

BULL & BEAR *Bulletin*

March 2026



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Economics of War

Russia invaded the Ukraine in 2022 to seize land in an attempt that some political observers would say was an effort to consolidate control of the three most important provinces of the former Soviet Union, endeavoring to return to the “glory days” of Russian power. In 2025 the United States launched operation Midnight Hammer to degrade Iran’s nuclear infrastructure to prevent the construction of a nuclear weapon. Currently Operation Epic Fury is underway, targeting Iranian military command centers, missile sites, and naval ships to render impotent near-term ballistic missile threats.

The latter two involve the United States and Israel as the main allied combatants, while the former has NATO providing aid to Ukraine. Either way, for investors in defense contractors the past fifteen months have provided generous returns. The war in Ukraine coupled with American demands that NATO members meet their defense obligations is beginning to spur European defense spending. American defense spending has edged higher each year since the 2021 budget and the rate of change is expected to strongly rise this year. On average U.S. defense stocks rose 48.6% last year while European contractors rose 74.5%, the beneficiaries of increased military spending particularly when compared with the 16.4% return in the S&P 500 during the same period.

Last year’s trend has continued. With the new conflict, not only has NATO seen the advantage of military defense systems, but our allies in the Mideast have relied on such equipment to defend themselves from Iran’s counterattack. In a year where the S&P 500 is down 1.2% at the time of this writing, U.S. defense stocks are up an additional 12.1% and European counterparts up 7.2% year-to-date. The trade reflects a “restocking” effect as allied countries will need to replenish weapons supplies used in offensive and defensive operations. It also reflects NATO’s need to make up for over thirty years of underinvestment in defense.

The United States and its allies have increased defense spending and are projected to do so at least through the end of the decade.

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Economics of War

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