Note: The following is a redacted version of the original report published July 4, 2025

Money and Might 2.0

Balancing Choices

Economics

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July 2025

Executive Summary

We revisit our October 2024 Must C report on global defense spending to account for how President Trump's second White House term has shifted the landscape and ushered in different priorities from those of President Biden. As with our earlier report, our goal is to address the outlook for defense spending, provide insight into Western allies' spending, and assess the players in this evolving landscape.

NATO's recent summit saw member countries announce a new higher target for defense spending, with outlays slated to reach 5% of GDP by 2035. If implemented, this rise in core defense spending would meaningfully raise NATO's defense capability — though whether the new targets will be met strikes us as an open question. We note European Union (EU) financial instruments such as the Security Action for Europe and the loosening of EU fiscal rules on defense spending, but remain skeptical that the incentives offered will be enough to help persuade more reluctant countries to increase their defense spending significantly beyond the old NATO marker of 2% of GDP. Further incentives and more jointly funded initiatives may be needed.

Beyond such incentives, security concerns often collide with economic constraints, as defense-spending goals are challenged by political realities, budget constraints and the significant rise in government debt levels in recent years. While it isn't prudent to test the limits of markets' patience with high debt levels, several major countries' governments seem inclined to do so.

Meanwhile, President Trump's administration doesn't view the threat environment facing the U.S. much differently than President Biden's did: Russia, China, Iran, North Korea, and terrorist organizations remain the primary areas of focus. The difference is how these threats are addressed, with a notable shift away from leading European security and toward bolstering security leadership in the Indo-Pacific and fortifying the U.S.

This change has driven NATO members' new commitments but also altered U.S. budgets, with the new White House looking to shift spending to favor purchasing weapons systems that better assure warfighters are prepared for conflict. Defense Secretary Hegseth has endorsed a shift in resources away from support functions and toward warfighting, with the fiscal 2026 budget aligned with this view — an approach we see as supporting the growth outlook for defense names through the rest of the 2020s.

While we explore changing White House priorities and geopolitical developments that have arisen since our original report, our October thesis remains intact: Global defense spending has risen over the last decade amid a return to great power competition, with the U.S. looking to leverage non-traditional sources of technological advantage, and conflicts in Ukraine and the Middle East sharpening the focus on such spending. Even as the outlook for legacy defense contractors has been bolstered, venture-backed companies have started changing the face of the industrial base ecosystem, with start-ups seeing a rise in funding and fundraising momentum since the election.

Recent developments we consider in this revised report include:

- In the U.S., we note the 17 key priorities outlined by President Trump's administration for the Defense Department and shifts we expect to see over time in the types of equipment acquired by the department. We note progress by defense companies that are key to the "Nuclear Triad" ensuring nuclear deterrence across land, air and sea. And we explore evolving U.S. priorities such as artificial intelligence and machine learning; the use of inexpensive UAVs and attritable aircraft; and the "Golden Dome" national missile-defense system.

- In Europe, we consider the step change in defense budgets; where this money will be spent; and how this increased spending will be funded. Europe is seen as not having enough defense equipment, with seven priority areas atop the list of needs that must be addressed. How to pay for this commitment is the next question: While countries such as Sweden and Germany are in relatively robust financial health, others face questions about government debt and fiscal deficits. Europe's reliance on imported defense products is also a policymaking concern, as technological, productivity and other macro spillovers associated with spending on such products accrue mainly or even entirely to the country producing them.

- In the Indo-Pacific region, both Western and Eastern allies continue to address security risks stemming from China's military modernization and North Korea's nuclear missile programs. Countries in the region are deepening trilateral and quadrilateral cooperation, with an accelerating trend toward coalition deterrence. Several countries are also looking to step up as regional stabilizers, seeking to instill order through defense modernization, diplomacy and rules-based advocacy.

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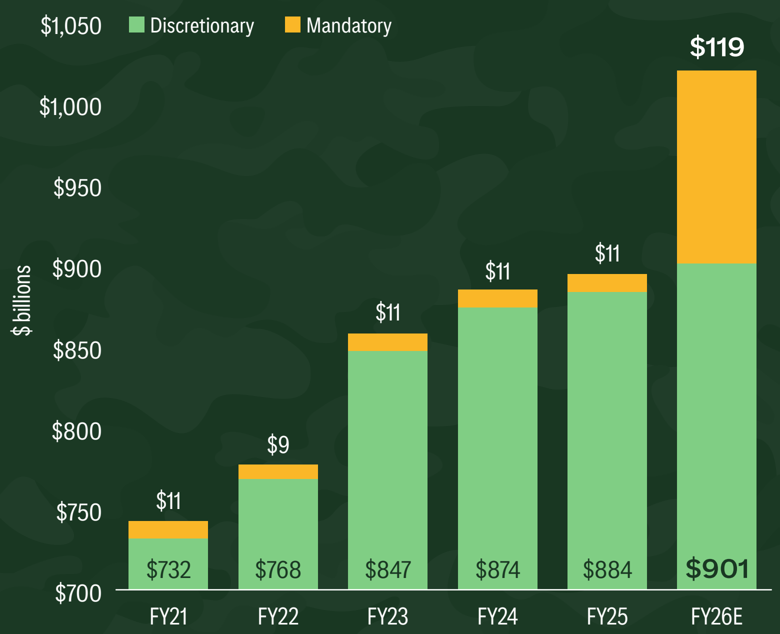
Global Defense Spending

2026 U.S. National Defense Spending

Having just been passed by Congress, the "One Big Beautiful Bill Act" means a significant jump in national defense spending during the second year of President Trump's second administration. It enacts a flat discretionary budget year over year with $119 billion of mandatory spending as a "down payment" on several key priorities.

Change in Defense Spending



Five Defense Priorities

- Nuclear Modernization (including NC3)
- Collaborative Combat Aircraft (CCAs)
- Virginia-class Submarines
- Homeland Missile Defense
- Munitions

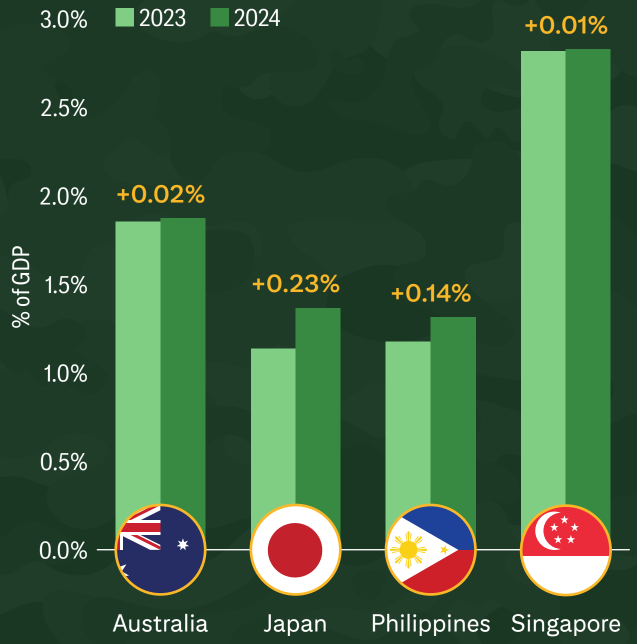
US Exposure to European Spending

Despite Europe's desire to reduce dependence on the U.S., most U.S. defense companies have products that are aligned with European spending priorities.

European Defense Priorities:

Indo-Pacific Spending Priorities

Many Indo-Pacific nations have maintained similar spending levels, but a few notable countries have increased spending to deter further regional conflict.



Sources: Citi Research, DoD, Breaking Defense, SIPRI

Balancing Choices

Economic Constraints Collide with Security Concerns

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Global Economics

President Trump's second term in the White House has already shifted the landscape for defense spending in tectonic ways. At its recent summit, NATO countries announced a new and higher target for defense spending, with outlays now slated to reach 5% of GDP by 2035.

The new 5% target is comprised of two pieces. First, the goal for "core defense spending" rises from 2% to 3.5% of GDP. This includes traditional categories of expenditure including military capital, personnel, and operations & maintenance. This strikes us as a substantive commitment which will require increased spending and, if widely implemented, would meaningfully raise NATO's defense capacity.

The second component, which is set at 1.5% of GDP, is much broader and less precisely defined. It potentially includes spending on infrastructure (including improving roads that could carry military personnel), efforts to protect critical infrastructure, cybersecurity, civil defense, and border security. Given the breadth of this category, we expect that many countries will point to existing initiatives to claim compliance. Hence, it is unclear how much new spending this commitment will elicit (or require).

The goal is to reach these targets by 2035. Still, the extent to which the new objectives will be met remains an open issue. We remain skeptical that countries that were lagging in their implementation of the old 2% marker will now move aggressively toward an even higher target. For example, the reluctance of Spain's Prime Minister to embrace the new NATO target triggered a threat from President Trump to raise U.S. tariffs on Spain.[1]

More broadly, decisions regarding defense spending necessarily reflect national security considerations and political realities, but they must also adjust to economic conditions and ever-present budget constraints. The reality is that government debt levels have risen significantly since the Global Financial Crisis in 2008–2009 and the pandemic of 2020, leaving less fiscal space for many major economies.

