

PENNANTPARK INSIGHTS

Middle Market Investment Opportunities in Government Services & Technology

Exploring the critical role of middle market companies in national security and government modernization — and a potentially defining investment theme for the next decade

AUGUST 2026

Abstract

The world has entered the most dangerous and contested security environment since the end of the Cold War. China is modernizing its military at scale, Russia's war in Ukraine has exposed the demands of prolonged conflict, and continued volatility in the Middle East is reinforcing the need for readiness across multiple theaters. Cyber operations, unmanned systems, artificial intelligence, space-based infrastructure, advanced sensing, computational modeling, and high-fidelity simulation are also reshaping national security.

The United States and its allies are responding by rebuilding readiness, expanding production capacity, rapidly innovating, and modernizing government systems. U.S. national-defense funding for fiscal year 2026 approaches \$1 trillion, while NATO members have committed to materially higher long-term spending. Yet decades of consolidation and underinvestment have left significant gaps across defense production, skilled labor, cybersecurity, and government technology.

Many of the capabilities needed to close these gaps reside with specialized middle market companies. These businesses manufacture critical components, provide intelligence and surveillance solutions, support aerospace and space platforms, modernize government IT systems, and sustain essential equipment. Their technical expertise, contracted revenues, and embedded positions within long-duration programs can create attractive investment characteristics, yet they often lack efficient access to public markets and large lenders.

Successful investment in Government Services & Technology ("GST") requires specialized underwriting. Government contractors face risks related to competition, contract recompetes, program concentration, fixed-price execution, delayed appropriations, workforce constraints, compliance, and technological change. PennantPark has spent 19 years developing a dedicated GST practice and has deployed approximately \$3.1 billion across 66 transactions through directly originated senior secured loans and selective equity co-investments.

This paper argues that strategic urgency, sustained government funding, differentiated middle market capabilities, less cyclical businesses, and limited access to capital have created a distinctive opportunity for investors. We believe that GST investing will be one of the defining investment themes of the next decade.

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SECTION 01

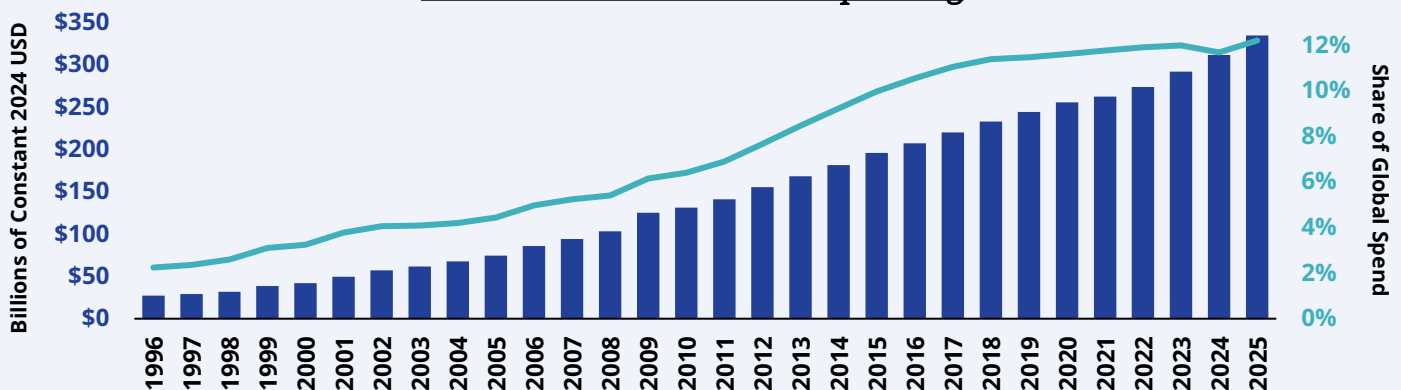
A More Dangerous World: The New Threat Environment

For a generation after the Cold War, the United States operated in a world with no serious military peer. That era is over. The international system has shifted from American unipolarity to open great-power competition, with military capability advancing rapidly in artificial intelligence, cyberwarfare, robotics, space, hypersonic weapons, and long-range precision strikes.¹ The result is a threat landscape that is simultaneously more capable, more distributed, and more technologically dynamic than at any point in recent memory.

China: A Peer Competitor Building at Scale

China is the pacing challenge. In March 2026, Beijing announced a 7% increase in its official defense budget to roughly 1.91 trillion yuan (about \$277 billion). This marked the eleventh consecutive year of steady, single-digit growth that has quietly doubled Chinese military spending over the past decade.² The official figure understates the true picture; the U.S. Department of Defense and other independent sources assesses that China's actual defense outlays are substantially higher than the published number once research, development, and other military-related spending are included.³ These more comprehensive estimates equate Chinese defense spending to over 12% of the global total, up from just 2% thirty years ago.

