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About Credit Benchmark

Credit Benchmark provides Consensus Credit Ratings and analytics based on contributed risk views from 40+ of the world's leading banks, almost half of which are Global Systemically Important Banks (GSIBs).

Credit Benchmark collects, aggregates, and anonymizes these risk views to provide an independent, real-world perspective of credit risk in the form of Consensus Credit Ratings and analytics.

Credit Benchmark covers 110,000+ corporate, financial, fund and sovereign entities globally, 90% of which are unrated by credit rating agencies.

Credit Benchmark also produces over 1,200 credit indices, which help risk practitioners better understand industry and sector macro trends.

Risk professionals at banks, insurance companies, asset managers and other firms use the data to:

- gain visibility on entities without a public rating
- inform risk-sharing transactions (CRT / SRT)
- monitor and be alerted to changes within the portfolio
- benchmark, assess and analyze trends
- fulfil regulatory and capital requirements

Defense sector credit quality improving globally

- Rising defense budgets bring credit benefits across the sector
- Procurement reviews will be biased to newer technology
- Private company credit is keeping pace with public improvements

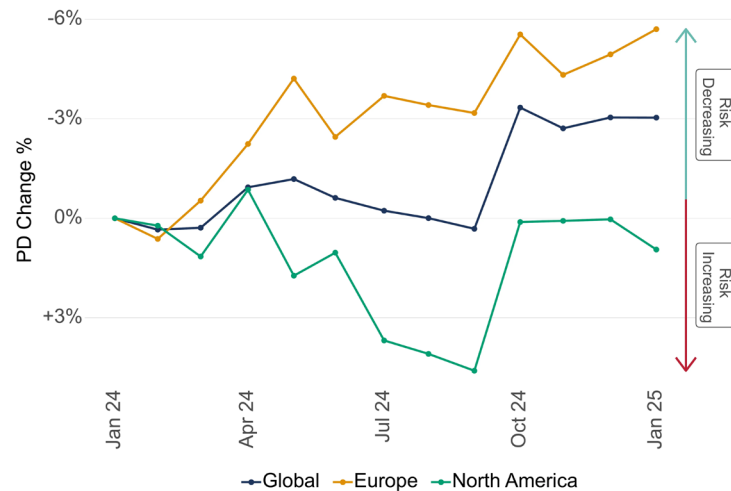
The new geopolitical reality and economic impact of global uncertainty have begun to impact a number of industries including defense. While the new US Department of Government Efficiency (DOGE) **roots out overspending** by the Pentagon, **Europe is planning** for a material increase in defense budgets. **Overall, trends show a net positive impact for defense companies in terms of spending; reflected in Credit Benchmark's defense credit indices which show a lowered default risk outlook.**

A Ukraine peace deal could ease tensions, but Europe recognizes the need for stronger domestic defense to ensure security, funded by robust economies. The Ukraine conflict, marked by satellite surveillance and AI-assisted drones, underscores evolving warfare tactics, including sabotage on energy and infotech infrastructure.

Opinions on military strategies vary. Modernists stress rapid tech advances, while traditionalists prioritize firepower and increased spending on troops and equipment. US Defense Secretary Pete Hegseth supports hi-tech for Europe and traditional focus for the US.

The chart below shows regional trends in Credit Benchmark's Aerospace & Defense credit indices over the past 12 months.

Aerospace & Defense Credit Trends: Global, Europe, North America



Default risk estimates for **European** Aerospace & Defense companies have improved by 6% in the past year; while **North America** showed credit deterioration in early 2024 it has now also improved by a similar amount.

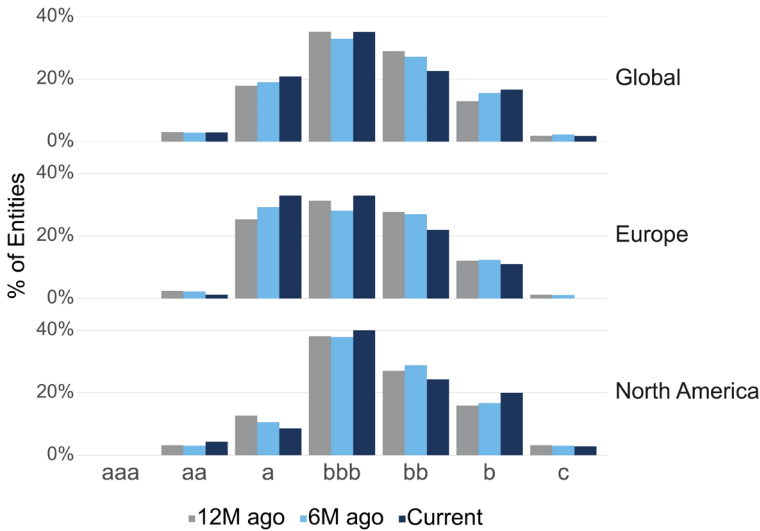
Credit Spotlight on Global Defense

March 2025



The next chart shows the credit profiles for each region.

