, and outperformed the index in all but one.

Defense stocks have outperformed the S&P 500 in nearly every presidential election year.

Read the original report : [Escalating conflicts spur presidential request for additional defense investment, 24 October 2023.](#)

Important information

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. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

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.