GLOBAL EQUITIES

Why security could be a durable investment theme

Kent Chan and Noriko Honda Chen

July 24, 2025

Against a backdrop of war in Ukraine and the Middle East, as well as a global trade war, nations are redefining their relationships with allies, rivals and trading partners to bolster their national security.

And security encompasses more than just defense spending. As the geopolitical landscape has grown increasingly uncertain and fragmented, nations are taking on greater responsibility — and investing aggressively — to secure resources vital to their interests. This extends to safeguarding access to reliable energy resources as well as updating national infrastructure and securing dependable supply chains for essential goods and raw materials.

We expect this security imperative will translate into significant capital expenditure by governments around the world. This is a global trend that represents growth tailwinds for companies across a range of industries, including aerospace and defense, construction, capital goods, energy and utilities, as well as leading-edge technology.

Companies that can innovate and meet rapidly evolving security needs will likely benefit the most. We are taking advantage of our global research footprint to anticipate where these forces will lead and what companies stand to gain.

Here are three ways we believe a global focus on security will boost growth for well-positioned companies and drive investment opportunities in the coming years.

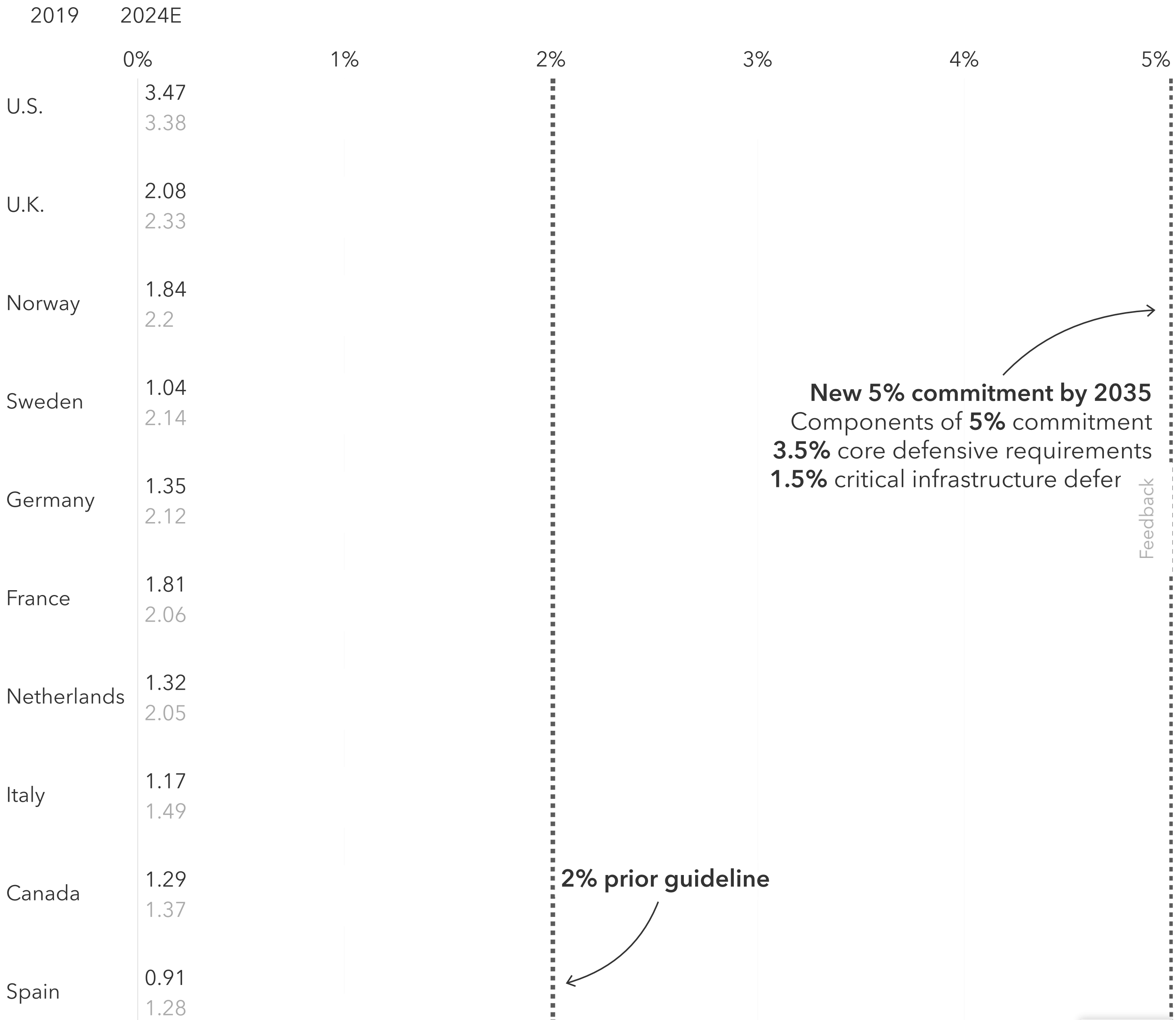
1. National security: A wave of defense spending