Aerospace & Defense Credit Profile: Global, Europe, North America

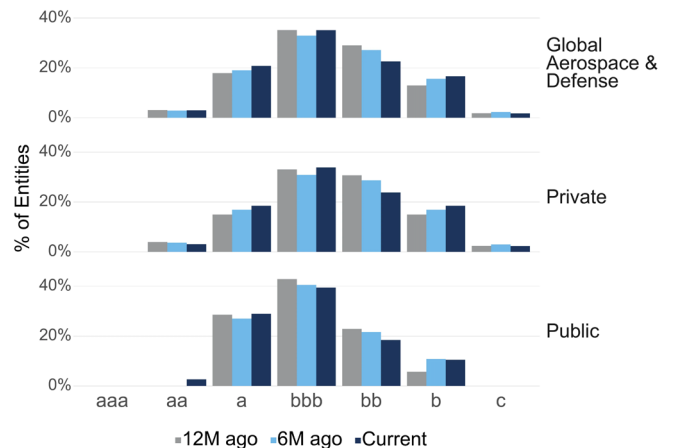
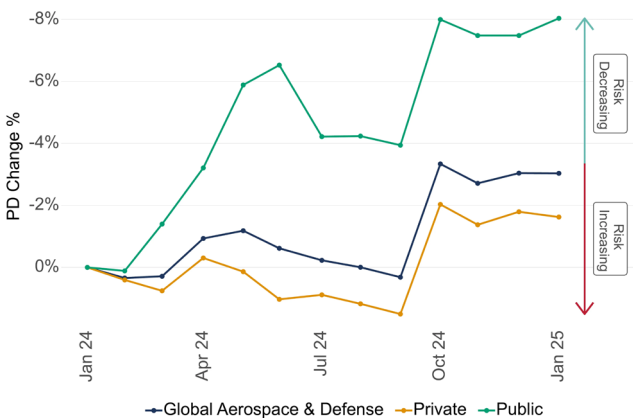


The majority of companies are investment grade, but nearly a third are in the 'bb' or 'b' High Yield categories. And North America has a small but growing proportion in the 'c' category. If any of these are potential casualties of the DOGE reviews, there may be a one-off spike in high yield North American default rates in the Aerospace & Defense sector.

What do stock markets think? In the past year, tech-driven defense stocks (e.g., Palantir) have massively outperformed traditional firms like Lockheed and Grumman. But shares in traditional armaments manufacturer Rheinmetall are up 30% in the past month and have more than doubled in the past year.

The charts below show the Credit Benchmark indices for public (i.e. listed) and private Aerospace & Defense firms globally.

Global Aerospace & Defense Credit Trend & Credit Profile: Public vs Private



Default risk for public borrowers has steadily improved about 6%; private credit is following suit after flatlining for most of 2024, showing around 3% credit improvement in recent months. The risk profile charts on the right show that some private firms in the 'c' category, (none in the public set) and this proportion has risen slightly in the past year.

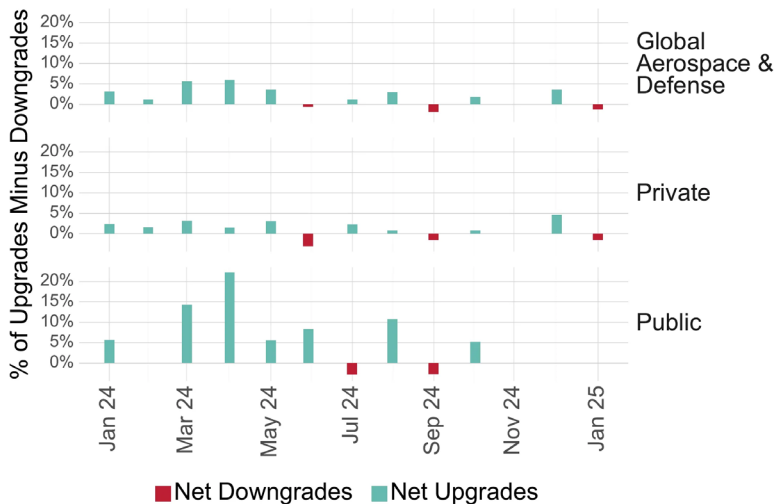
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The next chart shows the pattern of credit upgrades and credit downgrades seen in Credit Benchmark’s Global Aerospace & Defense index, split by public and private firms.

Global Aerospace & Defense Credit Trend & Credit Profile: Public vs Private



Of the 13 months plotted here, credit upgrades have outnumbered credit downgrades in 9 months. The positive balance has been particularly high in public companies but private companies show the same monthly bias on a smaller scale.

Conclusion

Defense spending of about \$2.7trn looks set to increase by at least 5% globally in 2025, with Europe rising by closer to 10%. Most traditional and alternative contractors will benefit, unless they are adversely impacted by the wildcard DOGE review. Credit Benchmark’s bank-sourced consensus data shows the trend swinging towards credit upgrades and lower default risks in US and Europe, across both public and private firms.

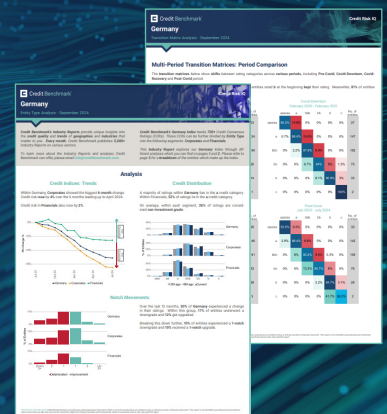
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Now Available: Credit Risk IQ

Credit Benchmark’s Credit Risk IQ reports show how credit risk is evolving across a wide range of dimensions.

These monthly reports contain forward-looking analyses of default risk. The 10,000+ reports span various geographies and industries, rated and unrated entities, private and public companies, high-yield and investment grade indices, and transition matrices.

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