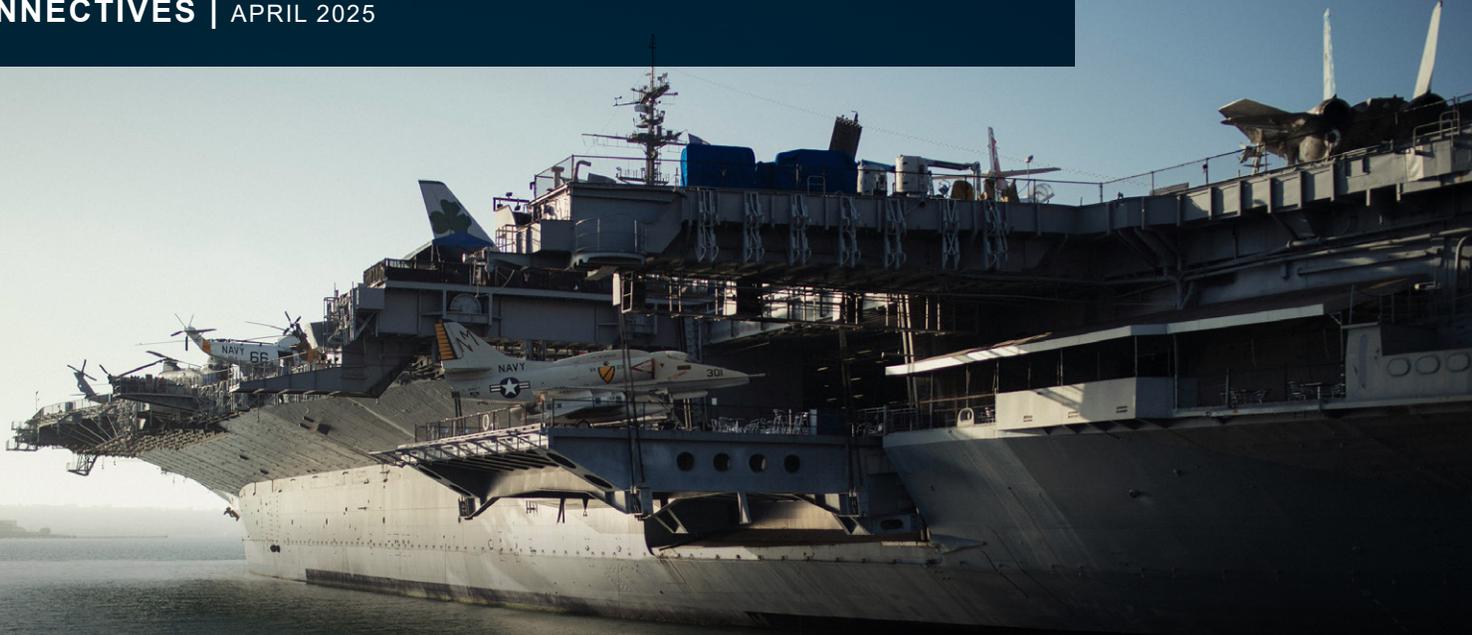


# War, Peace, and Profits: Why Private Capital is Betting on Defense

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**“The defense ecosystem today is at a critical junction, ripe with opportunity for private capital, the traditional defense industrial base (DIB), and other commercial players such as hyperscalers to take critical roles in leading disruption within the innovation pipeline.”<sup>1</sup>**

Geopolitical shifts are reinforcing the urgency. As the Trump administration attempts to recast the US’ role in NATO and broker a peace-deal with Russia, European governments are also planning to upgrade their defense spending.<sup>2</sup> Even as some signs are emerging that a ceasefire may emerge between Russia and Ukraine, Europe is looking to boost its share of spending on defense.<sup>3</sup> In particular, governments are establishing funding resources for dual-use technology startups. “The North Atlantic Treaty Organization’s (NATO’s) one-billion-euro Innovation Fund, the first multination venture capital (VC) initiative in defense technology, announced its first round of deep tech investments in June 2024.”<sup>4</sup>

Additionally, In January 2025, the European Commission announced its annual allocation to the European Defence Fund totaling over one billion euros for this year for next generation defense technologies and innovation (R&D).<sup>5</sup> Since 2021, the European Defence Fund has allocated over five billion euros to research and development by the private sector.<sup>6</sup>

<sup>1</sup> Source: McKinsey & Company, D. Swartz et al., “Creating a Modernized Defense Technology Frontier,” February 2025.