In this section, we first discuss the contours of defense spending across countries prior to the recently announced spending targets. We then dive deeper into the opportunities and challenges that European countries in particular will face as they consider implementing higher levels of defense spending. We then conclude with an assessment of country-level fiscal positions as well as a few other considerations, including Europe's desire to bolster its domestic defense industry and the potential role of artificial intelligence (AI) and other technologies in driving new spending.

[1] See for example, "Spain's leader sticks by decision to break with NATO spending goal despite Trump tariff threats," Associated Press, June 26, 2025.

How Much Are Countries Spending on Defense?

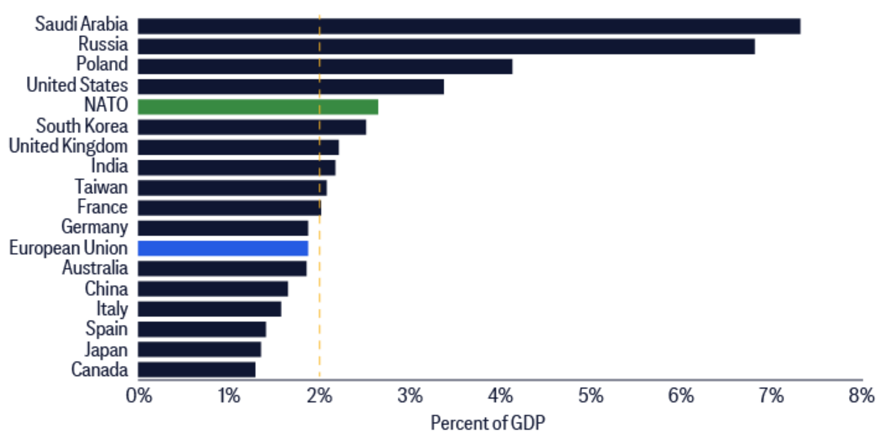
Countries that look to raise defense spending must pay for the increased expenditures one way or another. The four options at-hand are raising taxes, cutting other spending, issuing government debt, or printing money. Often, none of these financing channels are attractive. It is difficult (at best) to raise taxes. It is perhaps nearly as difficult to cut government spending, which tends to have the support of vocal constituencies. These constituencies are unhappy if their priorities have been pushed aside in favor of higher defense targets. Printing money on the other hand comes with potentially severe inflationary consequences, and it is prohibited outright in the euro area.

The upshot is that increases in defense spending are often absorbed into the budget without compensating reductions in other spending or increases in taxes. The result is higher fiscal deficits and the issuance of additional debt. Indeed, in a simple empirical exercise, we find that across a panel of NATO countries increased defense spending is reflected essentially one-for-one in higher budget deficits.

Heading into this year, the United States was well above the prior NATO defense target, spending 3.4% of GDP on defense (Figure 1). EU countries overall had roughly reached the 2% target after years of falling short, though there still existed divergences within the region. Germany and France were at the marker, while Italy and Spain remained well below. Outside of NATO, Russia is spending nearly 7% of GDP, while China spends less than 2% of GDP.

It is also worth noting that these spending figures have increased significantly in recent years, in large part reflecting the stresses and risks of the Russia–Ukraine conflict but also ongoing geopolitical unrest and pressure from the U.S. to increase spending levels. In 2021, only six members had defense spending at 2% of GDP or higher, but twenty-three countries met this standard in 2024. For the EU in particular, defense spending was 1½% of GDP in 2021 and has risen by nearly half a percentage point of GDP in the last few years.

Figure 1. Defense Spending in 2024 (% of GDP)

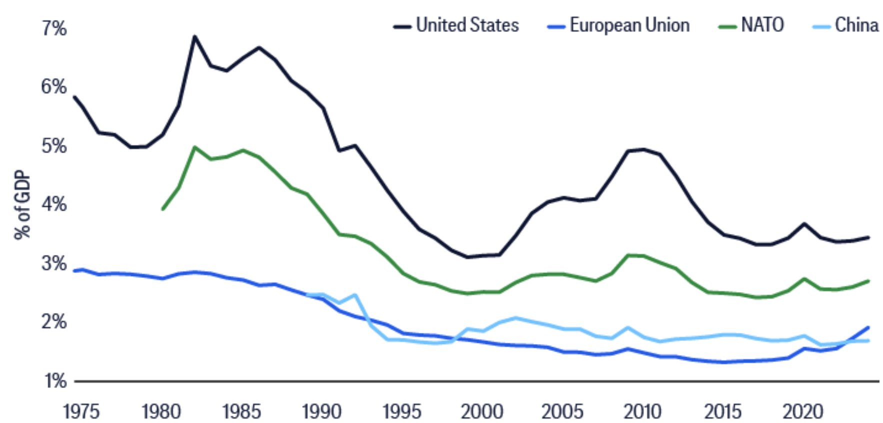


Source: Citi Research, SIPRI, IMF, Haver Analytics

These figures are shown as a share of GDP, but in dollar terms the United States spending stands out even more given the size of its economy. The U.S. spent nearly $1 trillion in 2024, more than all other NATO countries, China, and Russia combined. Still, while the spending gaps between the U.S. and the rest of the world are substantial, they also shouldn't be overstated. Clearly wages and prices in Russia and China are much lower than in the U.S. Thus, the gaps in cost-adjusted defense spending are not nearly as large as these nominal data initially suggest.

In addition, looking at a longer history, the new NATO targets are high compared to spending levels over the last few decades, but not unprecedented. In the mid-1980s, NATO countries spent nearly 5% of GDP on defense (Figure 2). The composition was imbalanced then as well, however, with the United States spending 6.5%–7% of GDP during that period while the European Union spent closer to 3% of GDP.
A second prong of the NATO commitment is that spending on "defense capital goods" (i.e., major equipment including R&D) should account for at least 20% of total defense spending. Most NATO countries easily satisfy this 20% threshold, with only Canada and Belgium falling short. More broadly, as countries increase military spending, this tends to be associated with a rising share of defense capital goods in military spending. However, the share of capital goods flattens out at just over 35%. This reflects that equipment requires personnel for its deployment. In addition, there are costs for fuel, maintenance, servicing, and upkeep. All of these are likely to rise as the stock of defense capital expands.

Figure 2. Defense Spending in Recent Decades (% of GDP)



Source: Citi Research, SIPRI, IMF, World Bank, Haver Analytics

Expenditures on capital goods may drive technological capacity, which is likely to amplify the efficiency of spending on personnel and operations. As a related point, there is an economic literature suggesting that spending on defense capital goods has the capacity to generate favorable spillovers for the economy. The technological gains obtained from major military investment initiatives may drive advances in civilian industries, with potential implications for the economy's broader productivity and competitiveness.[2]

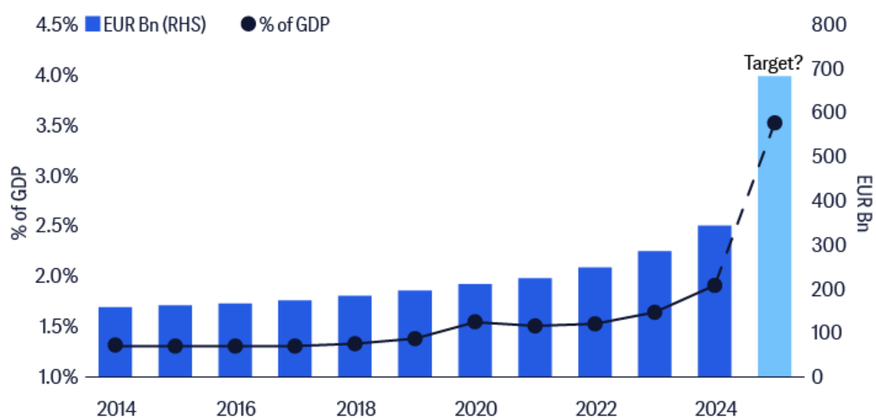
[2] For more details, see Box 1 "Does Defense Spending Increase Productivity?" in [Money and Might: Financing the Future of Defense](#).

Europe — How Will the Changing Tides Evolve?

The European Union has responded to the evolving security environment with meaningful shifts in its defense policy and funding strategies. A variety of EU-level instruments are in place, some of which pre-date the Russian invasion of Ukraine.

Much more significant, however, are the national sources that the EU is seeking to unlock with its ReArm Europe program. One major component of the plan is the introduction of the Security Action for Europe (SAFE) instrument of up to €150 billion, which allows EU countries to borrow at aggregate-EU interest rates.[3] The second component is the loosening of EU fiscal rules, by activating the "national escape clause," in this case specifically for defense spending. This would enable countries to spend an additional 1.5% of GDP on defense without breaching EU fiscal rules, potentially unlocking another €160 billion annually over each of the next four years (Figure 3).