China's Estimated Defense Spending⁴



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The clearest expression of China's rise is at sea. China is now the world's largest shipbuilder by a large margin. By some U.S. Navy estimates, its shipbuilding capacity exceeds that of the United States by a factor of roughly 230, and a single large Chinese shipyard has more capacity than all U.S. shipyards combined.⁵ The Chinese Navy is already the world's largest by hull count, expanding from 271 to 328 battle-force ships between 2012 and 2024, while the U.S. fleet grew only from 284 to 289.⁶ The U.S. Navy retains critical advantages in tonnage, firepower, and operational proficiency but the gap is narrowing, and China enjoys the advantage of concentrating its forces close to home.

Beijing is also expanding rapidly in the domains that will define future conflict. China's nuclear stockpile surpassed 600 operational warheads by mid-2024 and is projected to exceed 1,000 by 2030.⁷ It fields what the Pentagon now calls the world's leading hypersonic missile arsenal,⁸ alongside advancing capabilities in space, cyber, and AI-enabled command and control.

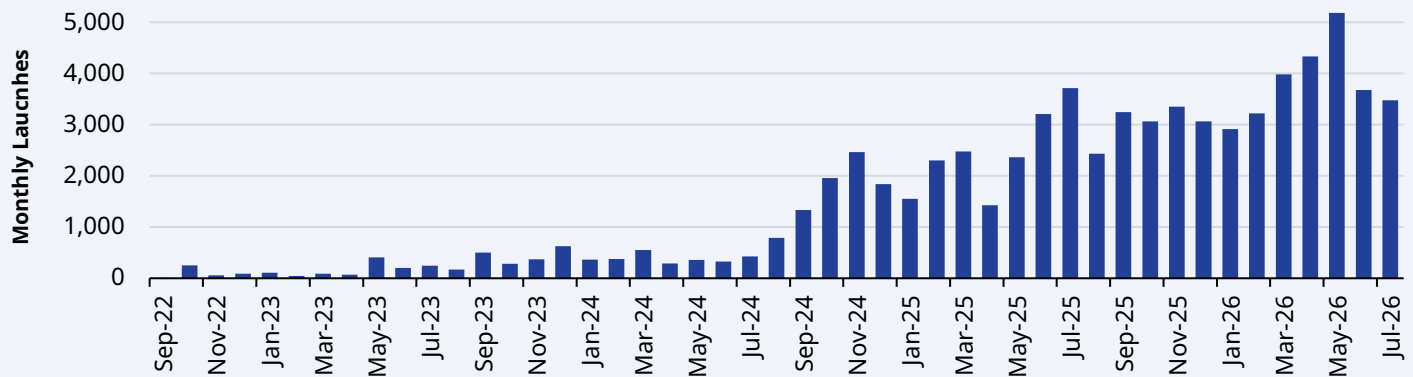
Worryingly, China's leadership aims to be capable of seizing Taiwan by force by 2027, an approaching benchmark that concentrates the minds of defense planners across the Indo-Pacific.⁹

Russia: A Wartime Economy in Europe

Russia's full-scale invasion of Ukraine, now well into its fourth year, remains an active, high-attrition war with no durable settlement in sight.¹⁰ Moscow has shifted onto a wartime economic footing, dramatically increasing defense production and drawing on support from China, Iran, and North Korea. Russian defense spending is estimated to have risen roughly 131% in real terms between 2021 and 2025.¹¹

The war in Ukraine has become the defining case study in modern industrial conflict: it consumes munitions and equipment faster than peacetime supply chains can replace them. It has also demonstrated the decisive role of autonomous drones, electronic warfare, and sustained defense industry production over time. Ukraine alone produced about two million drones in 2024, harnessing emerging technologies to turn the momentum of the conflict.¹² Meanwhile, Russia has steadily ramped its use of long-range attack drones with a peak of over 5,000 launched in May 2026.

Russian Long-Range Attack Drone Launches Against Ukraine ¹³



Iran and Non-State Actors: Persistent Regional Volatility

The Middle East entered open conflict in 2026. Following years of escalating tension over Iran's nuclear program and missile arsenal, direct hostilities in early 2026 gave way to a fragile memorandum of understanding by mid-year. The ceasefire was short-lived and the situation remains volatile, with recurring flashpoints around the Strait of Hormuz through the summer.¹⁴

Iran and Iranian-aligned groups continue to field a growing arsenal of missiles, unmanned aircraft systems, and loitering munitions, keeping demand high for air and missile defense and counter-drone capabilities. Sustained regional instability or open conflict will only increase requirements for American defense readiness.

The Changing Character of Conflict: Cyber, Drones, and New Domains

Perhaps the most consequential shift is not any single adversary but the changing nature of warfare itself. Cyber operations now target critical infrastructure, defense supply chains, and sensitive networks continuously. These intrusions fall below the threshold of open war but carry meaningful strategic effect. Unmanned aircraft systems (UAS) have moved from the periphery to the center of the battlefield: drones are being used in enormous numbers in current conflicts, reshaping tactics and driving demand for both offensive systems and counter-UAS defenses.¹⁵ Space has become contested terrain, with proliferated satellite constellations now essential to communications, navigation, and intelligence. And artificial intelligence is accelerating the pace of decision-making across every domain.