<sup>2</sup> Source: Financial Times, M. Wolf, “How Europe Can Take Up America’s Mantle,” March 11, 2025.

<sup>3</sup> Source: Financial Times, M. Sandbu, “Making Europe’s Defence Spending Great Again,” March 6, 2025.

<sup>4</sup> Source: McKinsey & Company, D. Swartz et al., “Creating a Modernized Defense Technology Frontier,” February 2025.

<sup>5</sup> Source: European Commission, Defence Industry and Space, as of March 2025.

<sup>6</sup> Source: European Commission, Defence Industry and Space, as of March 2025. The EU Defence Innovation Scheme (EUDIS) is an instrument enabled by the European Defence Fund (EDF) to strengthen defence innovation in the European Union.

As a result of the Russian invasion of Ukraine and the possible need for European nations to bolster support, European governments are advancing proposals to increase borrowing to invest more in their national militaries. The European Commission has proposed legislation to source domestic military suppliers in recent months. European publicly traded stocks have rallied since the start of the year. For example, Rheinmetall AG's – a German tank maker – share price is up over ninety percent this year. Goldman Sachs' basket of European defense stocks are up over 70% this year.

<sup>7</sup> Source: Financial Times, M. Sandbu, "Making Europe's Defence Spending Great Again," March 6, 2025.

<sup>8</sup> Source: Financial Times, M. Wolf, "How Europe Can Take Up America's Mantle," March 11, 2025.

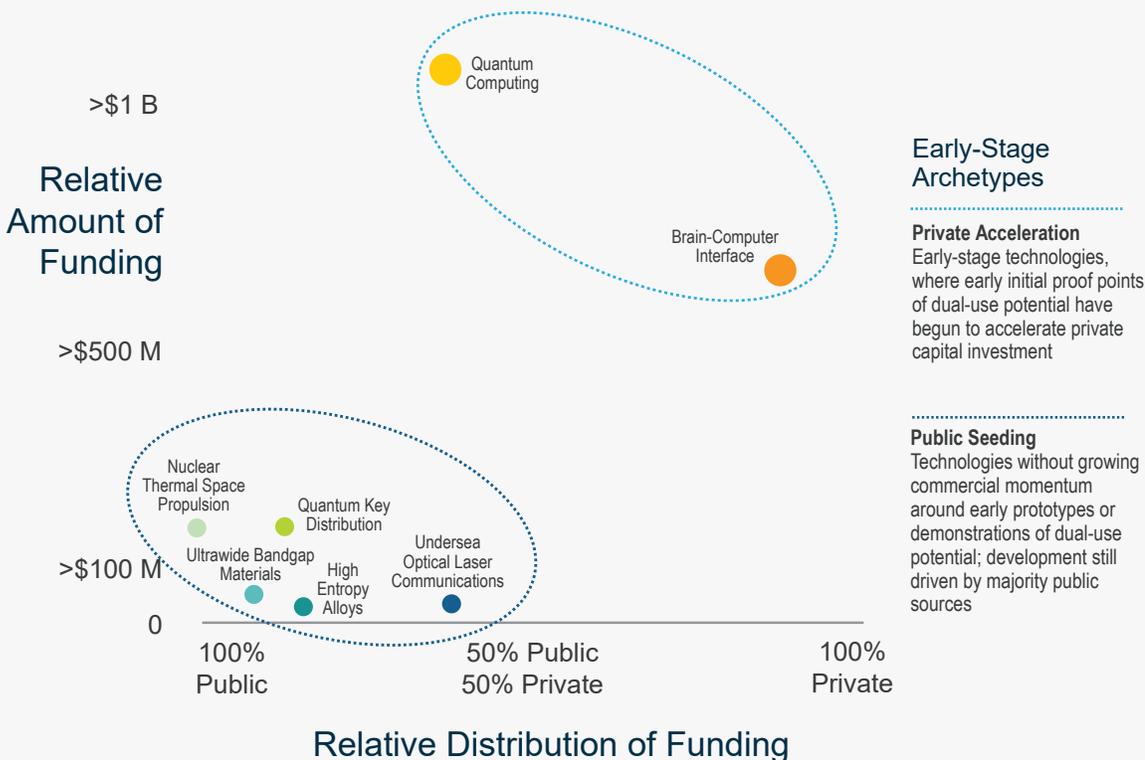
<sup>9</sup> Source: Bloomberg, I. MacDonogh et al., "Tank Builder's Stock Hotter Than LVMH in New European Order," March 10, 2025.