Figure 3. Defense Spending: European Union



Source: Citi Research, SIPRI, IMF, Haver Analytics

The ReArm program looks like a natural response to the recent direction of travel in European defense spending. Over the past two years, EU member states' defense spending has increased by around 40%, with Germany responsible for about a third of the increase. Several EU member states have already approved (or at least announced) plans to raise military expenditures significantly beyond the old NATO target of 2% of GDP, in some cases like Poland even close to the new overall NATO target. It makes sense for an EU Commission that wants to encourage European rearmament to remove legal obstacles to those countries willing to lead the effort.

We are skeptical that the incentives offered are sufficient to persuade the more reluctant countries to increase their defense spending significantly beyond 2% of GDP. The fiscal rule exceptions are helpful in the sense that they remove one consideration for countries that would both like to raise defense spending and for which the fiscal rules would be (or could become) a binding constraint; the latter is the case for all the larger EU economies apart from the Netherlands. However, an exception from the rules does not change the overall deficit metrics or the sobering implications of further debt increases.

[3] Under this initiative, countries borrow from the EU Commission and are charged essentially the same terms that apply to aggregate EU borrowing.

Tweaking the rules offers little for countries where the binding constraint is concern about fiscal sustainability. Similarly, the ability to borrow at lower rates from the EU's SAFE facility is a welcome subsidy for those deciding to undertake joint procurement with another member state (a requirement for eligibility). But this subsidy by itself is unlikely sufficient to convince countries to procure jointly, let alone to spend at all. At the time of writing, the spreads of 10-year bond yields relative to EU ones is 30 basis points (bp) for France, 50bp for Italy, and 250bp for Poland, while Germany borrows 45bp below EU costs. Assuming for, illustration purposes, that 1.5% of GDP in spending is financed using SAFE funds, the implicit subsidy would be 0.01% of GDP for Italy and 0.04% for Poland.

Further incentives for national efforts and more jointly funded initiatives might be necessary to lift European defense spending above 3% of GDP. Of the four largest economies in the EU, three (France, Italy, Spain) have high debt levels and/or high deficits and would find it challenging to increase borrowing on the required scale. Assuming the increase in defense spending will be largely debt financed, the challenge would be to convince markets to finance it without crowding out other economic activity. This appears only feasible by increasing the safe asset characteristics of liabilities, which implies some type of risk sharing. This could take many different forms, from levering existing structures such as the European Stability Mechanism, the European Investment Bank, or new versions of the NextGEN EU fund, to the creation of new structures such as a specialized European Defence Mechanisms (as proposed by Wolff et al.) or the introduction of a senior tranche (backed by all member states) in national debt issued for defense purposes.

Whether the envisioned funding plans are sufficient depends on the aim. According to analysis by RAND, U.S. plans for defending Europe include a total of 300,000 U.S. troops, and perhaps around 2,000 battle tanks, armored vehicles, air defense, and various infrastructure support. Rough estimates for the cost of replacing the U.S. troops would be in the vicinity of €60 billion a year. Air defense, infrastructure and other equipment would significantly add to the bill — armored vehicles and ammunition alone could sum up to an additional €90 billion. As such, a spending increase anywhere near the targets discussed appears sufficient if the aim is replacing U.S. defense capabilities dedicated to Europe.

The initial economic impact will mostly depend on the speed of spending. Fiscal multipliers should be expected to be lower at first but rise over the medium term as investment in the European defense industry increases capacity. To the extent that achieving more security independence is a goal, the implication is that spending would be gradually ramped up over the years.

We therefore expect the impact to become more visible from 2027–2028 onwards, lifting the trajectory of the level of potential GDP in Europe, and in the process temporarily boosting growth by 0.5–0.7pp. Much will depend on other policy changes accompanying the increase in funding. Reducing the fragmentation in European defense markets, harmonizing equipment,[4] and shifting the national preference in procurement could go a long way in increasing the effectiveness of defense spending and result in a larger, more advanced European defense industry. Such action could also bring positive externalities for other sectors.

[4] For example, European countries operate twelve different battle tanks versus only one by the U.S.

Other Considerations

One important additional consideration as NATO countries look to increase their defense spending is where defense-products are going to be produced. Prior to Russia's incursion into Ukraine, roughly 60% of the defense acquisitions of EU countries were on foreign-produced goods. Since the Ukraine conflict emerged, the urgent need for defense goods — and especially the types of equipment that have been required (air defense, including F-35s and heavy helicopters) — has meant that nearly 80% of equipment orders have been outside the EU. These orders have mainly been directed to producers in the U.S. but also in Israel. At the same time, an estimated 40%–50% of EU defense production is exported to non-EU countries.

The significant share of Europe's defense spending that falls on imports has prompted concerns from European policymakers. To the extent that there are technological, productivity, or other macro spillovers associated with spending on defense products, they will accrue mainly (or even entirely) to the country that is producing them. In response, the European authorities are working to shift the balance of their defense spending toward domestic goods. The process though is likely to be gradual — the goal is for European-produced goods to account for at least 50% of collective defense procurements by 2030 and 60% by 2035.

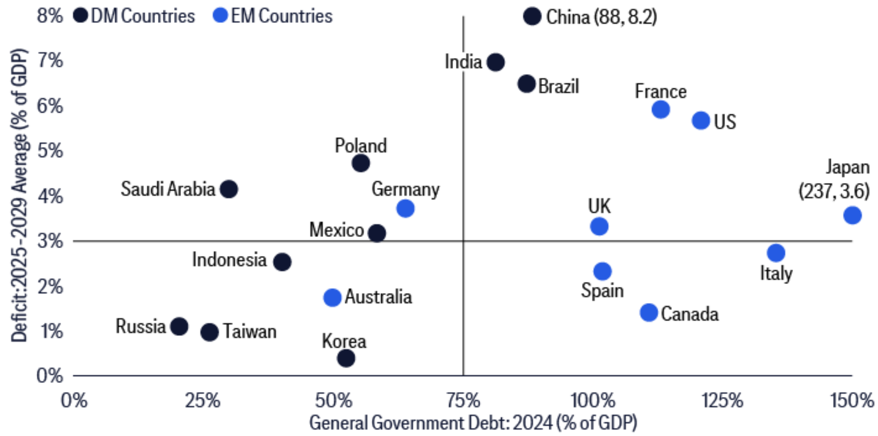
A second consideration is how new technologies are going to shape the defense landscape. In the U.S., senior officials in the Trump administration have commented on the increasingly central role of AI in modernizing defense efforts.[5] Relatedly, the government's spending on AI has risen rapidly, particularly in the Department of Defense.[6] More broadly, the advent of AI-infused technologies could drive an upsurge in defense investment in the years ahead, as capital goods become "smarter" and develop new capacities. This could also bring substitution of capital for personnel, as AI expands the range of tasks that can be completed autonomously by machines without human intervention.

Finally, returning to the topic of fiscal sustainability, fiscal performance is challenged in many countries around the world. Figure 4 shows government debt levels against deficit projections from the IMF for a range of major economies. Countries including the U.S., U.K., France, Japan, India, China, and Brazil are expected to run large fiscal deficits even though their debt levels are already high. Italy, Spain, and Canada meanwhile are running somewhat smaller deficits although their debt levels remain elevated at over 100% of GDP.

[5] See, for example: https://www.defense.gov/News/News-Stories/Article/Article/4165279/defense-officials-outline-ais-strategic-role-in-national-security/

[6] See: https://www.brookings.edu/articles/the-evolution-of-artificial-intelligence-ai-spending-by-the-u-s-government/

Figure 4. Public Debt & Fiscal Deficit Projections (IMF)*



* Data are for general government.

Source: Citi Research, IMF, Haver Analytics

On the other end of the spectrum, among developed markets Germany and Australia look to have more ample fiscal space — even as Germany is set to run relatively large fiscal deficits as it raises spending on both defense and infrastructure. For EMs, Korea, Indonesia, Russia, and Taiwan have shown fiscal restraint.

Countries that continue to run large deficits despite high debt levels inevitably face the question — how high can debt levels safely go? The answer to this question comes in two parts. First, there is no clearly defined limit on indebtedness that can be identified in advance. As one example, despite Japan's high debt levels, its sovereign yields remain comparatively low. The U.S. and many other indebted countries successfully issue significant quantities of government securities. As a related point, there is also little evidence that this debt has stoked inflationary pressures or other macro imbalances.

But second, while markets to date have broadly shown patience with high levels of indebtedness, we judge that this patience has limits. As debt levels rise, markets will eventually choke. We saw one example of this in the United Kingdom during the autumn of 2022, when Prime Minister Truss' proposed tax cuts triggered a crisis of market confidence. In addition, we have seen concerns bubble up this year in markets about the challenging U.S. fiscal picture. As such, it's not prudent to experiment and test the limits of market patience. But governments in several major countries nevertheless seem inclined to do exactly that.