These trends share a common feature: they reward agility, innovation, and speed — precisely the capabilities where middle-market companies often excel. The threat environment is not only larger than a decade ago; it is structurally more favorable to the kinds of firms that form the core of our GST investing strategy.

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SECTION 02

The American Response: Closing the Readiness Gap

The United States retains the most capable military in the world. But a growing body of official analysis concludes that its defense industrial base (i.e., the network of companies that research, develop, produce, and sustain weapons systems) lacks the capacity, responsiveness, and surge capability to meet the demands of today's security environment. Recognizing this, the U.S. government has responded with sustained, bipartisan increases in defense funding.

Where the Arsenal Falls Short

The roots of today's shortfalls trace to the post-Cold War “peace dividend.” After the Soviet collapse, defense budgets fell and the industrial base consolidated dramatically. Following the infamous “Last Supper” in 1993, the number of major defense prime contractors collapsed from 107 companies to just five by the end of the decade.¹⁶ That consolidation made sense at the time, but it left an industrial base optimized for efficiency and poorly suited to a return of great-power competition.

America's national security shortcomings continue to this day. Several specific gaps stand out:

- **Munitions shortfalls.** In roughly two dozen iterations of a widely cited wargame of a Taiwan conflict, the United States typically expended more than 5,000 long-range missiles within just three weeks. Key inventories were depleted faster than they could be replaced, in some cases with production lead times measured in years.¹⁷
- **Shipbuilding and workforce constraints.** U.S. shipyards face persistent shortages of skilled labor, from nuclear welders to production engineers, contributing to schedule delays on submarines and surface combatants at the very moment naval capacity matters most.
- **Fragile supply chains.** Production depends on a limited number of suppliers for critical components including solid rocket motors, castings and forgings, microelectronics, and many specialized materials. The US must also rely on foreign sources for certain strategic minerals.

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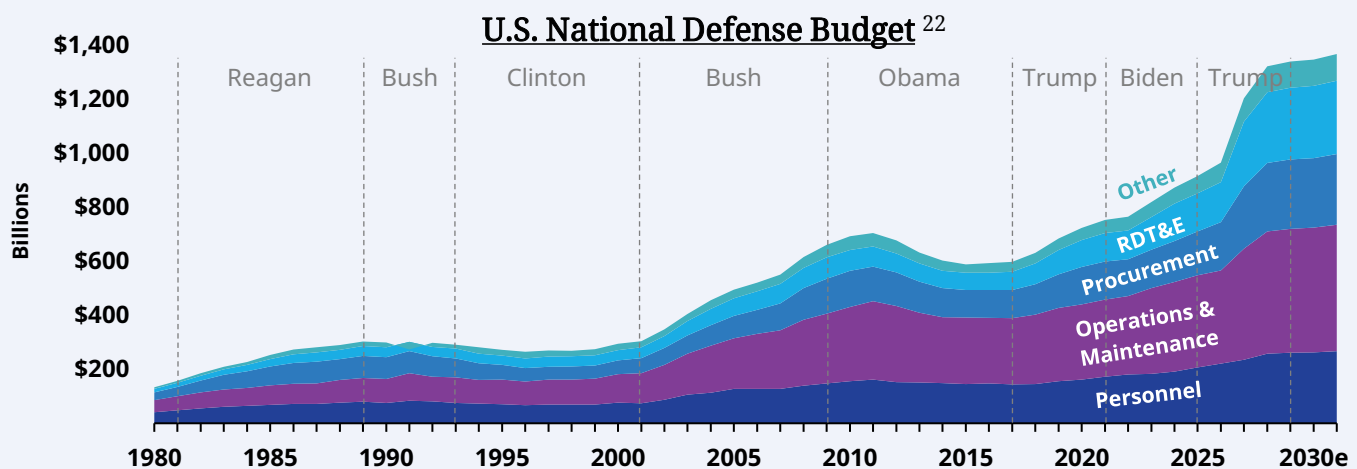
- **Inconsistent demand signals.** Sub-tier suppliers operate on thin margins and are reluctant to invest in capacity without predictable, multi-year orders. A history of erratic procurement discourages the type of expansion the moment requires.¹⁸

Washington is responding. The Department of Defense has published a National Defense Industrial Strategy aimed at building the capacity to “innovate and produce the warfighting capabilities” needed to prevail,¹⁹ ramped up production of priority munitions, and expanded the use of multiyear procurement to send stronger demand signals to industry. Crucially, addressing these gaps requires not only prime contractors but a broad, deep, and well-capitalized base of middle market companies.

Defense Spending: Large and Growing with Bipartisan Support

The funding backdrop is the strongest in a generation. For fiscal year 2026, Congress enacted approximately \$839 billion in Department of Defense appropriations.²⁰ When considering the totality of base appropriations, the National Defense Authorization Act, and funds made available through budget reconciliation, national defense spending approaches or exceeds \$1 trillion, the largest peacetime defense allocation in U.S. history.