<sup>10</sup> Ibid.

## What is "dual-use" technology?

Dual-use technologies are innovations, systems, or products that can be applied in both military/defense settings and civilian/commercial markets. These technologies are designed to meet rigorous standards—often for national security or defense applications—but also have broad utility across sectors like healthcare, telecommunications, transportation, energy, or consumer electronics.

They represent a convergence of innovation pipelines, where breakthroughs in areas like AI, robotics, cybersecurity, space tech, and advanced materials serve both strategic defense objectives and mainstream commercial needs.



**FIGURE 1**  
**Private Capital Often Hesitates to Invest in Early-(Stage Technologies Private Funding vs Funding for Early-Stage Technologies, 2022-2024)**

Source: McKinsey & Company

Note: Figure 1 visualizes the evolving funding landscape for early-stage, dual-use technologies—those originally developed for defense purposes but with potential for broad commercial applications. These technologies are critical to both national security and economic competitiveness, yet private capital often hesitates to invest until key risks are de-risked.

Here in the US, the federal government has allocated \$150 billion in research and development grants for 2024 "to support agencies such as the US Defense Innovation Unit (DIU) and the Office of Strategic Capital (OSC)."<sup>11</sup> "Market intelligence firm PitchBook estimates that about \$36 billion was invested in defense and dual-use technology in

<sup>11</sup> Source: McKinsey & Company, D. Swartz et al., "Creating a Modernized Defense Technology Frontier," February 2025.

2022, and \$35 billion in 2023 — significant sums, especially when compared to the Pentagon’s 2023 research, development, test and evaluation appropriation of about \$140 billion.”<sup>12</sup> Private capital is increasingly interested in defense-related companies. With private equity investment in defense related companies rising 33% to a year-over year increase to \$31 billion in 2024.<sup>13</sup>

<sup>12</sup> Source: National Defense NDIA Business & Technology Magazine, P. Madera et al., “Strengthening Defense with Private Capital,” December 6, 2024.

<sup>13</sup> Source: McKinsey & Company, D. Swartz et al., “Creating a Modernized Defense Technology Frontier,” February 2025.

Geopolitical instability and global conflict have amplified the need for increased investment in defense and security. In early 2025, private equity activity in the sector has accelerated, reflecting a broader shift in the investment landscape across both the US and Europe. With strong tailwinds from rising international tensions and the US Department of Defense encouraging greater private sector participation, defense has emerged as a high-conviction investment theme.

The sector’s fragmented supply chain presents compelling opportunities for private equity to deploy capital strategically. Recent transactions in Q1 2025 underscore the growing momentum. As governments expand defense budgets and digital innovation reduces traditional barriers to entry, private market investors are increasingly positioned to back scalable, capital-efficient solutions.

To learn more about investing in private equity, diversification in the technology sector, or why manager selection is critical when it comes to private equity investing, please visit the [Insights](#) section of our [website](#) or click the links here to learn more.



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