



Defense

Global Context. So far there are no indicators of a major shift in defense strategy goals that will be immediately forthcoming in the new administration. The threats at the top of the list remain: China, Russia, Iran, and North Korea. The enormous military growth in numbers and capability of both China and Russia will demand the Administration's primary strategic focus.

Relations with Allies. Biden is a strong supporter of NATO and Israel (although he did not support moving the U.S. Embassy to Jerusalem). He has pledged to stop what he calls the "Forever Wars." He has advocated using diplomatic solutions wherever possible, building allied support, and will likely try to rebuild the State Department's influence. What the Biden Administration will do if diplomacy fails remains unknown.

Defense Budgets. Defense will likely see cuts, which could be a major concern for defense suppliers, vendors, and contractors. As a candidate, Biden did not embrace major cuts to defense, but it is clear they are on the way. House Armed Services Chairman Smith projected a 1% to 3% cut in annual defense funding, while many progressives are demanding cuts of 10% or more. In addition to the topline reductions, it will be important to watch how the spending reallocates priorities within the Department of Defense. A pledge has been made not to cut pay or benefits. Additionally, there may be a strong push to reprogram dollars to fight climate change and clean energy and to develop 5G and AI. This would require a reduction in weapon systems and platforms. Nuclear modernization will be curtailed. Biden may use the Overseas Contingency Fund to assist with readiness and other shortfalls.

Other Priorities. Watch for a reduction in larger platforms and a renewed focus on cyber and technological advances, especially in AI capabilities. The Department of Defense will likely continue its procurement moves to allow more vertical acquisitions, especially of disruptive technologies, thereby allowing smaller and more agile companies increased opportunity to compete directly without the umbrella of larger prime contractors.

Best Industry Opportunities: Those involved in climate change, clean energy, technology, AI, 5G.

Challenges: Industries involved in nuclear modernization, large naval platforms, F-35, weapon systems.