Notably, this commitment spans administrations and parties. Defense budgets have grown under both Republican and Democratic leadership.²¹ This bipartisan durability is a defining feature of the sector: while individual programs shift, the overall trajectory of defense investment has proven remarkably resilient to political change.



Despite this continued growth, today's defense spending is not high by historical standards. In fact, today's budget is actually quite low. U.S. defense outlays equal roughly 3.1–3.4% of GDP in 2026, compared with ~10% under Eisenhower, ~8% under Kennedy and Johnson, and ~6% during the Reagan buildup.²³ In other words, even at nearly \$1 trillion, defense consumes a far smaller share of national

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income than during previous periods of strategic competition. Many analysts argue this leaves substantial room for further growth if the threat environment demands it.

The commitment extends well beyond U.S. borders. At the Hague Summit in June 2025, NATO members agreed to a landmark new benchmark whereby members would allocate 5% of GDP on core defense and security-related investments by 2035. This represents a generational expansion of allied defense spending and a powerful, sustained tailwind for the companies that supply the alliance.

Beyond Defense: Broader Government Modernization Needs

The need for investment extends beyond the defense establishment. Across federal, state, and local governments, aging physical infrastructure, dated information-technology systems, and inefficient administrative processes constrain the delivery of essential public services. Transportation networks, water systems, healthcare infrastructure, and other critical assets often require substantial maintenance, modernization, and resilience investments. At the same time, many agencies continue to rely on legacy software, fragmented databases, and manual workflows that are costly to maintain, difficult to secure, and poorly suited to the expectations of a modern digital economy.

The U.S. Government Accountability Office reported in July 2025 that the federal government spends more than \$100 billion annually on IT and cybersecurity, with agencies typically directing approximately 80% of that spending toward operating and maintaining existing systems. Of the ten critical legacy systems GAO identified as most in need of modernization in 2019, only three had completed modernization as of February 2025.²⁴ Further, the agency found that the eleven legacy IT systems most in need of modernization in 2025 each used obsolete, deprecated, or unknown technology.

Critical U.S. Federal Systems in Need of Modernization

	System Name	Age of System	Programming Language	Hardware / Software
Department of Agriculture	System 1	41	Outdated	Supported
Department of Commerce	System 2	30	Current	Unknown
Department of Defense	System 3	60	Outdated	Supported
Department of Energy	System 4	25	Outdated	Supported
Department of Health and Human Services	System 5	55	Outdated	Supported
Department of Homeland Security	System 6	30	Current	Unsupported
Department of the Interior	System 7	23	Outdated	Unsupported
Department of Transportation	System 8	31	Outdated	Unsupported
Department of the Treasury	System 9	59	Outdated	Supported
	System 10	51	Outdated	Supported
Environmental Protection Agency	System 11	51	Current	Unsupported

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Addressing these shortcomings will require sustained investment in cloud migration, cybersecurity, data management, systems integration, process automation, and the modernization of critical infrastructure. Government agencies frequently lack the internal personnel, specialized expertise, or procurement flexibility to execute these projects alone. They therefore depend on a broad ecosystem of private-sector contractors, technology providers, engineering firms, and specialized service companies. As in national defense, many of the businesses best positioned to perform this work are middle market companies with deep technical expertise, longstanding agency relationships, and the agility to implement specialized solutions.

These needs create a durable demand environment for companies that help public institutions operate more securely, efficiently, and effectively. And, in the context of this paper, broadens the GST investing opportunity well beyond solely defense spending.



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SECTION 03

Specialized Capabilities: Why the Middle Market Matters

When most people picture the defense industry, they think of a handful of household-name prime contractors. But those primes sit atop a vast pyramid of suppliers and the companies doing much of the actual innovation, component manufacturing, and mission support are mid-sized businesses. These firms are the backbone of the arsenal: individually specialized, collectively indispensable, and precisely the segment that a rebuild of the industrial base depends upon.

The Critical Role of Mid-Sized Companies

Middle-market defense companies occupy a distinctive and defensible position in the ecosystem. Several characteristics make them both critical to national security and attractive from an investment standpoint:

- **Agility and innovation.** Smaller, focused organizations can move faster than large primes to develop specialized technologies at the speed the modern battlefield demands.
- **Mission-critical specialization.** Many are sole-source or differentiated suppliers of components and capabilities that larger systems cannot function without, giving them durable customer relationships and pricing power.
- **Defensive, contracted revenue.** Long-term government contracts and multi-year programs of record provide revenue visibility and backlog that is largely insulated from ordinary economic cycles.
- **Strong free cash flow.** Many GST businesses are asset-light, producing high margins and robust cash generation with modest capital requirements.
- **Strategic exit potential.** Because the defense market rewards scale and consolidation, mid-sized companies that reach sufficient size become attractive acquisition targets for larger strategics. This dynamic creates a natural path to value realization.

