

# Market Review: The Global Defence Sector in 2025

## Executive Summary

2025 served as the "Great Decoupling" for the global defence industry. Total global military expenditure reached a staggering **\$2.69 trillion**, a 4.9% increase from 2024, driven by a definitive shift toward a "war footing" in Western Europe and the Indo-Pacific. The market in 2025 was characterized by the exhaustion of legacy stockpiles, the rapid industrialization of drone warfare, and a historic surge in M&A activity within the "Defence-Tech" segment. Most notably, 2025 marked the year where software and AI moved from the periphery to the core of procurement, with firms like Palantir and Anduril securing prime contractor status alongside traditional giants.

## 1. Global Spending Hierarchy and Regional Shifts

Global spending remained concentrated, with the top five spenders—the United States, China, Russia, Germany, and India—accounting for over 60% of the market.

### Key Spending Data (2025 Actuals)

Rank	Nation	2025 Spend (USD)	% of GDP	Primary Driver
1	<b>United States</b>	\$1.025 Trillion	3.4%	Pacific Deterrence (Replicator Initiative)
2	<b>China</b>	\$374 Billion	1.7%	Blue-Water Navy Expansion
3	<b>Russia</b>	\$271 Billion	7.1%+	Prolonged Conflict Operations

4	<b>Germany</b>	\$128 Billion	2.0%+	<i>Sondervermögen</i> & NATO Compliance
5	<b>India</b>	\$125 Billion	2.4%	Indigenous Manufacturing (Atmanirbhar Bharat)

### **The European Surge**

Europe witnessed its steepest real-term spending increase since the Cold War. In 2025, 18 of the 32 NATO members finally hit the **2% GDP target**, with the UK announcing a trajectory to **2.5%** and Poland leading the pack at **4.2%**. The year saw the launch of the **European Defence Industry Programme (EDIP)**, signaling a move toward a unified EU arms market.

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## **2. The Technological Pivot: "War-Dev" and AI Integration**

2025 was the year the "War-Dev" (Warfare Development) methodology—borrowed from agile software engineering—replaced traditional multi-decade procurement cycles.

- **Software-Defined Warfare:** The March 2025 award of the **TITAN (Tactical Intelligence Targeting Access Node)** contract to Palantir solidified the trend: hardware is now viewed as a carrier for software.
- **The Drone Revolution:** The market for Loitering Munitions and Small UAS (Unmanned Aerial Systems) grew by **31%** in 2025. Counter-UAS (C-UAS) systems, particularly directed-energy (lasers) and high-power microwave weapons, moved from "special projects" to standard vehicle kits.
- **Hypersonic Acceleration:** The US Pentagon's **\$7 billion** investment in hypersonics for 2025 resulted in the first successful sea-launched glide body trials, closing the gap with peer adversaries.

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## **3. Industrial Landscape: M&A and "Sovereign Munitions"**

The industrial base faced a "Capacity Paradox." While order books reached record highs, supply chains for energetics (explosives) and microelectronics remained fragile.

## M&A Trends: The Rise of the "Tuck-in"

Deal volume in H1 2025 surged to **250 transactions** (up from 175 in late 2024).

- **Lockheed Martin** acquired Amentum's Rapid Solutions (\$360M) to bolster its cyber/electronic warfare portfolio.
- **Private Equity** (notably Apollo and Blackstone) began "carving out" underperforming divisions from traditional primes to create agile, tech-focused platforms.
- **Strategic Consolidation:** 2025 saw a wave of "sovereign munitions" investments. The UK, for example, committed to building **six new energetics factories** to ensure ammunition independence.

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## 4. Space as a "Contested Domain"

In 2025, space transitioned from a "support domain" to a "warfighting domain."

- **SSA (Space Situational Awareness):** Spending on SSA tripled as governments raced to protect LEO (Low Earth Orbit) constellations from debris and anti-satellite (ASAT) threats.
- **SDA (Space Development Agency):** The Proliferated Warfighter Space Architecture (PWSA) reached "Initial Operational Capability," providing a mesh network of satellites for low-latency missile tracking.

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## 5. Market Challenges: Labor and Inflation

Despite the influx of capital, the market faced two primary "drag factors" in 2025:

1. **Workforce Scarcity:** The sector reported a global deficit of **300,000 skilled workers**, particularly in advanced welding, nuclear engineering, and AI systems integration.
2. **Inflationary Pressure:** The cost of raw materials (titanium, specialty steel, and rare-earth magnets) outpaced general inflation, leading to significant "cost-growth" in fixed-price contracts signed prior to 2023.

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## Conclusion: The Outlook for 2026

The 2025 review reveals a market that has permanently shifted its center of gravity toward **Agile Tech** and **Sovereign Resilience**. The "buy global" philosophy of the 2010s has been replaced by "friend-shoring" and "buy allied." As we move into 2026,

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the focus will shift from *funding* these systems to the *mass-production* of them, as the "Arsenal of Democracy" attempts to scale to meet the demand of a multi-polar world.