Armed conflict inevitably has tragic consequences, starting with the human cost of lives lost and populations displaced, as well as economic repercussions on all sides. The wars in Ukraine and Gaza, and more recently the hostilities in Iran, have underscored these realities. But they have also reinforced the importance of robust defensive resources. Leaders in Europe, Japan and other countries are recognizing the need to invest in their own defense.

NATO allies pledged in June to ramp up their defense spending from a targeted 2% of gross domestic product (GDP) to 5% by 2035, a monumental change that reflects an ongoing transformation of the geopolitical landscape. This spending agreement, advanced by the U.S. administration, signifies a major turning point for the 80-year-old alliance.

NATO allies have more than doubled defense spending commitments

Defense expenditure as a % of GDP across select NATO allies



Source: Capital Group, NATO. Figures for 2024 are estimates based on most recently available data (June 2024), June 30, 2025. New 5% commitment was announced June 27, 2025. Percentage of GDP is based on constant prices and exchange rates, indexed to 2015. NATO defines defense expenditure as payments made by a national government specifically to meet the needs of its armed forces, those of Allies or of the Alliance. Critical infrastructure defense consists of investments to protect critical infrastructure, defend networks, fund innovation and strengthen the defense industrial base.

Even before the NATO agreement, defense spending was on an upward trajectory. European and Canadian defense budgets rose 18% in 2024. In the first quarter of 2025, Germany disclosed plans for aggressive fiscal stimulus focused primarily on defense and infrastructure. Outside of NATO, Japan's cabinet approved a 9.4% increase in its defense budget in December 2024.

Defense stocks have already surged. As of July 16, the S&P Europe Defense Vision Index and S&P Aerospace & Defense Select Industry Index have climbed 75.6% and 29.7%, respectively, for the year. Valuations have become stretched with the substantial run-up in stock prices.

We believe rising defense budgets represent a long-term tailwind, but only for those innovators that can adapt to a rapidly evolving landscape.

Take U.S. contractor RTX, a maker of cutting-edge radar and missile defense systems. Demand for its offerings has soared as nations in Europe and the Middle East have undertaken defense modernization efforts. The wider adoption of drones could provide additional tailwinds for both U.K.-based BAE Systems and U.S.-based Northrop Grumman.

Elsewhere, backlogs are growing for similar German firms. The backlog for Rheinmetall, a maker of advanced defense systems, reached a new high of €55 billion during its 2024 fiscal year, with the firm citing significant projects in the U.S., U.K., Italy and Ukraine. Hensoldt, a manufacturer of radar and precision optics used in aircraft, posted a record backlog this spring. These companies, among others, could benefit as European governments look for opportunities to allocate budgets toward domestic companies.

Ships have become another priority, and we've been sizing up opportunities in Asia. Although U.S. companies produce cutting-edge defense systems, America faces challenges of its own in modernizin its naval fleet and may need to look abroad for some solutions. For example, in recent trade negotiations with South Korea, shipbuilders Hyundai Heavy Industries and Hanwha Ocean have offered to move some operations to the states and help the U.S. revitalize its production capabilities. Other leading shipbuilding companies are domiciled in Asia, including Japanese conglomerates Mitsubishi Heavy Industries and Kawasaki Heavy Industries, both of which also make gas turbines and other power generation equipment.