Updating the Geopolitical Stage

View from the United States

Equity Research

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Jeremy Jason
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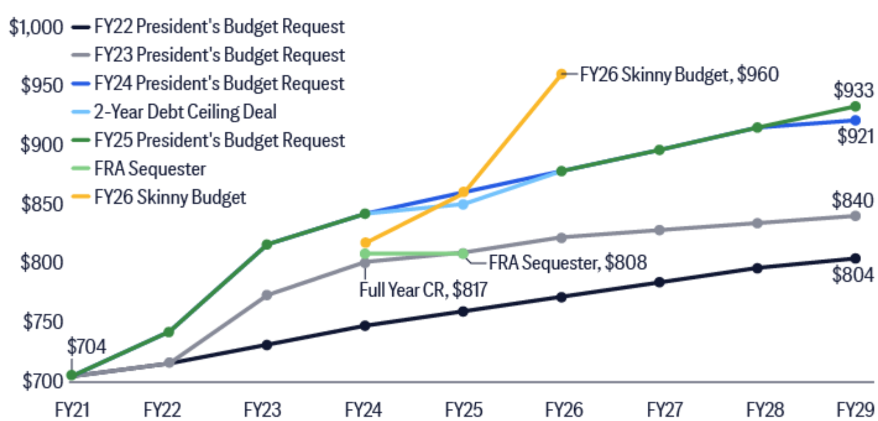
U.S. Aerospace & Defense

The new administration's view of the threat environment isn't much different from President Biden's, as outlined in the previous version of this report. Russia, China, Iran, North Korea, and terrorist organizations are the primary areas of focus. However, its approach to addressing these threats has brought change. Most notable is the shift away from leading the security of Europe toward the bolstering of security leadership in the Indo-Pacific and the simultaneous fortification of the nation's own homeland. In brief, the President wants Europe to provide for its own security, particularly against Russia, while the U.S. focuses on the perceived threat from China in the Pacific. This position has led to commitments from non-U.S. NATO members to increase defense spending, and it is changing the shape of budgets in the U.S.

Most notable, the administration has outlined seventeen key priorities (see Figure 6), proposed materially higher defense spending (Figure 5), and projected a mix shift in that spending to favor the purchase of weapons systems to better assure that warfighters are prepared for conflict (Figures 7 and 8). In our view, all of this is supportive of accelerating growth for the defense industrial base in the years ahead.

Figure 5 outlines the proposed spending plans of Department of Defense (DoD) since fiscal 2022, showing a sharp increase during the Biden administration following Russia's invasion of Ukraine, and then a further step-function higher during the second year of President Trump's second administration. At this point, the administration has not offered a spending proposal beyond fiscal 2026, leading some to question the sustainability of this new level. That said, the plan for fiscal 2026 includes "downpayments" on several spending priorities, including a Golden Dome missile defense system, the F-47 next generation air dominance system, and increased shipbuilding capacity. In our view, future budgets will likely continue to fund these programs, pointing to elevated budgets through President Trump's current tenure.

Figure 5. DoD Topline Growth FY22-FY23-FY24-FY25 Budgets ($B)



Source: Citi Research, DoD

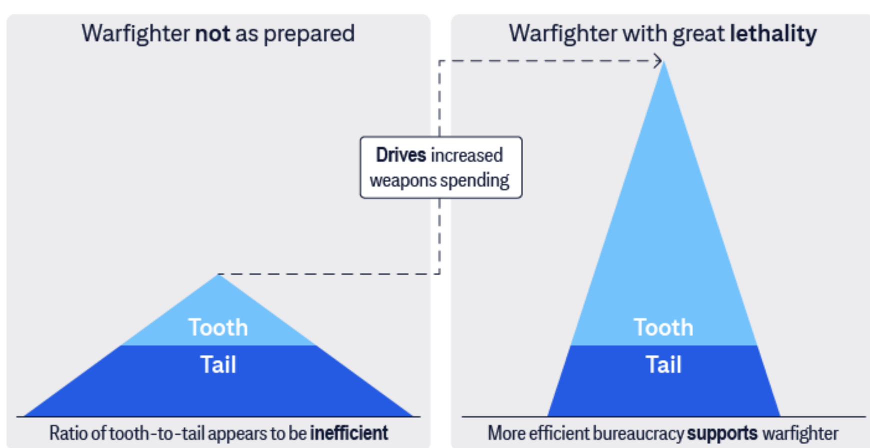
Figure 6. Seventeen Priorities for the Department of Defense

#1	Southwest Border Activities
#2	Combating Transnational Criminal Organizations in the Western Hemisphere
#3	Audit
#4	Nuclear Modernization (including NC3)
#5	Collaborative Combat Aircraft (CCAs)
#6	Virginia-class Submarines
#7	Executable Surface Ships
#8	Homeland Missile Defense
#9	One-Way Attack/ Autonomous Systems
#10	Counter-small UAS Initiatives
#11	Priority Critical Cybersecurity
#12	Munitions
#13	Core Readiness, including full ORT funding
#14	Munitions and Energetics Organic Industrial Bases
#15	Executable INDOPACOM MILCON
#16	Combatant Command support agency funding for INDOPACOM, NORTHCOM, SPACECOM, STRATCOM, CYBERCOM, and TRANSCOM
#17	Medical Private-Sector Care

Source: Citi Research, Breaking Defense

Figures 7 and 8 demonstrate the proposed shift in DoD spending mix. Secretary Hegseth has vocally endorsed moving resources away from support functions (the "tail") toward the warfighter (the "tooth") to assure the military is ready to fight. And importantly, the fiscal 2026 budget aligns with this view, with the weapons spending accounts seeing 22% year-over-year growth while the O&M and Milpers accounts are set to grow 6% to 7% each. In our view, this approach is supportive of the growth outlook for defense companies through the remainder of the decade.

Figure 7. DoD's Reshaping of Spear Points to Higher Weapons Spending



Source: Citi Research

Figure 8. FY26 Shows Mix Shift Favoring Investment Account ($B)

	FY25 Enacted	FY26 Request
Procurement	174.4	205.2
y/y change		17.7%
RDT&E	141.2	179.1
y/y change		26.8%
Investment	**315.6**	**384.3**
y/y change		21.8%
O&M	**338.4**	**360.3**
y/y change		6.5%
Milpers	**182.4**	**195.3**
y/y change		7.1%
MilCon	**19.3**	**19.8**
y/y change		2.4%
Total Defense Budget	**855.8**	**959.7**
		12.1%

Source: Citi Research, DoD

Congressional Support

Congress continues to show bi-partisan support for the President's push for higher spending — most recently in the passage of the fiscal 2025 NDAA (see Figure 9) and a Continuing Resolution for the year that increased total national security spending by roughly $8 billion over enacted 2024 levels to a total of $893 billion while simultaneously cutting non-defense programs by roughly 8% to $708 billion.

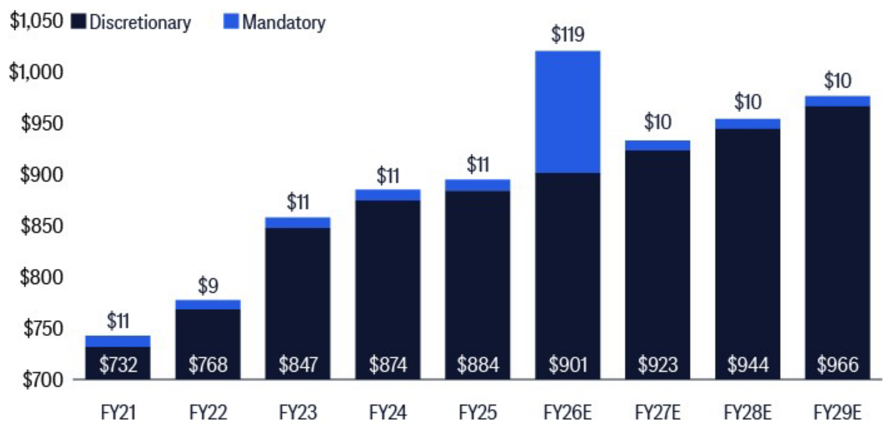
Figure 9. Congressional Vote Total for National Defense Authorization Act

	House of Representatives			US Senate			
Year (FY)	**Yea**	**Nay**	**Total**	**Yea**	**Nay**	**Total**	**Budget ($B)**
2015	300	119	419	89	11	100	560
2016	270	156	426	70	27	97	581
2017	277	147	424	92	7	99	619
2018	356	70	426	89	8	97	669
2019	351	66	417	87	10	97	685
2020	377	48	425	86	8	94	707
2021	322	87	409	86	14	100	705
2022	363	70	433	88	11	99	757
2023	329	101	430	83	11	94	817
2024	310	118	428	87	13	100	842
2025	281	140	421	85	14	99	895

Source: Citi Research, CRS

In a sign of further support, Congress released a Concurrent Budget Resolution in April that would dictate additional spending trends for fiscal 2026, officially kicking off a reconciliation process informally known as the "One Big Beautiful Bill Act." Having just been passed by Congress for President Trump to sign on July 4, it will enact a flat discretionary budget year over year and allocate $150 billion in mandatory national defense spending across 10 years, $119 billion of which will be spent in fiscal 2026 as a part of the administration's attempt to reach a $1 trillion spending target (Figure 10). More specifically, this $119 billion will be further split between $113 billion in DoD funding and $6 billion in the Department of Energy for additional nuclear capabilities. This ultimately suggests that current members of Congress have taken a largely proactive approach towards ensuring higher defense spending in alignment with the administration's priorities. Further, given that the $119 billion of mandatory spending only provides a "downpayment" on several key priorities of the administration, we expect additional "plus ups" in the years ahead such that spending levels remain closer to fiscal 2026's elevated levels.

