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Biden's Military Budget Is Coming. What It Means for Defense Stocks.

President Joe Biden is set to offer his first military budget Friday—and **defense-stock investors** are on edge. They needn't worry, no matter what happens.

Some details have already leaked. The administration is set to propose \$715 billion for the U.S. military for the coming fiscal year, up from roughly \$714 billion spent in 2020.

At first glance, that 0.1% increase, well below the 2.7% average annual increase since the end of the Cold War, seems like bad news. Yet even when budget growth stalled out in the 1990s under President Clinton, stocks barely noticed. The aerospace and defense components of the **S&P 500** returned roughly 18% a year on average during his presidency, outperforming the market by roughly 1 percentage point a year.

It helps that defense stocks are chronically cheap, mainly because of budgetary fears. In the 1990s the sector traded at about a 20% discount to the S&P 500. Today the discount is closer to 30%. The fear is usually already priced in.

Over the long run, though, the budget should keep up with inflation, providing defense contractors with plenty of opportunities. So while Biden's proposal will have defense hawks crying for more and doves complaining it's far too much, investors should just tune out the noise.

—*Al Root*