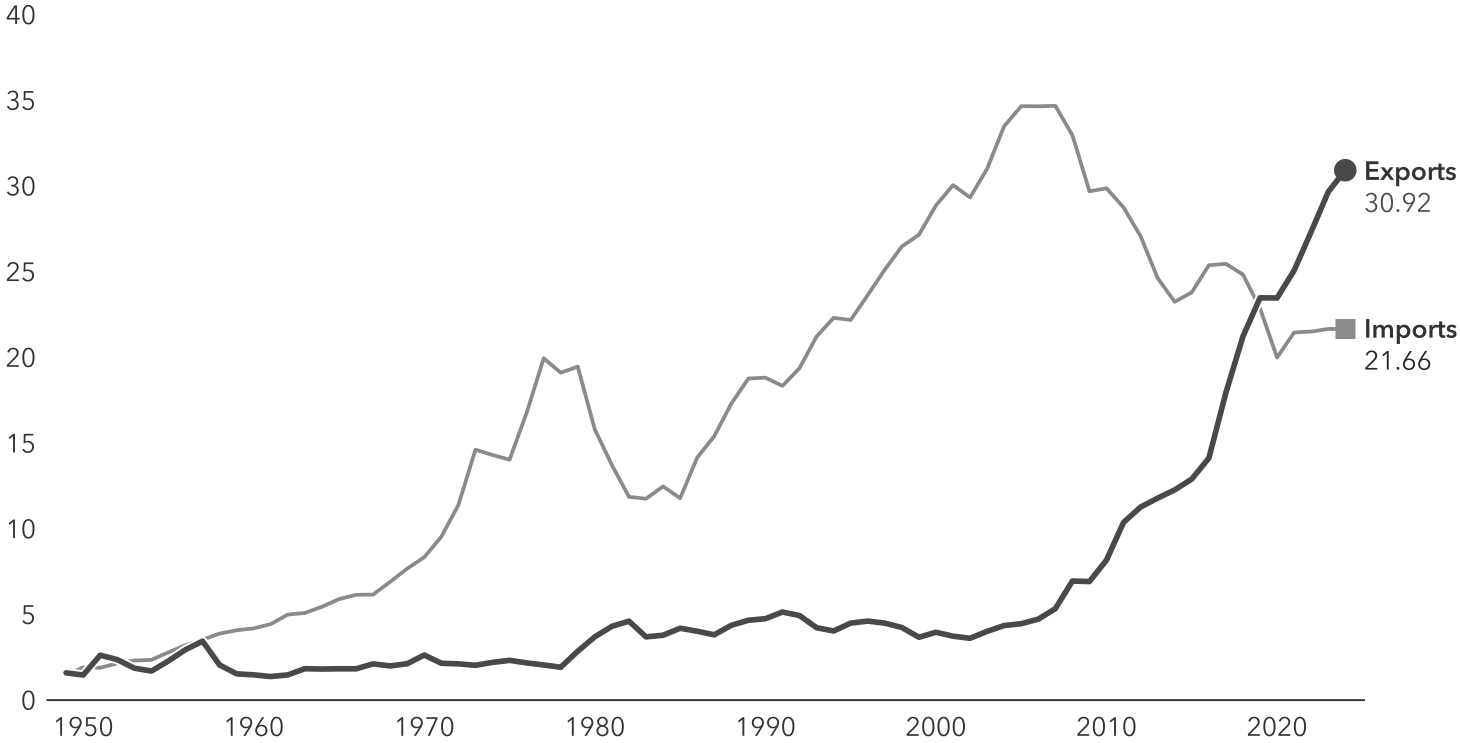
2. Energy security: The lifeblood of any economy

Secure access to energy is essential to a functioning economy and a matter of national security. Germany and other European nations learned this the hard way when they were cut off from access to cheap natural gas after Russia's invasion of Ukraine. There are stark regional differences in energy resources, so the U.S., Europe and Asia face differing challenges.

The U.S. shale fracking industry is in a relatively enviable position, providing the country with an abundance of cheap natural gas and oil. The availability of affordable energy provides a range of U.S. manufacturers with a distinct competitive advantage since energy is one of the highest input costs for many companies. What's more, the U.S. transitioned from a net importer to a net exporter of energy in October 2019. Today it ranks as the world's largest crude oil producer at 12 million barrels of oil per day.

The U.S. has become a net exporter of energy

U.S. energy imports vs. exports (quadrillion BTUs)



Source: Capital Group, U.S. Energy Information Administration (EIA). As of December 31, 2024. One quadrillion is equivalent to 172 million barrels of crude oil.

For the first time in years, power demand is rising rapidly in the U.S. thanks to the construction of AI da centers and the reshoring of manufacturing. To meet the demand, companies are increasingly explori the use of nuclear energy — a trend that could bring attention to once staid utility companies.

For example, Meta Platforms is tapping into an Illinois nuclear plant owned by electric utility Constellation Energy to support its growing energy needs in the region. And in May, President Trump signed executive orders aimed at accelerating the construction of nuclear facilities in the U.S.