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This last point reflects the structure of the market itself. The government-contracting landscape is highly fragmented at the bottom and consolidated at the top: tens of thousands of small businesses, a much smaller number of mid-sized players, and a handful of scaled primes. Companies that successfully graduate from small-business and set-aside work into full and open competition occupy a valuable and sought-after position.

Five Key Verticals of Government Services & Technology

PennantPark focuses on five key verticals within the GST sector, each aligned with a durable national-security priority. The examples below are drawn from PennantPark's own portfolio and are illustrative of the kinds of mission-critical, middle-market businesses that define the sector.

01

Information Technology Modernization



Helping federal, state, and local agencies maintain and modernize their IT systems. As adversaries probe critical networks continuously, demand for modernization and cyber defense continues to grow.

02

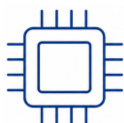
Intelligence, Surveillance & Reconnaissance (ISR)



Manned and unmanned systems that collect and analyze data. ISR sits at the intersection of fast-growing domains including drones, sensors, and open-source intelligence.

03

Electronics & Technology



Manufactured components used in military and commercial platforms such as helicopters and aircraft. These specialized, high-reliability components are often single-sourced and embedded deep in critical systems.

04

Space Technology



Components and systems for space platforms and aircraft that enable communications, intelligence-gathering, and threat protection. Space has become both essential and contested, driving sustained investment.

05

Maintenance, Repair & Overhaul (MRO)



Mission-critical sustainment and upgrade work for military equipment including vehicles, submarines, and naval vessels. As platforms age and readiness demands rise, sustainment becomes ever more essential.

Across all five verticals, the pattern is consistent: these are defensive, cash-generative, contract-backed businesses aligned with the highest national-security priorities. Yet, as mid-sized companies, they are structurally underserved by capital markets. That combination is the heart of the opportunity.

Financing the Mission: Why Government Demand Still Requires Private Capital

Government-backed demand does not eliminate the need for capital. Middle market contractors often must invest well before a new contract generates revenue or cash flow. Winning an award may require the company to hire and clear employees, purchase equipment or inventory, engage subcontractors, and build the systems needed to begin performance. Capital is equally important as companies scale. Businesses graduating from small-business set-aside programs into full and open competition frequently need more sophisticated operating infrastructure, including enhanced cybersecurity, accounting systems, quality controls, compliance capabilities, and management resources.

In many cases, PennantPark provides financing alongside a private equity sponsor acquiring a GST business. The use of debt allows the sponsor to build a more scaled and diversified portfolio, preserve equity capital for follow-on investments, and potentially enhance returns for their investors. This is particularly relevant in fragmented GST subsectors, where sponsors often build larger, more capable platforms by acquiring complementary technologies, customer relationships, or specialized expertise.

Whether the need arises from an acquisition, contract mobilization, capacity expansion, systems investment, or an ownership transition, access to flexible capital can help middle-market GST companies convert government demand into sustainable cash flow. A specialized lender that understands contract structures, procurement cycles, working-capital requirements, and regulatory obligations can therefore play an important role even when the ultimate customer is the government.

SECTION 04

The PennantPark Advantage: Experience, Access, and Discipline

Investing successfully in middle-market defense companies requires more than capital. It demands deep sector expertise, long-standing relationships with the sponsors and management teams that source the best opportunities, the credit discipline to protect capital, and the structuring sophistication to participate in upside. PennantPark has spent 19 years building exactly these capabilities in the Government Services & Technology sector.

The Case for Direct Lending

Expertise only matters if it is applied through the right structure. The businesses at the center of this paper share a distinctive financial profile: defensive, cash-generative, and underpinned by long-term contracts. That profile lends itself naturally to senior secured direct lending.

Rather than depending on a company being sold or revalued at a higher multiple, direct lending converts the steady cash flows of these businesses into contractual income, while seniority in the capital structure and a substantial cushion of sponsor equity work to protect principal. In a sector defined by durable demand and predictable revenue, lending against those cash flows is a compelling way to turn the GST opportunity into attractive risk-adjusted return.

