



Aerospace & Defense: From Cyclical Exposure to Structural Growth

Artisan Partners Growth Team

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Insights

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A R T I S A N



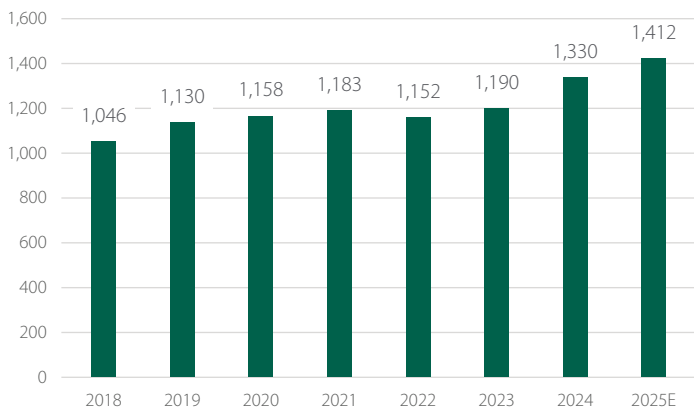
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What the start of this decade has made increasingly clear is that Today's global security environment has become more uncertain, and we are living in a more dangerous world than before. Conflicts in Ukraine and Iran, along with broader geopolitical instability, are reinforcing the need for sustained investment in national defense. We believe this represents a shift from episodic spending cycles toward a more durable, multi-year rearmament phase. The question is no longer whether defense spending is increasing, but whether its duration and composition have fundamentally changed.

Historically, defense spending has followed a cyclical pattern, often tied to discrete programs or periods of heightened conflict. Today, however, structural factors are increasingly supporting demand. Governments are not only investing in new capabilities but also rebuilding depleted inventories and maintaining a higher baseline level of readiness. This shift toward replenishment is creating more consistent demand across aerospace and defense, as reflected in the higher baseline of global defense spending in recent years. Notably, this trend extends beyond major powers, with even smaller countries such as New Zealand planning billions of dollars in defense upgrades over the coming years.

Exhibit 1: NATO Defense Spending Has Accelerated in Recent Years (\$bn)



Source: NATO as of March 2026. Includes estimates for 2025.

Growing defense programs and emerging technologies upend the traditional market

Emerging technologies are reshaping how modern warfare is conducted. Capabilities such as missile defense, advanced sensing, secure communications and counter-drone systems are becoming central to national security strategies. Large-scale, layered defense initiatives are likely to be particularly durable sources of funding. National programs tied to missile defense systems such as "Golden Dome" reflect a growing emphasis on protecting critical infrastructure and populations from increasingly sophisticated threats, with planned spending of \$175 billion over three years and potential costs far exceeding this.

These dynamics are supporting sustained investment across multiple areas of the defense supply chain. While large prime contractors remain central to system integration, value is increasingly accruing to companies that provide mission-critical components within these systems. Exposure to areas such as propulsion, sensing and communications can benefit from both rising demand and limited supply, particularly where production capacity is constrained or capabilities are difficult to replicate.

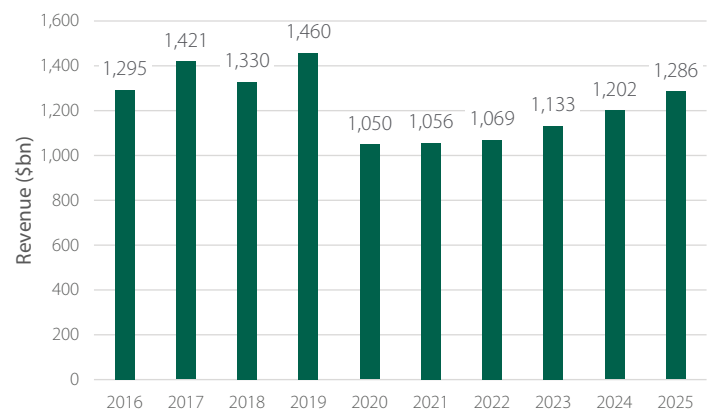
BAE Systems, L3Harris and RTX illustrate this dynamic. Their exposure to growing areas such as propulsion, tracking and sensing technologies is expanding addressable demand. And capacity constraints in areas such as solid rocket motors can create both volume growth and margin expansion as production capacity is increased. Across the industry, this is reflected in strong order books, growing backlogs and sustained increases in defense budgets.

