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The Intelligence Wars:
Defense Spending, Technology, and the Global Realignment

Vice-Admiral Mark A. G. Norman, CMM, CD. Image: canada.ca

Pender Focus

At Pender, our equity team focuses on identifying opportunities at the intersection of sector and capital cycles, structural change, and market inefficiencies. Our core themes include **Enterprise Software, AI, the Energy Transition, and the evolving geopolitical environment** — with this paper exploring Defense as a key expression of today's geopolitical shift, supported by a companion podcast featuring the **Retired Vice Admiral Mark Norman.**

Summary

Global defense spending is entering a new era, defined by intelligence, technology, and industrial resilience. As nations rearm and supply chains adapt, trillions of dollars are being deployed. For Canada, this represents a strategic shift as well as an investment opportunity as defense spending accelerates and industrial capacity expands. Across themes — from the energy transition to digital infrastructure to defense innovation — governments, corporations, and investors are re-evaluating where value is created and protected in the new geopolitical climate. At Pender, we see this as part of a broader capital cycle — one in which structural tailwinds, innovation, and disciplined capital allocation will determine the long-term winners in an evolving global landscape.

"Hard power still matters; it's just getting smarter"
Admiral James Stavridis

In a world where algorithms are outpacing armies and data has become more valuable than steel, code in the cloud is replacing boots on the ground.

Historically, battles produced tangible outcomes — the capture of land, resources, or strategic assets. But today's economy is built on intangible capital: knowledge, technology, and institutional influence. These are assets that cannot be seized by force. Companies like Apple, Meta, Google, and Nvidia are worth trillions in market value, yet there are no silicon mines to capture in Silicon Valley … as entertaining as that image might be.

This shift echoes the thinking of historian Yuval Noah Harari[1], who argues that in the twenty-first century, the most decisive asset in conflict is no longer brute force, but intelligence — both human and artificial.

Yet, recent history has reminded us that while war may have changed, it has not disappeared. From Ukraine to the South China Sea to Gaza, the global defense order is changing. The result is a new type of arms race.

Canada, a long time an under-investor in defense, is now being pulled into this shift. NATO targets are rising, US pressure is building, and the Arctic's sovereignty is in focus. This isn't only a geopolitical story — it's also a commercial n industrial one.

As this new cycle of capital investment unfolds, redeployment is underway across defense, technology, and supply chains. The question for investors is not just who is spending, but who is positioned to win.

Only time will tell — but we have some ideas.

Global Reinvestment and NATO Expansion

The world's largest military alliance, NATO, has announced that its 32 members will boost defense spending to 5% of GDP by 2035[2] — a significant bump from the current 2% guideline. This shift is expected to unlock hundreds of billions in new capital investment to defense and related industries. NATO Secretary-General Mark Rutte described the plan as a "quantum leap" in collective security.

The target will be split between 3.5% for traditional defense spending and 1.5% for defense-adjacent investments, including cybersecurity, logistics, and military mobility — areas where technological capability increasingly defines strategic strength.

To put this in context, the EU spent[3] roughly €326 billion on defense last year (~1.9% of GDP). The modernization gap is striking., iIn 2023[4], only 19.5% of EU defense budgets went to capital investments like equipment and R&D, compared with 40.7% in the US. For Europe, this is not just rearmament — it's an industrial renewal.

Image Credits: Photo Moritz Hager / Wikimedia Commons

In Canada, defense spending is finally ramping up. The latest federal budget commits $81.8 billion over five years to defense — a clear signal that Ottawa is beginning to treat national security as industrial strategy and taking its NATO commitments seriously[5]. The plan includes a $6.6 billion Defense Industrial Strategy to strengthen domestic supply chains, a $1 billion BDC Defense Mobilization Program to fund and advise defense-focused SMEs, and $656.9 million to advance dual-use technology commercialization. Adding momentum, Prime Minister Carney also announced the creation of a Defense Investment Agency, led by Doug Guzman, former Deputy Chair of RBC, to accelerate procurement and modernize Canada's defense industrial base — a meaningful step toward aligning national security priorities with industrial and innovation policy. Prime Minister Carney framed the move in both strategic and economic terms:

"The world is increasingly dangerous and divided. Canada must strengthen our defense to better protect our sovereignty, our interests, and our allies. These investments won't just build our military capacity — they will build our industries and create good, high-paying jobs at home."

For investors, this marks the beginning of a multi-year industrial cycle[6]. Historically, defense spending alone hasn't guaranteed long-term growth[7] — unless it catalyzed a general-purpose technology, like the internet[8]. However, defense investment today intersects aerospace, AI, energy infrastructure, and cybersecurity — each are areas aligned with Pender's focus on structural tailwinds and innovation-led value creation. Together, these forces could lay the foundation for a modern industrial and technological investment cycle.

Geopolitical Drivers and the Changing Nature of Warfare

After the Cold War, many believed that deeper economic integration would secure lasting peace— a theory that, in hindsight, hasn't aged well. Today, we are living in an unpredictable security environment, where national, economic, and technological vulnerabilities are deeply intertwined. The boundaries between land, sea, air, space, and cyberspace have blurred, giving rise to a new era of multi-domain competition.