Why the Core Middle Market Can Offer Better Lender Economics

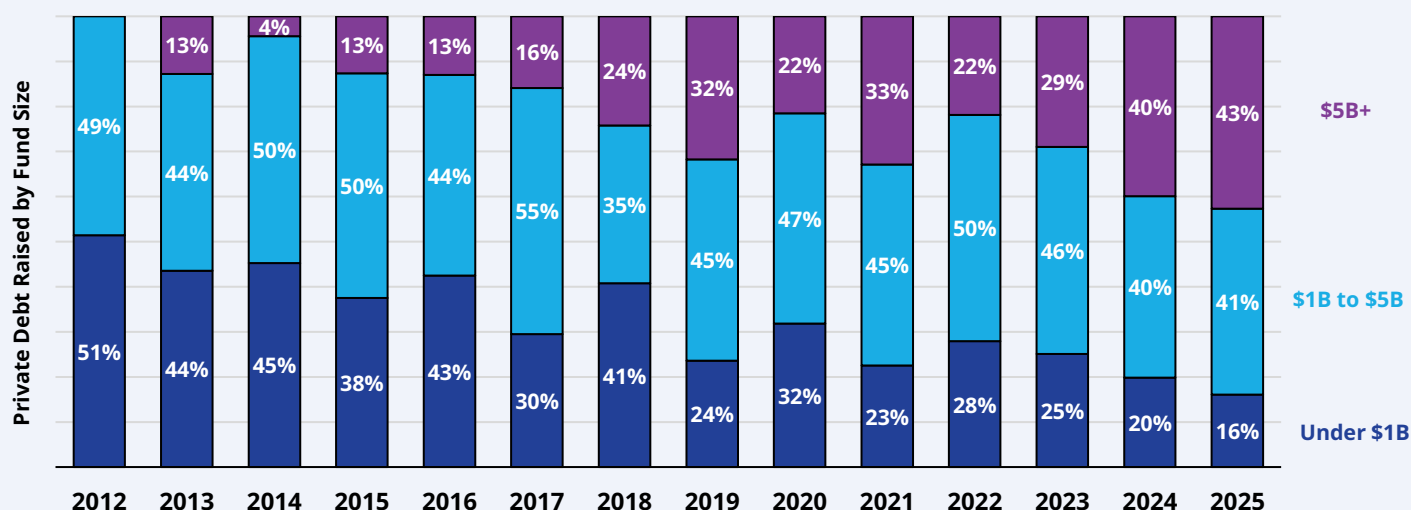
Core middle market loans have historically offered a yield premium relative to loans to larger corporations. Borrowers in this segment may also operate with lower leverage, stronger covenants, monthly financial reporting, and more concentrated lender groups. These characteristics can improve lender control and downside protection, although they do not eliminate credit risk.

These lender-friendly economics reflect a structural imbalance between the supply of capital and the financing needs of middle market borrowers. Commercial banks, once the principal source of relationship lending to smaller companies, have increasingly reduced their exposure to this segment as regulatory requirements, capital constraints, and standardized underwriting processes have made

smaller, more complex loans less attractive to originate and hold. Many capable businesses have consequently lost access to the relationship-oriented financing that banks historically provided.

At the same time, many of the largest private credit managers have moved steadily up market. Managers with tens of billions of dollars of capital to deploy generally require larger transactions to invest that capital efficiently. A \$50 million loan may demand much of the same sourcing, diligence, documentation, and monitoring as a loan several times its size, but contributes far less to overall deployment. As a result, larger lenders often concentrate on transactions that can absorb hundreds of millions of dollars, leaving smaller opportunities to a more limited group of specialized providers.

The Rise of Mega Funds in Private Credit ²⁵



This dynamic is especially relevant in GST, where many capable businesses remain too small for efficient access to broadly syndicated markets or the largest private credit platforms. Because these companies may also require detailed analysis of contracts, programs, customers, clearances, and procurement cycles, a lender's willingness and ability to conduct time-intensive, sector-specific underwriting can be an important source of differentiation.

An Established GST Practice

PennantPark is one of few investment managers that combines a focus on the core middle market with the specialized expertise and relationships to succeed in GST investing. Since inception in 2007 we have deployed \$3.1 billion across 66 transactions in the GST sector, building one of the most established GST credit franchises in the middle market.

Our approach rests on several pillars:

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- **Core middle market focus.** We make directly originated, floating-rate loans to U.S. companies with strong cash flow. This market segment offers less competition, more thorough diligence, stronger covenant protections, and a consistent yield premium relative to the upper middle market and broadly syndicated loans.
- **Deep sourcing relationships.** We have cultivated long-standing relationships with leading equity sponsors, intermediaries, and advisors who specialize in the sector. This proprietary sourcing engine gives us early, differentiated access to opportunities.
- **Conservative underwriting.** We emphasize capital preservation through low leverage multiples, substantial sponsor equity beneath our position, and protective covenants. Lending money is the easy part, getting fully repaid with minimal defaults and losses is what distinguishes managers through cycles.
- **The ability to grow with borrowers.** Because defense is a consolidating market, we can support strong companies from initial acquisition through follow-on growth and eventual exit. This approach deepens relationships over time while compounding our knowledge of each business, ultimately reducing risk.
- **Supporting veterans, women, and minority owners.** A substantial share of our GST investments has been in companies with veteran, women, or minority ownership or leadership. These teams understand agency needs and can navigate complex procurement processes, while advancing goals we are proud to support.

The Equity Co-Investment Opportunity

Beyond direct lending, PennantPark selectively negotiates equity co-investments in high-quality borrowers. This is a deliberate strategy with three aims: to enhance net returns, to strengthen alignment and relationships with sponsors, and to accelerate capital deployment. Because we are already a strategic lending partner conducting deep diligence, we are well positioned to identify which businesses merit an equity stake.

GST and Responsible Investing

PennantPark believes that responsible investing is fully compatible with supporting the national security priorities of the United States and its allies. Our responsible investing framework establishes clear boundaries around the activities we will finance while allowing us to provide capital to businesses whose products and services support critical government missions.

