

## Markets

# Wall Street Sees Opportunity in Defense Contractor Stocks on Bright Outlook



A F-22 Raptor fighter jet, manufactured by Lockheed Martin Corp. at the Seoul International Aerospace & Defense Exhibition in South Korea. *Photographer: SeongJoon Cho/Bloomberg*

By Norah Mulinda

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## ✦ Takeaways by Bloomberg AI

- US aerospace stocks have been soaring, but analysts see opportunities in defense contractors, which have been lagging.
- Analysts expect a lackluster earnings season for defense stocks, but recommend purchasing any drop in shares as they see prospects improving later this year, according to Richard Safran, an analyst at Seaport Research.
- The defense sector could experience growth as soon as the second half of the year, according to RBC Capital Markets analyst Ken Herbert, who cites

the full-year 2026 presidential budget request and potential upside from the \$150 billion reconciliation bill.

US aerospace stocks have been soaring recently, but analysts see opportunities in a lagging cohort they're often clumped with: defense contractors.

The S&P Composite 1500 Aerospace & Defense Index has jumped 40% from its tariff-driven low on April 4, while the S&P 500 has climbed 24% over the same period. The advance has largely been powered by aerospace companies while prominent defense names in the index, such as Northrop Grumman Corp. and Lockheed Martin Corp., have been among the biggest laggards.

Uncertainty around US government military spending  , tariff concerns and fears of decreased demand from global customers have hurt defense stocks in recent months. While analysts expect a lackluster earnings season for the group, they recommend purchasing any drop in the shares as they see prospects for defense companies improving later this year.

“If you see weakness, use these stocks as a buying opportunity,” said Richard Safran, an analyst at Seaport Research, adding that he's bullish on the defense sector but doesn't expect it to have a good quarter. The analyst favors pure-play names like L3Harris Technologies Inc., Northrop and Lockheed Martin. Northrop and Lockheed are set to kick off earnings for the group on Tuesday.

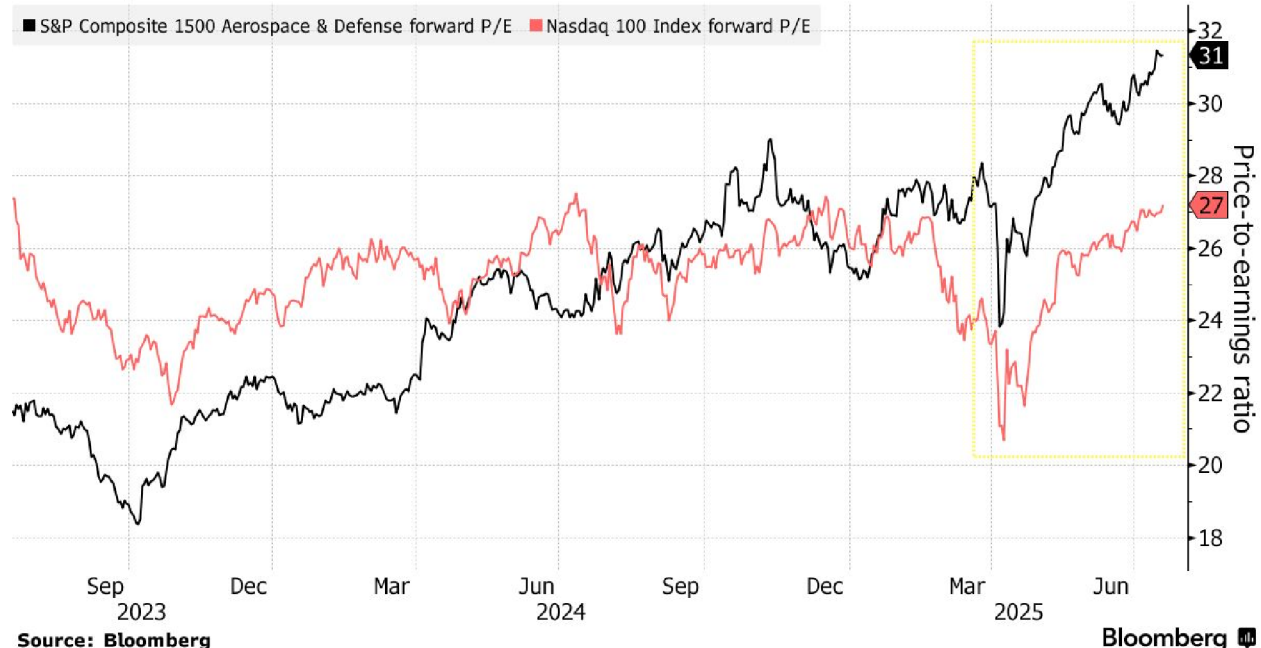
The defense sector could experience growth as soon as the second half of the year, according to RBC Capital Markets analyst Ken Herbert, who cites the full-year 2026 presidential budget request that's now in place, and potential upside from the \$150 billion reconciliation bill.

### **Stretched Valuations**

The aerospace and defense index is trading at 31 times forward earnings, compared to 27 times for the tech-heavy Nasdaq 100.

Within the index, the biggest military contractors' valuations are still comparatively lagging. Shares of RTX were trading at 24 times forward earnings as of Friday's close. For Lockheed, 16 times forward earnings, while General Dynamics and Northrop traded around 19.

## Aerospace and Defense Stocks Are Pricier Than Tech Shares



The high valuations of aerospace companies suggest a lot of the good news may already be priced in. Wall Street already anticipates most of these companies to raise forecasts, supported by an improved [Boeing Co. production outlook](#). Upbeat second-quarter results from [GE Aerospace](#) last week underscored that bullish sentiment.

### [Read: GE Aerospace Raises Full-Year Guidance on Aviation Rebound](#)

On the other hand, the brighter outlook for defense stocks in the second half of the year, combined with a significantly lower price tag make them an attractive bet, according to analysts.

“I think the market is underestimating defense spending growth. It’s just not being priced in,” Seaport’s Safran said.



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