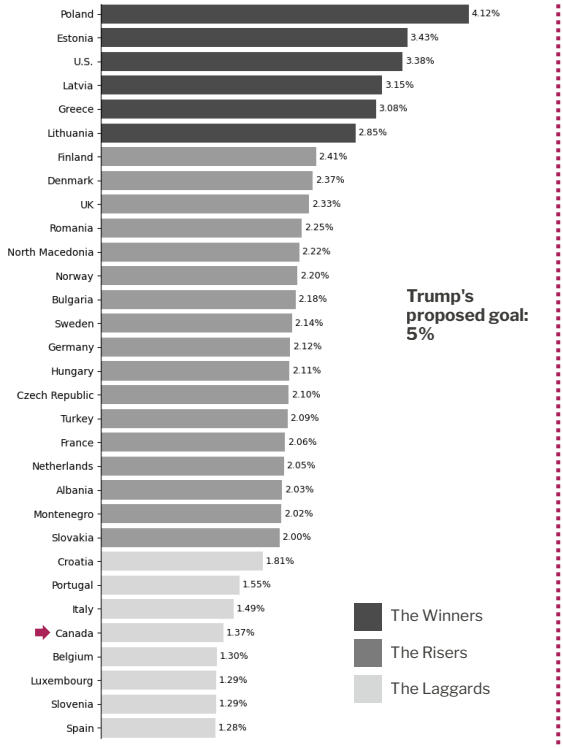
On the national security front, threats now extend far beyond the battlefield — reaching into networks, data centers, satellites, and supply chains. On the economic security side, critical minerals, global trade routes, and logistics infrastructure have become central to strategic power. While more than 90% of global trade still moves by sea, the true arteries of the modern economy now flow through fiber, cloud, and code.

These shifts are driving unprecedented investment across every dimension of defense — from naval modernization and next-generation air power to space-based intelligence and cyber resilience. Military strength is increasingly measured not by scale, but by connectivity, intelligence, and adaptability.

From drone swarms and hypersonic weapons to satellite constellations and quantum computing, the frontier of defense technology is expanding rapidly. These capabilities not only enhance deterrence but also enable nations to operate effectively in GPS-denied and cyber-disrupted environments.

How NATO Members are Faring in the Race to Spend

Estimated percent of defense spending per country's GDP in 2024



Note: While part of NATO, Iceland has no standing military forces.
Source: NATO / Paul McLeary/POLITICO [9]

This modernization wave is also transforming how governments procure and innovate. A recent White House Executive Order on Modernizing Defense Acquisition calls for faster, more flexible procurement processes — a shift from bureaucracy toward partnerships with agile innovators. Similar approaches are emerging across allied nations, including Canada, where industrial policy and defense strategy are beginning to converge.

While Canada remains a relative laggard, momentum is building — from Washington's pressure and NORAD modernization to renewed focus on Arctic sovereignty. Canada's next capital cycle may mark the country's most significant defense transformation in decades.

The Future of Defense

The defense sector itself is no longer defined by legacy contractors. It has evolved into an ecosystem of innovation, where cybersecurity, autonomy, and digital infrastructure are as vital to national resilience as ships or fighter jets. Investment dollars being directed to early-warning radar systems, satellite communications, drone fleets, AI surveillance, and digital command infrastructure — technologies that blur the line between civilian and military innovation. The build out of the future of defense is happening in data centers and robotics labs rather than just shipyards and hangars.

For Canada, this shift creates a multi-sector opportunity. The beneficiaries will extend beyond traditional defense contractors to include technology, aerospace, mining, logistics, and advanced manufacturing — many far outside conventional "defense" classifications. Unlike past cycles, today's rearmament is defined less by size and more by intelligence — literally. Modern defense spending is shaped by data, modularity, and readiness — the ability to detect, decide, and deploy faster and more effectively.

As Yuval Noah Harari writes in *Homo Deus* and *Nexus*, the modern battlefield is dominated by sensors, data flows, and predictive models, not by the heroics of twentieth-century warfare. In this new paradigm, the contest is for information advantage — and the nations that harness intelligence most effectively will define the balance of power in the decades ahead.

What this means for Canadian Markets

Canada remains one of the few G7 countries that has underinvested in both national defense and defense equities — and with that, opportunities are emerging. As pressure mounts to meet NATO targets and implement the government's new Defense Industrial Strategy, capital spending is poised to rise sharply. Under Budget 2025, annual defense outlays are projected to climb toward $150 billion, positioning defense not just as a security priority, but as a pillar of industrial and innovation policy.

For investors, the setup is compelling:

- Long-duration contracts: predictable cash flows
- Mission-critical services: pricing power and margin durability
- Limited domestic coverage: potential for valuation re-rating

We can already seeing early signs of momentum: In 2024, 11.3 million square feet of industrial space were leased to defense and aerospace firms — up from 7.1 million in 2022. These companies seek large, high-spec facilities to produce weapons, rockets, and drones.