Figure 10. NDAA Funding Split ($B)

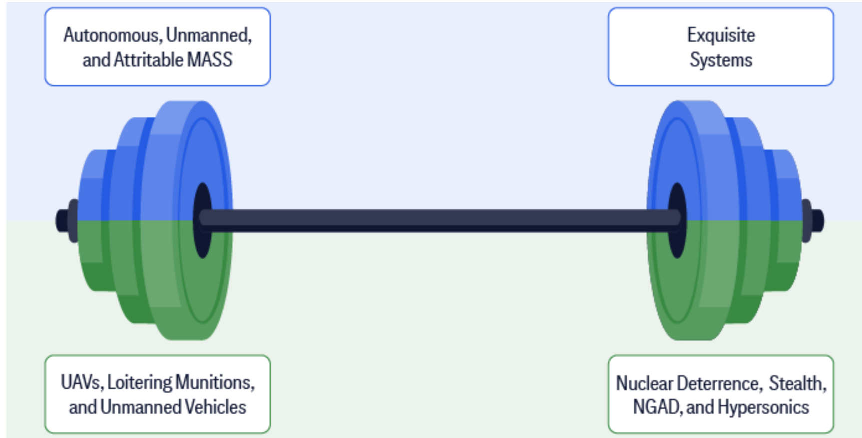


Source: Citi Research, CRS

U.S. Spending Priorities

In addition to the mix shift in spending toward the weapons buying accounts discussed above, which in the administration's view represents a change that better supports war fighting capability, we also expect to see shifts over time in the types of equipment acquired by DoD. In Figure 11 below, we attempt to provide a visual of what the future might look like — with a greater emphasis on attritable mass on one end of the bar bell and exquisite systems on the other. Importantly, the conflict in Ukraine has provided lessons on the use cases for attritable systems, and the recent conflict with Iran has demonstrated the effectiveness of exquisite systems like the F-35 and the B-2(1). In our view, both will be important areas of investment going forward, particularly counter unmanned aircraft systems (UAS), as the DoD attempts to prepare for, and hopefully deter, future conflict. On the following pages, we describe in detail the most likely areas of spending growth through the remainder of the decade.

Figure 11. Extreme ends to strengthen U.S. defensive capabilities



Source: Citi Research

Nuclear Deterrence

The U.S. continues to heavily prioritize the recapitalization of the Nuclear Triad. As mentioned in our previous installment, the U.S. aims to establish successful nuclear deterrence across three main domains: land, air, and sea. Northrop Grumman has since announced critical successes for the land-based Sentinel's solid rocket motors and the air-based B-21 Raider's flight tests. Meanwhile, both Huntington Ingalls and General Dynamics have seen continuous progress in the planning and construction of the sea-based Columbia-class submarine. All three pieces of the Triad continue to serve as the primary channel for nuclear deterrence.

As such, the U.S. remains keen on adequately funding these initiatives. The fiscal 2026 Skinny Budget has so far requested $62 billion (+26% year over year) in DoD appropriations and $25 billion UAS (+29% year over year) in National Nuclear Security Administration (NNSA) appropriations to modernize and sustain nuclear forces. Moreover, reconciliation allocates ~$15 billion in total defense-related nuclear funding, of which $6 billion will be used to plus-up the DoD Budget Request to the $1 trillion target (see Figure 12).

Figure 12. Nuclear Spending in Reconciliation ($B)

Department of Defense Funding	$10.8
Risk Reduction Activities for Sentinel ICBM program	$2.5
Acceleration of B-21 Long-Range Bomber Aircraft	$4.5
Improvements to the Minuteman III ICBM System	$0.5
Capability Enhancements to ICBM Reentry Vehicles	$0.1
Expansion of D5 Missile Motor Production	$0.1
Accelerate the Development of Trident D5LE2 Submarine-Launched Ballistic Missiles	$0.4
Accelerate the Development, Procurement, and Integration of SLCM-N	$2.0
Convert Ohio-Class Submarine Tubes to Accept Additional Missiles	$0.1
Development, Procurement, and Inetgration of Military Nuclear Weapons Delivery	$0.2
Accelerate the Production of Survivable Airborne Operations Center Program	$0.2
Accelerate Modernization of NC3	$0.1
Increased Production of MH-139 Helicopters	$0.2
National Nuclear Security Administration Funding	**$3.9**
Perform NNSA Phase 1	$0.2
Address Deferred Maintenance and Repair Needs for NNSA	$0.5
Accelerate the Construction of NNSA facilities	$1.0
Accelerate the Development, Procurement, and Integration of the Warhead for SLCM-N	$0.4
Accelerate Primary Capability Modernization	$0.8
Accelerate Secondary Capability Modernization	$0.8
Accelerate Domestic Uranium Enrichment Centrifuge Deployment for Defense Purposes	$0.1
NNSA Evaluation of Spent Fuel Reprocessing Technology	$0.0
Accelerating Nuclear National Security Missions through AI	$0.1
TOTAL NUCLEAR DEFENSE FUNDING	**$14.7**

Source: Citi Research, Congress

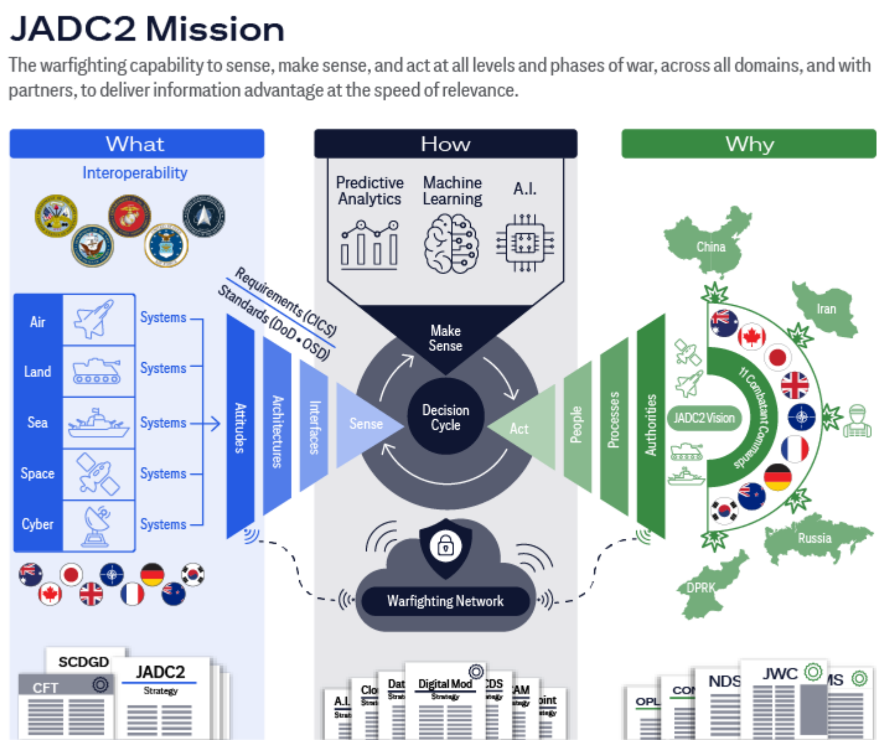
AI, Autonomy, and Cyber

The United States is focused on applying artificial intelligence (AI) and machine learning (ML) to accelerate critical decision-making and operational impact. The best example of this, in our view, is the use of ML to synthesize the large amounts of geospatial data produced by commercial and government owned aerial and space-based assets to identify enemy targets. In autonomy, efforts are focused on the adoption and scaling of trusted commercial autonomy providers and improving the country's ability to counter adversarial systems. The award of the Collaborative Combat Aircraft (CCA) to Anduril and General Atomics is a recent example. And in Cyber, efforts are focused on securing and protecting the DoD's computer networks, warfighting systems, critical infrastructure, and information from attacks to enable communications and enhance situational awareness.