European nations including the U.K., Poland and France have taken steps to increase their nuclear capacity. Canada-based Cameco, a uranium producer with operations in Canada, the U.S. and Kazakhstan, has plans to expand its mining operations to meet skyrocketing global demand.

European nations are turning to U.S. producers of liquid natural gas (LNG). Cheniere Energy, an exporter of LNG to Europe and Japan, has long-term agreements to supply companies in Germany, Portugal and Austria.

3. Supply chain security: Sourcing closer to home

The COVID pandemic exposed the fragility of supply chains, as well as the importance of companies and governments building their resilience with a range of suppliers. Today, amid growing geopolitical and trade conflicts, the emphasis is on securing supply chains for essential goods, like semiconductors, critical minerals and metals.

Take copper, for example. Nations recognize the need to secure access to the metal, given its central role in data centers, grid modernization and other industrial needs. Demand is expected to generate shortages in key locations in Chile and elsewhere in South America.

In our view, leading copper producers may benefit from this higher demand as well as President Trump’s copper tariffs. Swiss mining company Glencore is leveraging operations in Argentina to double its copper output in the coming years. In the U.S., Freeport McMoran has disclosed plans to expand its copper mining and refining operations.

China also controls the world’s supply of rare earth minerals, which are essential for batteries as well as military equipment like drones. China has spent years securing rare earth rights in deals with countries across Africa and South America.

China is a key producer of critical minerals

Cobalt

Used in rechargable batteries, superalloys

Select mineral: **Cobalt** Graphite Lithium Manganese Nickel Rare earth minerals

Geographical distribution of refined material production for critical minerals (%)

China Finland Canada Japan Rest of world

2024	78	8	13
2035E	76	6	16

Source: Capital Group, IEA 2025 ("Global Critical Minerals Outlook 2025"), USGS. Figures represent global share of refined material production across countries, with estimates for 2035 ("2035E") from the IEA as of May 2025. Minerals shown above are a subset of the list of 50 critical minerals published in 2022 by the USGS.

Western nations are taking action to try to bolster manufacturing in their markets and secure access to vital commodities and products. Most notably, the One Big Beautiful Bill Act provides incentives for companies bringing manufacturing to the U.S. Potential beneficiaries include builders of industrial machinery, heating and ventilation system providers, drugmakers, semiconductor companies and technology firms.

An expanded tax credit for building semiconductor plants on American soil could strengthen domestic production for companies such as Micron Technology and Taiwan Semiconductor Manufacturing Company, along with suppliers of semiconductor equipment. Provisions for health care companies could provide a boost to GLP-1 makers Eli Lilly and Novo Nordisk, who are seeking to increase their footprint in the U.S.

The bottom line: Long runways of growth potential

Government spending commitments and other tailwinds are combining to generate a second wave of growth potential for well-positioned industrials and defense firms. We believe this is a durable theme that should spur corporate spending and perhaps lead to a broadening in the stock market, which has been dominated by mega-cap tech stocks.

Companies that offer leading products across a range of government priorities stand to benefit the most. They include providers of goods in multiple categories, including power generation, grid modernization and defense systems.

Of course, higher government investment over the long term won't benefit all industrial companies equally. Going forward, stock picking will be crucial. We are paying close attention to the duration of spending increases across markets and company valuations that could support further share price increases. As active global investors, our focus will be on identifying spending priorities that are most sustainable, and those companies best positioned to benefit from these trends.

Read important disclosures

Kent Chan *is an equity investment director with 33 years of investment industry experience (as of 12/31/2024). He holds a bachelor's degree in political economics from the University of California, Berkeley.*

Feedback

Noriko Honda Chen *is an equity portfolio manager with 35 years of investment industry experience (as of 12/31/2024). She holds a bachelor's degree in economics from Williams College and a degree in the Japanese Language Bekka Program at Keio University, Tokyo.*

Past results are not predictive of results in future periods.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

S&P Aerospace & Defense Select Industry Index is a measure of stocks from the S&P Total Market Index that are classified in the GICS Aerospace & Defense sub-industry.

S&P Europe Defense Vision Index measures the performance of industrial and technology companies across Europe that are actively involved in the manufacturing, assembly, sale and transportation of both core military weaponry and a broader range of military-related, non-weapon products and services, such as military vehicles, wearable technology, military-grade software and communication systems.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the mutual fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

Use of this website is intended for U.S. residents only. Use of this website and materials is also subject to approval by your home office.

Capital Client Group, Inc.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.