Office demand is also climbing: the aerospace and defense sectors leased 426,800 square feet between late 2023 and 2024. Meanwhile, 274 aerospace startups raised capital in 2024 — a record — suggesting even industrial and office REITs may benefit from this trend.

Global defense champions are already benefiting:

- **Anduril Industries** —the $30B Peter Thiel–backed defense tech firm — has expanded into Europe via Rheinmetall and Saab partnerships and is a key player in autonomous systems. CEO Palmer Luckey has hinted at an eventual IPO, and its focus on autonomous systems and drones places it at the forefront of next-generation defense.[10]
- **Airbus**, **Safran**, and **Lockheed Martin** are each seeing accelerating demand, with 20–25% of their revenue already tied to defense and space.
- **BAE Systems** — the U.K.'s largest defense contractor — continues to secure multi-decade contracts in combat aircraft, submarines, and digital systems, while investing heavily in AI and cyber resilience across its platforms.

The companies above illustrate how defense is evolving from a procurement-driven, hardware-centric model to an innovation-led, networked ecosystem, increasingly defined by autonomy, connectivity, and data dominance. The theme now extends across AI, cybersecurity, aviation, and advanced manufacturing — aligning defense exposure with next-generation growth narratives.

The Pender Perspective

Defense has become an increasingly important focus at Pender. At a recent broker conference in Ottawa, Canadian firms MDA, CAE, and Calian highlighted the demand for more efficient federal procurement as well as stronger support for domestic suppliers. It is encouraging to see Prime Minister Carney's plans for the new Defense Investment Agency which has plans to streamline procurement and strengthen Canada's defense industrial base, essentially what the corporate were asking for and a signal that national security priorities are aligned with industrial strategy.

Beyond capital commitments, we also like to examine how procurement, production, and capital investment models are shifting to reflect this new geopolitical environment. The traditional model of long-cycle defense manufacturing, with high costs and chronic delays, is being replaced by modular production at scale and lower-cost and rapidly deployable solutions. Governments and contractors alike are emphasizing speed, flexibility, and cost discipline to ensure that critical systems reach the field faster and more efficiently.

This transformation is visible in Canada's emerging industrial base. Kraken Robotics is expanding production through a new facility in Halifax, dedicated to subsea batteries and autonomous systems, while MDA Space continues to invest in its Quebec LEO satellite facility, reinforcing Canada's role in space-based defense infrastructure. These developments highlight how capital is increasingly flowing into physical capacity — not just R&D — marking a new phase of industrial investment in national resilience.

The new Defense Industrial Strategy further amplifies this trend. By embedding defense priorities into industrial and innovation policy, the government is effectively creating a public–private investment cycle across sectors such as aerospace, shipbuilding, advanced manufacturing, AI, and quantum technologies.

This shift in how defense systems are designed and built is creating new beneficiaries that combine innovation with scalable production. As Canada and its allies modernize their industrial bases, opportunities are emerging across the aerospace, space, and advanced manufacturing ecosystems. In our view, companies investing in modular capacity, automation, and dual-use technologies are best positioned to capture this wave of long-term, contract-driven growth.

Image Credits: Kraken Robotics | MDA | Fluor

At Pender, we focus on businesses positioned at the intersection of these structural tailwinds, where innovation drives long-term value creation. For example:

MDA (TSX:MDA) – Leading Canadian player in space-based defense, robotics, and surveillance. MDA has a partnership with Telesat (TSX:TSAT) for LEO satellite constellations supporting geopolitical intelligence central to NORAD modernization and national security.

Telesat (TSX:TSAT) – Through Telesat Government Solutions and its Lightspeed constellation in the future, the firm enables secure government and defense communications, including support for NORAD.

Kraken Robotics (TSXV:PNG) – Innovator in subsea defense, provides high-resolution sonar systems and autonomous underwater vehicles used by NATO allies. Recent $50M and $34M defense contracts, and a new production facility position Kraken for accelerating demand.

Exchange Income Corporation (TSX:EIF) – Provides aerospace and ISR services to Canada's Armed Forces through PAL Aerospace and related aviation operations.

Hexcel (NYSE:HXL) – A global leader in advanced composites and lightweight materials, supplying next-generation aircraft and defense platforms critical to modernization efforts.

Fluor (NYSE:FLR) – An engineering and construction firm specializing in defense infrastructure, energy resilience, and mission-critical government projects.

Booz Allen Hamilton (NYSE:BAH) – The leading US defense and cybersecurity consultancy, providing AI, analytics, and digital modernization solutions to the Department of Defense and allied governments worldwide.

Global defense spending is undergoing a strategic transformation — driven by intelligence, technology, and industrial resilience. As allies rearm and supply chains restructure, trillions of dollars are being directed toward deterrence, data, and digital infrastructure. For Canada, this shift represents both a national imperative and an investment opportunity.
At Pender, we see this as part of a broader capital cycle — where structural tailwinds, innovation, and disciplined capital allocation will shape the next generation of market leaders. In a world recalibrating it's certainly an exciting time to be an investor.

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