Under our internal responsible investing policy, PennantPark does not finance companies that derive meaningful revenue from certain prohibited activities, including the distribution of firearms and cluster munitions. We are also a signatory to the United Nations Principles for Responsible Investment (UN PRI).

Within these guidelines, we are proud to support companies that strengthen national security, protect critical infrastructure, advance technological capabilities, and serve the men and women responsible for safeguarding the United States and its allies. We believe this approach allows us to pursue attractive investment opportunities in GST while remaining consistent with our broader responsible investing principles and responsive to the priorities of our investors.



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SECTION 05

The GST Investment Opportunity: National Priorities, Private Capital

The themes in this paper converge on a single conclusion: this is an unusually compelling moment to consider a committed GST investment strategy. The case rests on the alignment of a genuine national imperative, a durable funding commitment, an underserved market, and an experienced manager.

Four Forces in Alignment

- **A real and lasting security imperative.** Great-power competition with China, an active war in Europe, volatility in the Middle East, and the rise of cyber and drone warfare are not passing headlines; we believe they represent a structural shift that will drive defense demand for years to come.
- **Sustained, bipartisan funding.** With a \$1 trillion U.S. defense topline, historically low spending as a share of GDP, and NATO's commitment toward 5% of GDP, we believe the funding tailwind is strong, durable, and shared across parties and allies.
- **A structurally underserved middle market.** The mid-sized companies that form the backbone of the arsenal need capital to scale into the demand flowing toward the sector. Despite this demand for capital, we believe they are underserved by traditional capital markets, creating opportunity for specialized providers.
- **An experienced, specialized manager.** PennantPark brings 19 years of GST experience, deep sourcing relationships, disciplined underwriting, and a track record we believe to be compelling across both direct lending and equity co-investments.

Generating Wealth While Supporting the Mission

Few sectors allow investors to align capital so directly with conviction. A GST investment strategy offers private wealth and other qualified investors the potential to earn attractive, risk-adjusted returns while strengthening the infrastructure that protects America and its allies. Every dollar deployed helps a mid-

sized American company build the technologies, produce the components, and sustain the equipment on which the nation's defense depends.

These are not faceless enterprises. They are frequently founded and led by veterans who understand the mission because they have lived it, who know how to navigate the demands of government service, and who are building the next generation of American capabilities.

Conclusion

The world has grown more dangerous, and the direction of travel is unmistakable. Russia is waging the largest war in Europe since 1945. China is building military power at a scale and speed not seen in generations, while preparing for the possibility of conflict over Taiwan. Iran and its proxies continue to destabilize the Middle East, and strategic competition increasingly extends across cyber, space, artificial intelligence, and unmanned systems. The post-Cold War peace dividend has ended and is unlikely to return soon.

The United States and its allies are responding with sustained investment in readiness, production capacity, and technological innovation. Defense budgets have reached historic levels, supported by durable bipartisan consensus and reinforced by expanding allied commitments. But funding alone does not create capability. Rebuilding the defense industrial base depends on the specialized middle market companies that manufacture critical components, modernize government systems, sustain essential platforms, and deliver mission-critical services. Those businesses require flexible capital to expand capacity, invest in infrastructure, and meet the demands of a more contested world.

At the intersection of a genuine national imperative, a sustained funding commitment, and a structurally underserved market stands a rare chance for investors to put capital to work in the service of both country and portfolio. We truly believe that Government Services & Technology represents one of the defining investment themes of the next decade, and that a committed GST credit platform is the best way to capture the opportunity.