Joint All Domain Command and Control

The U.S. is investing in C5ISR (command, control, computers, communication, cyber, intelligence, surveillance, reconnaissance). This array of battlefield sensors will enable an integrated battlespace and facilitate fast decision making by commanders. JADC2 (Joint All-Domain Command and Control) is a military concept that aims to improve decision-making timelines with enhanced communications, cloud-based interactions, and AI across all military domains — including space, air, land, sea, and cyber. The goal is to give the U.S. an advantage on the battlefield and deter conflict by demonstrating that the country can both detect and eliminate enemy targets before even being seen by adversaries (Figure 13).

Figure 13. The Big Picture



Source: Citi Research

Shipbuilding

The new administration is prioritizing the expansion of shipbuilding capabilities as a core component of its defense modernization agenda, citing pacing maritime threats from China. Secretary of Defense Hegseth reported that the fiscal 2026 Budget Request will allocate $47 billion for shipbuilding procurement and $6 billion for RDT&E, which represents a ~10% and ~9% year-over-year increase, respectively, compared to the fiscal 2025 Budget Request (Figure 14).

Figure 14. Total Shipbuilding Funding in Budget Requests ($B)

Source: Citi Research, DoD

Moreover, reconciliation funds roughly $29 billion of the $53 billion in the request (Figure 15, following page).

Figure 15. Reconciliation Shipbuilding Funding ($B)

Expansion of Accelerated Training in Defense Manufacturing Program	$0.3
US production of Turbine Generators for Shipbuilding Industrial Base	$0.3
US Additive Manufacturing for Wire Production/Machining Capacity in Shipbuilding Industrial Base	$0.5
Next-Gen Shipbuilding Techniques	$0.5
US-made Steel Plate for Shipbuilding Industrial Base	$0.1
Machining Capacity for Naval Propellers for Shipbuilding Industrial Base	$0.1
Rolled Steel and Fabrication Facility for Shipbuilding Industrial Base	$0.1
Expansion of Collaborative Campus for Naval Shipbuilding	$0.4
Application of Autonomy and AI to Naval Shipbuilding	$0.5
Adoption of Advanced Manufacturing Techniques in the Shipbuilding Industrial Base	$0.5
Additional Dry-Dock Capability	$0.5
Expansion of Cold Spray Repair Technologies	$0.1
Additional Maritime Industrial Workforce Development Programs	$0.5
Additional Supplier Development Across the Naval Shipbuilding Industrial Base	$0.8
Additional Advanced Manufacturing Processes Across the Naval Shipbuilding Industrial Base	$0.3
Second Virginia-Class Submarine in FY26	$4.6
Two Additional Guided Missile Destroyer (DDG) Ships	$5.4
Advanced Procurement for Landing Ship Medium	$0.2
Procurement for Landing Ship Medium	$1.8
Development of a Second Landing Craft Utility Shipyard and Production of Additional Landing Craft Utility	$0.3
Advanced Procurement for Light Replenishment Oiler Program	$0.1
Lease or Purchase of New Ships Through the National Defense Sealift Fund	$0.6
Procurement of T-AO oilers	$2.7
Cost-to-Complete for Rescue and Salvage Ships	$0.5
Production of Ship-to-Shore Connectors	$0.3
Implementation of a Multi-Year Amphibious Warship Contract	$1.5
Accelerated Development of Vertical Launch System Reloading at Sea	$0.1
Expansion of Navy Corrosion Control Programs	$0.3
Leasing of Ships for Marine Corps Operations	$0.2
Expansion of Small Unmanned Surface Vessel Production	$1.5
Development, Procurement, and Integration of Purpose-Built Medium Unmanned Surface Vessels	$2.1
Expansion of Unmanned Underwater Vehicle Production	$1.3
Development and Testing of Mairtime Robotic Autonomous Systems and Enabling Technologies	$0.2
Development of a Test Resource Management Center Robotic Autonomous Systems Proving Ground	$0.2
Development, Production, and Integration of Wave-Powered Unmanned Underwater Vehicles	$0.3
Retention of Inactive Reserve Fleet Ships	$0.2
TOTAL SHIPBUILDING FUNDING	**$29.2**

Source: Citi Research, DoD

Space

The U.S. believes Space to be the next domain of warfare, which represents the ultimate high ground for intelligence agencies. Importantly, several legacy space-based assets remain vulnerable to attack from enemy projectiles and similar threats. As such, the DoD continues to deploy proliferated Low Earth Orbit (LEO) ISR and Communications constellations to provide improved capabilities and resilience. Additionally, the DoD is deploying a missile tracking constellation that will support the Golden Dome initiative. Reconciliation includes greater funding to accelerate space superiority and missile defense capabilities (see Figure 16).

Figure 16. Key Defense-Related Space Initiatives in Reconciliation ($B)

Space-Based Missile Defense and Sensors	**$15.7**
Space-Based and Boost-Phase Interceptors	$5.6
Military Space-Based Sensors	$7.2
AMTI Satellites	$2.0
Directed Energy Missile Defense R&D	$0.3
National Security Space Launch Infrastructure	$0.5
Indo-Pacific Focus and Space Force Enhancements	**$5.8**
Ground Moving Target Indicator Satellites	$0.1
DARC and SILENTBARKER Programs	$0.5
Space Force Facilities Improvements	$0.1
Development, Procurement, Integration, and Protection of US Military Satellites	$3.7
Development, Procurement, and Integration of Military Space Communications	$0.1
Development, Procurement, and Integration of Military Space C2 Systems	$0.4

Source: Citi Research, Congress

UAVs / Attritable Aircraft

The conflicts in both Ukraine and Middle East have demonstrated the effectiveness of inexpensive UAVs and attritable aircraft, which can be used for ISR missions and delivering kinetic energy on a target. We have seen recent examples of effective drone warfare in Operation Spider's Web, Ukraine's innovative approach towards using inexpensive drones to target Russia's strategic long-range bombers.

These types of systems have not historically been an area of focus for the U.S. and its allies. To address this, the U.S. began Project Replicator in 2023 to tackle two critical issues: (1) the ability to quickly produce thousands of aerial drones by August 2025, and (2) to then "replicate" this quickened pace for developing newer programs across multiple domains. In the future, these types of aircraft are likely to fly in swarms autonomously and as wingman to manned aircraft, offering both protection and over-the-horizon visibility. Additionally, the U.S. is investing in ways to counter adversarial UAS, including the use of kinetic and directed energy solutions.

National Air and Missile Defense — the Golden Dome

One of the key areas of focus for the Trump administration is the establishment of a multi-layer national missile-defense system over the United States, i.e. *the Golden Dome*. The administration has pushed Congress to include a "downpayment" of $25 billion in fiscal 2026 budget, and overall expects the $175 billion project to be completed in about three years. The Golden Dome will integrate with existing defense capabilities and utilize space-based sensors and interceptors. It will also interact with existing ground-based systems to detect and intercept cruise missiles, hypersonics, ballistic missiles, as well as boast anti-drone capabilities. L3Harris was named in the briefing as a manufacturer of satellites for the space infrastructure aspect while Lockheed Martin and Raytheon were named as providers for ground-based interceptor missiles. Notably, there was an emphasis on having Silicon Valley-based companies bring missile defense and counter UAS at lower cost.

Charles Armitage
European Aerospace & Defense

An Update on European Defense

We see three areas to consider in European defense:

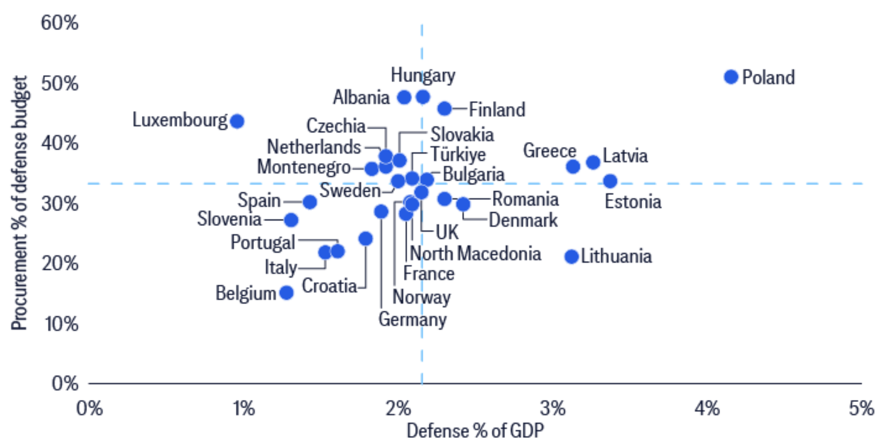
1. The step change in European defense budgets
2. Where will the money be spent
3. How this will be funded

Europe agrees to go to 3.5%

At the NATO summit in the Hague last month, it was agreed that almost all countries (expect Spain) would reach 3.5% of GDP on core defense, with a further 1.5% to be spent on defense adjuncts (such as security, cyber, infrastructure).

As Figure 17 shows there is broad range of defense spending in Europe, both in terms of % of GDP and also how much goes on procurement.

