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# Escalating conflicts spur presidential request for additional defense investment

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**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.](#)

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