Important Information

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Endnotes

- ¹ Seth G. Jones and Alexander Palmer, *Rebuilding the Arsenal of Democracy: The U.S. and Chinese Defense Industrial Bases in an Era of Great Power Competition* (Washington, DC: Center for Strategic and International Studies, March 2024).
- ² China's 2026 defense budget of approximately 1.91 trillion yuan (~\$277 billion), a 7% increase, was announced at the Fourth Session of the 14th National People's Congress. See Ministry of Finance budget report via Xinhua, March 5, 2026; and "China amps up its 2026 defense budget by 7%," *Defense News*, March 10, 2026.
- ³ Office of the Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2025* (Washington, DC: U.S. Department of Defense, December 2025). The Department assesses that China's publicly announced budget does not capture total defense spending, which may be substantially higher.
- ⁴ Stockholm International Peace Research Institute (SIPRI), *Military Expenditure Database*, 2025, <https://doi.org/10.55163/CQGC9685>. Defense spending estimates in constant 2024 U.S. dollars.
- ⁵ U.S. Office of Naval Intelligence and U.S. Navy estimates, as cited in Jones and Palmer, *Rebuilding the Arsenal of Democracy* (CSIS, 2024). CSIS reports Chinese shipbuilding capacity at roughly 230 times that of the United States and a single large Chinese shipyard exceeding the capacity of all U.S. shipyards combined.
- ⁶ John A. Nagl and Katie Crombe framing aside, hull-count comparison from "Just How Much is Too Much? The Defense Spending Dilemma," *Foreign Policy Research Institute*, June 2026, citing U.S. Navy and PLAN order-of-battle data (PLAN 271→328 hulls, 2012–2024; U.S. Navy 284→289).
- ⁷ Office of the Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2024 and 2025*. DoD estimates China surpassed 600 operational nuclear warheads by mid-2024 and projects more than 1,000 by 2030.
- ⁸ Office of the Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2025*, which states that China fields "the world's leading hypersonic missile arsenal."
- ⁹ On the 2027 benchmark for a Taiwan contingency, see Office of the Secretary of Defense, *China Military Power Report 2025*; and Taiwan Ministry of National Defense, 2025 PLA report. U.S. officials have testified that Xi Jinping has directed the PLA to be capable of seizing Taiwan by force by 2027.
- ¹⁰ Institute for the Study of War, *campaign assessments, and Russia Matters, "Russia-Ukraine War Report Card,"* July 2026. As of mid-2026 the war remained an active, high-attrition conflict.
- ¹¹ Stockholm International Peace Research Institute (SIPRI), *Military Expenditure Database*, 2025, <https://doi.org/10.55163/CQGC9685>. SIPRI estimates Russian defense spending at \$68.5 billion in 2021 and \$158.2 billion in 2025. Both figures in constant 2024 U.S. dollars.
- ¹² Center for Strategic & International Studies (CSIS), *Ukraine's Future Vision and Current Capabilities for Waging AI-Enabled Autonomous Warfare*. Published March 2025.
- ¹³ Sources: CSIS, Institute for Science and International Security, and Ukrainian Air Force reporting. Figures reflect Russian long-range one-way attack UAV launches; 2026 data include estimates where reporting is incomplete.
- ¹⁴ On the 2026 Iran war (Operation Epic Fury, February–early May 2026), the June 17, 2026 U.S.–Iran memorandum of understanding, and continued Strait of Hormuz tensions, see ACLED, "Middle East Overview: July 2026"; and Encyclopaedia Britannica, "2026 Iran war" (accessed July 2026).
- ¹⁵ On the role of commercial and military unmanned aircraft systems in current conflicts, see Jones and Palmer, *Rebuilding the Arsenal of Democracy* (CSIS, 2024).
- ¹⁶ The "Last Supper" was a name coined for an off-the-record dinner hosted at the Pentagon in July 1993 by Defense Secretary Les Aspin and Deputy Secretary William Perry. They told CEOs of major defense contractors that budget cuts meant the Pentagon could no longer support the existing number of defense contractors and that consolidation was inevitable.
- ¹⁷ Mark F. Cancian, Matthew Cancian, and Eric Heginbotham, *The First Battle of the Next War: Wargaming a Chinese Invasion of Taiwan* (Center for Strategic and International Studies, January 2023), cited in Jones and Palmer (CSIS, 2024). Across roughly two dozen iterations the United States typically expended more than 5,000 long-range missiles within three weeks.
- ¹⁸ On multiyear procurement, demand signals, and sub-tier supplier fragility, see Jones and Palmer, *Rebuilding the Arsenal of Democracy* (CSIS, 2024); and U.S. Department of Defense, *National Defense Industrial Strategy* (2023).

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¹⁹ U.S. Department of Defense, National Defense Industrial Strategy (Washington, DC: U.S. Department of Defense, 2023).

²⁰ Department of Defense Appropriations Act, 2026 (Division A of P.L. 119-75) provided approximately \$839 billion for national-defense activities of the Department of Defense. See Congressional Research Service, FY2026 Department of Defense Appropriations: In Brief, R48891, April 2026.

²¹ Mark F. Cancian and Chris H. Park, The 2026 National Defense Strategy by the Numbers (Washington, DC: CSIS, January 2026). The 2026 NDS sustains prior strategy's emphasis on countering China, supporting Taiwan, nuclear modernization, and strengthening the defense industrial base.

²² Whitehouse.gov Historical Tables: Outlays by Function and Subfunction: 1962 - 2031. RDT&E stands for Research, Development, Test, and Evaluation. "Other" includes military construction, family housing, atomic energy defense activities, and Defense-related activities. 2027 through 2031 based on future budget estimates.

²³ U.S. defense spending equals roughly 3.1–3.4% of GDP in 2026, well below Cold War levels (9–11% under Eisenhower; 8–9% under Kennedy and Johnson; over 6% under Reagan). See SIPRI Military Expenditure Database (2026); and Jones and Palmer, Rebuilding the Arsenal of Democracy (CSIS, 2024).

²⁴ United States Government Accountability Office. Report to the Committee on Oversight and Government Reform, House of Representatives: Agencies Need to Plan for Modernizing Critical Decades-Old Legacy Systems. July 2025.

²⁵ Source: PitchBook, Q1 2025 Global Private Market Fundraising Report. Published May 23, 2025.