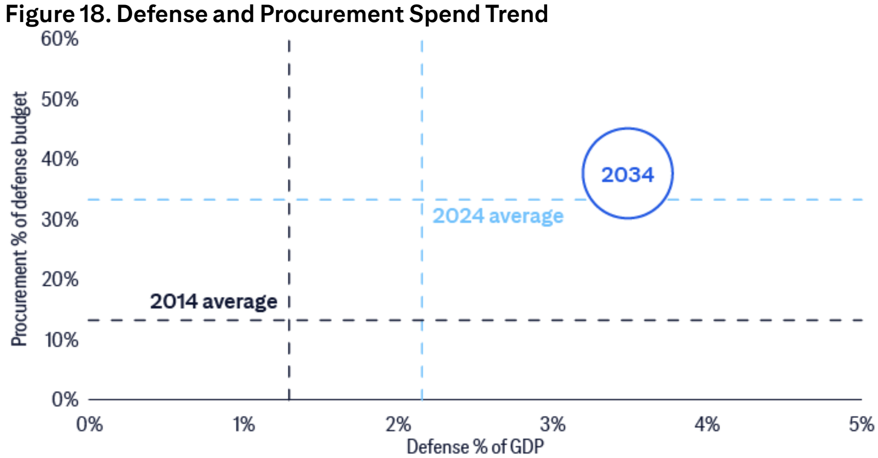
Figure 17. 2024 Defense and Procurement Spend



Source: Citi Research, NATO

Figure 18 shows how there has already been significant movement since 2014, particularly increasing the procurement proportion — we see incremental gains here, but most of the growth looks likely to be from the overall budget expansion.

Figure 18. Defense and Procurement Spend Trend



Source: Citi Research, NATO

We see three main drivers to growing European defense industries' profits:

1. *GDP growth* — likely to be limited to ~3% nominal CAGR
2. *Defense spending as a % of GDP* — currently around the 2% range and NATO recently announced at the Hague Summit a new target of 5% by 2035, which includes 3.5% for core defense and 1.5% for other resilience investments
3. *Procurement as % of defense budget* — likely to rise as Europe rearms; we believe 40% is a likely upper level across Europe. It may rise higher temporarily, but we believe 40% is the upper sustainable limit

Combining these three elements, we derive our procurement budget growth by country in Figure 19.

Figure 19. GDP, Defense Budget and Defense Procurement Growth by Region

	UK	US	France	Germany	Italy	Sweden	RoEur	RoW	Non-Defense
Nominal GDP growth pa	**3.1%**	**4.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**4.0%**	**4.0%**	
Defense % of GDP - 2024	2.3%	3.5%	2.1%	1.9%	1.6%	2.0%	1.8%	2.5%	
Defense % of GDP - 2034	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.0%**	**3.0%**	
Procurement as % of defense - 2024	36.1%	35.0%	28.4%	28.7%	22.1%	34.0%	36.6%	33.0%	
Procurement as % of defense - 2034	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	
Procurement growth pa as % of GDP	**5.5%**	**1.3%**	**9.2%**	**9.9%**	**14.7%**	**7.5%**	**6.0%**	**3.8%**	
Procurement growth pa	**8.7%**	**5.4%**	**12.4%**	**13.2%**	**18.1%**	**10.7%**	**10.3%**	**8.0%**	**4.0%**
2034 vs 2024	**2.3x**	**1.7x**	**3.2x**	**3.5x**	**5.3x**	**2.8x**	**2.7x**	**2.2x**	

Source: Citi Research, NATO

Where Will the Money Be Spent?

In March, the EU published a joint defence readiness white paper detailing key capability gaps in the European defense capability. With the exception of stealth technology, it is the believed that the European technology is at a comparable level to the U.S., but the issue is one of the volume — Europe simply doesn't have enough defense equipment, pretty much across the board, but particularly in seven priority areas that Europe needs to fill:

1. *Air and missile defense* — protection from aerial threats
2. *Artillery systems* — including rocket systems and precision strike
3. *Ammunition* — stockpiles are simply too small, particularly for air and missile defense and artillery systems
4. *Drone and Counter-Drone systems* — with the additional question of obsolescence (the cycle time in Ukraine is about 2 weeks before systems are jammed) – there is little point in building a stockpile of drones over a number of years if they can't be quickly upgraded.

5. *Military mobility* — a network of land, air and sea systems to allow the transport of military personnel and equipment quickly through Europe and allied countries (we do not see much participation from the defense company universe in this area)

6. *AI, Quantum, Cyber and Electronic Warfare*

7. *Strategic enablers and critical infrastructure protection* — including many of the services that NATO Europe have traditionally leant on the U.S., including strategic air transport, air refueling, air and space-based surveillance.

Indo-Pacific Spending Priorities

View from the Indo-Pacific

Jason Gursky
Jeremy Jason
Bradley Eyster
U.S. Aerospace & Defense

The Indo-Pacific region has garnered heightened strategic focus since our previous installment as both Western and Eastern allies continue to address security risks stemming from China's military modernization and North Korea's nuclear missile programs. Moreover, U.S./NATO/ASEAN military officials have begun taking notice of greater cooperation among other global threats, including Russia and Iran through increased troop and missile exports. Following recent summit meetings, we note the following:

- Across the region, countries are deepening trilateral and quadrilateral cooperation — from Japan-India-Australia to U.S.–Philippines–Japan. Military drills, intelligence sharing, and logistics agreements are growing in scope and frequency, reflecting an accelerating trend toward coalition deterrence. Moreover, some of these alliances are looking to expand. In March 2025, The Squad, a minor security alliance between the U.S., Japan, Australia, and the Philippines, began discussions to include both India and South Korea into the group. Even traditionally neutral states like Thailand are more actively participating in multilateral exercises. These efforts ultimately are not meant to provoke confrontation but to deter coercion and ensure sovereignty. That said, there continues to be a push for self-reliance away from global powers, as indicated by India and Malaysia.

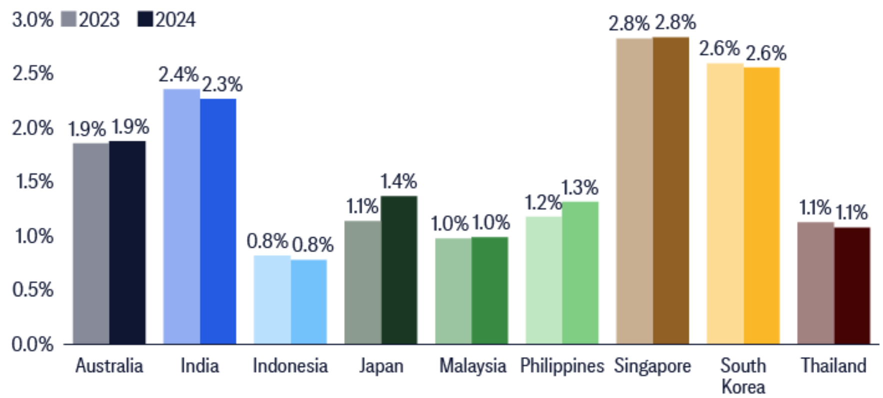
- Several countries including Australia, India, Japan, and South Korea are also increasingly asserting themselves as stabilizers in the Indo-Pacific, aiming to instill regional order through defense modernization, diplomatic balancing, and rules-based advocacy. While a majority of these nations have maintained similar spending levels compared to the previous year (see Figure 20), a few notable countries (such as Australia, Japan, the Philippines, and Singapore) have increased spending to deter further conflict in the region. The Philippines, Indonesia, Malaysia, and Singapore reinforced the urgency of maritime security, particularly in response to growing Chinese assertiveness. In fact, the Philippines recently issued a warning that continued harassment could cross into acts of war. Meanwhile, more moderate voices have reiterated the importance of peaceful resolution and ASEAN's lead role in regional affairs.

Evolution of AUKUS Sentiment

The current state of the trilateral agreement between the U.S., UK, and Australia has been the subject of debate since President Trump took office in January. Efforts to enhance Australia's nuclear and cyber capabilities continue as planned and have even included relevant stakeholders within the Japanese government who are to play a minor role in improving the interoperability of Pillar II.