Beyond defense: Aerospace and the drive for efficiency

After a prolonged downturn, commercial aerospace is in the early stages of its own production recovery, supported by strong travel demand and aging fleets. The introduction of aircraft and engine platforms creates a multi-year opportunity tied not only to original equipment production but also to maintenance, repair and overhaul activity.

At the same time, airlines are increasingly focused on fuel efficiency, driving demand for next-generation engines and components. Higher fuel costs further reinforce this dynamic, increasing the economic incentive to replace older, less efficient engines. The longer oil remains more expensive than it was at the beginning of the year, the greater the incentive for airlines to update their fleets to ever more efficient engines.

Exhibit 2: Commercial Aerospace Is in a Multi-Year Recovery



Source: Artisan/MSCI/FactSet. As of 02/27/2026. Developed market revenue aggregated from aerospace companies in the MSCI ACWI Index.

This combination of new production and aftermarket demand creates a longer runway for growth across aerospace suppliers, particularly those exposed to engine components and services. In many cases, these businesses benefit from recurring revenue streams tied to installed base, supporting more durable earnings profiles over time. At the same time, the transition to newer aircraft and engine platforms may create some dispersion within the supply chain, benefiting manufacturers of next-generation components while creating headwinds for suppliers tied to older platforms. Across our portfolios, we are invested in companies such as Melrose, Woodward, FTAI and RBC, which we believe are positioned to benefit from a multi-year cycle of aircraft modernization and engine efficiency improvements.

Implications for asset management

Taken together, these trends suggest a meaningful shift in how aerospace and defense should be viewed from an investment perspective. Historically, these areas—both of which are typically classified as industrials—have typically not been core holdings in growth portfolios, given their cyclical and capital-intensive characteristics. However, as demand becomes increasingly supported by structural drivers, their inclusion within growth portfolios may begin to change. As indicative of this shift, the Russell 3000® Growth Index industrials weight recently crossed 7.5%, a more than 47% increase since January 2025. We believe this marks the early stages of a trend that will last a decade or more.

Exhibit 3 : Russell 3000 Growth Index Industrials Weight Over Time (%)



Source: Artisan/Russell/FactSet. As of 02/28/26.

In our view, the key question is not simply whether aerospace and defense spending is increasing, but rather how its nature is evolving. Companies with exposure to mission-critical components, constrained supply chains and long-cycle aerospace platforms may be particularly well positioned as these industries transition toward more durable growth profiles over the coming decade.

We believe that the growth cycle opportunity in defense transcends the current conflicts in Ukraine and Iran, despite the acceleration in commitments by governments to support these conflicts. NATO's European members will likely be obligated to meaningfully expand their defense spending over at least the next decade in order to catch up, and as a result, a number of defense-related companies will be well positioned for a long cycle.

Artisan Partners Growth Team

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Investment Process Highlights

We seek to invest in companies with franchise characteristics that are benefiting from an accelerating profit cycle and are trading at a discount to private market value.

Security Selection

We seek to identify companies with franchise characteristics that are selling at attractive valuations and are benefiting from an accelerating profit cycle. We look for companies that are well positioned for long-term growth, driven by demand for their products and services, at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

Capital Allocation

Based on our fundamental analysis of a company's profit cycle, we divide the portfolio into three parts. GardenSM investments are small positions in the early part of their profit cycle that will warrant a more sizeable allocation once their profit cycle accelerates. CropSM investments are positions that are being increased to a full weight because they are moving through the strongest part of their profit cycle. HarvestSM investments are positions that are being reduced as they near our estimate of full valuation or their profit cycle begins to decelerate. We believe that adhering to this process increases the likelihood of delivering upside participation with downside protection.

Broad Knowledge

We overlay security selection and capital allocation with the capability to invest opportunistically across the entire global equity spectrum. It is our goal to have broad knowledge of the global economy to ensure that we are able to find growth wherever it occurs. This capability extends from the design of our team, which leverages the broad experience of the portfolio managers and the deep expertise of the analysts on the team.

Team Overview

We believe deep industry expertise, broad investment knowledge, a highly collaborative decision-making process and individual accountability are a powerful combination. Since the inception of the team in 1997, we have been committed to building a team of growth investors that retains these attributes and is solely dedicated to our process and approach.

Artisan Strategies Managed

- Global Opportunities Strategy
- Global Discovery Strategy
- U.S. Mid-Cap Growth Strategy
- U.S. Small-Cap Growth Strategy
- Franchise Strategy

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