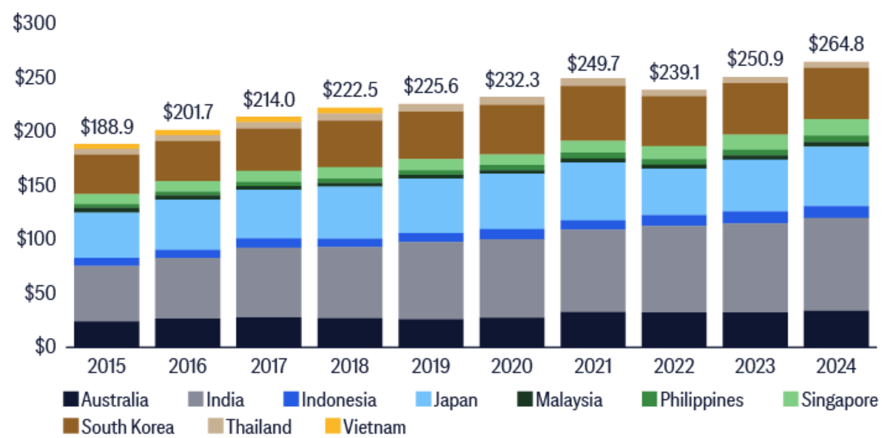
However, in June 2025, the U.S. President announced that the administration would be initiating a review of the AUKUS pact to ensure alignment with his "America First" agenda. This has raised concerns about potential U.S. withdrawal, although officials emphasize that the review is routine and not a sign of collapse. Moreover, AUKUS appears to have garnered bi-partisan U.S. support following the announcement from the White House, where members of the Senate Armed Services Committee introduced the "AUKUS Improvement Act," a new piece of legislation aimed at exempting Australia and the UK from otherwise-required congressional notification for overseas manufacturing.

Figure 20. Indo-Pacific Defense Spending (as a % of GDP)



Source: Citi Research, SIPRI

Figure 21. Total Indo-Pacific Defense Spending (2015–2024, $B)



Source: Citi Research, SIPRI

Figure 22. Indo-Pacific National Security and Defense Strategies

Indo-Pacific	Threats	Strategy	Tactics
Australia	Views a rising and assertive China threatening Indo-Pacific stability.	The 2024 National Defense Strategy focuses on shaping regional environments, deterrence, AUKUS-driven submarine development, and resilient supply chains.	The government recently allocated ~2.1% of GDP to defense and aims to reach 2.34% by 2032–33.
Guam	Serves as a strategic U.S. defense node countering potential threat from China and North Korea.	U.S. Indo-Pacific Strategy positions Guam as hub for missile defense, airbase resilience, and force posture; expansion under Pacific Deterrence Initiative.	FY25 NDAA allocates $430B for Guam defense improvements.
India	Faces persistent threats from Pakistan and growing pressure from China over border conflicts.	India's National Defence Strategy emphasizes "Make in India," military modernization, nuclear triad readiness, and strategic autonomy.	The government plans to spend 1.8% of GDP and has kept its target of 2.4% of GDP by 2034.
Indonesia	Threats include terrorism, maritime piracy, separatist movements.	Indonesia's national defense strategy emphasizes archipelagic defense, maritime domain, combined arms, and ASEAN cooperation.	Indonesia aims to implement higher reserve spending but has only dedicated 0.8-0.9% of its GDP to defense.
Japan	Sees both China's and North Korea's military expansions as primary strategic threats.	Through the NSS, NDS & Defense Build-up Plan, Japan continues to rely on western allies while pivoting towards self-defense via long-range strikes, tri-service integration, ISR, cyber, and missile defense.	The governemnt plans to spend 1.8% GDP in 2025 and reach 2.0% by 2027.
Malaysia	Threats include China's rapid military expansion as well as global terrorism, maritime piracy, and regional instability.	Malaysia's National Defense Policy emphasizes sovereignty, maritime security, joint forces with key allies, and defense diplomacy.	The government has historically spent <1% GDP for the past 8 years which is likely to continue.
Philippines	Faces maritime disputes and Chinese incursions in the South China Sea.	Comprehensive Archipelagic Defense Concept (CADC) aims to modernize AFP with improved maritime domain awareness, distributed deterrence, alliance with U.S. via EDCA/CADC.	The government has typically spent ~1.2% of GDP but aims to reach 1.8–2.0% in 2025.
Singapore	Threats stem from regional instability and maintaining secure sea-lanes amid China's growing military strength.	Its Total Defence policy supports military, civil, economic, social, psychological, and digital resilience through strong R&D and conscription.	The government aims to spending $17.7B on defense in 2025 and remain at ~3% of GDP in the near-term.
South Korea	Main threats are Chinese military competition and North Korea's nuclear/ ICBM program.	Implements 3-axis defense (Kill Chain, KAMD, KUS—strike, missile defense), combined arms modernization, ISR, and strengthened US alliance.	The government typically spends ~2.3–2.8% of GDP and is projected to reach 3% by 2028, potentially 5% by early 2030s.
Thailand	Threats include domestic unrest, separatist insurgencies, and regional instability.	Focuses on internal security, counter-insurgency, traditional deterring via monarchy-aligned military; limited maritime posture.	The government spent 1.1% of GDP in 2024 and maintains its priority of readiness and cyber equipment sustainment.
Vietnam	Concerned with China's South China Sea assertiveness along with cyber and terrorism risks.	The "Four No's" strategy is a stance of neutrality to prioritize its own maritime defense modernization with diversified suppliers, strong reserve systems.	The government currently aims to avoid heavy reliance on one outside defense provider and seek alliances for improved capabilities.

Source: Citi Research

The Evolving U.S. Defense Tech Ecosystem

The defense industrial base (DIB) has evolved over the past decade, with high-profile shifts becoming more widely visible over the past couple of years. Large defense primes such as Lockheed Martin, Northrop Grumman, General Dynamics, Boeing, RTX and Huntington Ingalls still dominate well known platforms such as fighter jets, tanks, and aircraft carriers. But the DoD has been pursuing alternatives as it looks to acquire innovative technologies it believes will position the U.S. to stay ahead of near peers. Importantly, the recent conflicts in Ukraine and the Middle East have provided insight into the capabilities of adversaries and exposed potential weaknesses in the country's force structure and the equipment it uses. In response, companies such as SpaceX, Anduril, Palantir, Hawk-Eye 360, Shield AI, and Ursa Major, to name a few, have emerged as alternatives to traditional suppliers for the rapid development and deployment of "next generation" capabilities.

We also note that the evolving ecosystem continues to support VC-backed start-ups. Anduril's Collaborative Combat Aircraft (CCA) win suggests a greater degree of trust in unconventional defense contractors and other innovative start-ups. In aggregate, the companies listed in Figure 23 have raised over $17 billion so far this year (year-to-date through June 13th) and have collectively raised north of $110 billion since 2022. We are still seeing a rise in funding for these start-ups and have observed recent rounds of fundraising for companies since the election such as Anduril raising $2.5 billion in a Series G round (Jun-25), Shield AI raising $240 million through a Series F (Mar-25), and Saronic raising $600 million in a Series C (Feb-25), to name a few. This fundraising momentum suggests continued positive venture capital sentiment towards the DIB. Additionally, we have seen Anduril recently partner with established companies such as: Saab to produce solid rocket motors (SRMs) and ground-launched small diameter bomb systems; Rheinmetall to co-develop and produce the Barracuda, Fury, and SRMs for European defense; and large tech companies such as Meta and Microsoft. Moreover, Shield AI has begun collaborations with larger players such as L3Harris and Booz Allen Hamilton while Skydio's DFR and X10D drones have been contracted by the DoD and Spain's Ministry of Defence.

Going forward, we expect new entrants to take budget share from large primes, particularly as spending growth favors many of the areas in which these companies are focused, such as AI, Autonomy, Cyber and Space. Further, we believe some will be successful in taking share in verticals that have traditionally been dominated by the larger companies, with Anduril's win on the CCA program a good example. And we could see similar outcomes in the C5ISR and munitions areas. That said, the legacy primes hold enviable positions with large installed bases of platforms that will be maintained and upgraded for decades to come. These companies also benefit from strong balance sheets, which should provide them the opportunity to increase R&D spending and, when needed, to acquire the upstarts for their technologies.

Figure 23. List of VC-backed Defense Tech Companies

Companies with $200M+ VC investment				
AI	**Space**	**Cyber**	**Aviation**	**Diverse**
Databricks	Astranis Space	BigID Inc	BETA Technologies	6K
Dataiku	Capella Space	Chainalysis	Boom Technology	Anduril Industries
DataRobot	Firefly Aerospace	Corelight	Skydio	Dexterity
Eightfold.ai	HawkEye 360	Dragos	ZeroAvia	Epirus
Grafana Labs	Impulse Space	Illumio		Gecko Robotics
Groq	Isar Aerospace	Netskope		Helsing
Lambda Labs	Relativity Space	Nozomi Networks		ICON
Scale AI	Sierra Space	PsiQuantum		Lyten
SiMA.ai	SpaceX	SandboxAQ		Saronic Technologies
ThoughtSpot	Stoke Space	SiFive		Shield AI
Weights & Biases	The Exploration Co.	Vast Data		
	Tomorrow Companies	Versa Networks		
	True Anomaly			
	Ursa Major			
	Voyager Space			

Source: Citi Research

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Appendix A-1

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	12 Month Rating			Catalyst Watch		
Data current as of 01 Jul 2025	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage (Neutral=Hold)	58%	32%	9%	36%	47%	17%
% of companies in each rating category that are investment banking clients	36%	39%	25%	39%	34%	35%

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Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
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