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# Defense Tech:

## It's hard to tell the swords from the plowshares

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EXECUTIVE SUMMARY

Defense technology is rapidly shifting from niche to mainstream. Blaine Townsend, Director of SRII at Bailard, explores how innovation, private capital, and government priorities are driving this change—and what it means for investors.

# Defense Tech: It's hard to tell the swords from the plowshares

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When General Dwight Eisenhower used his final address as President of the United States in 1961 to warn the world of the military-industrial complex, his fear was that the defense sector would get so cozy with the U.S. government it could actually shape foreign or domestic policy and create demand for its own products. Today, as Defense Tech rapidly becomes as relevant as the traditional defense sector, that warning is as timely as ever.

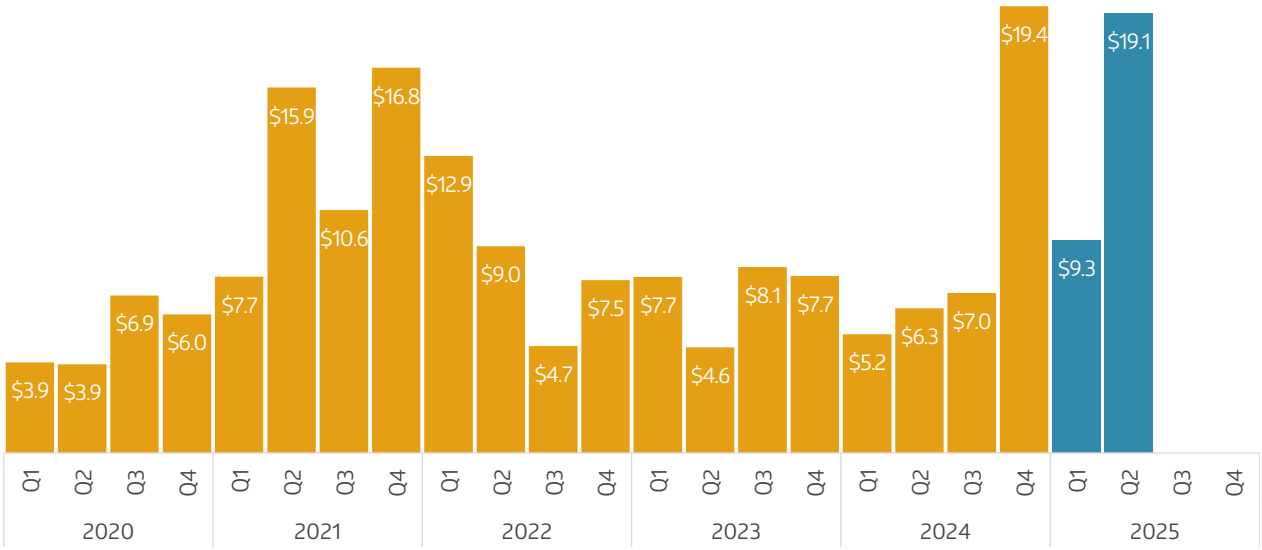
While there has long been a revolving door between defense and government, Defense Tech seems to be arriving on the national scene hand-in-hand with this administration. Elon Musk, CEO of defense contractor SpaceX, is a visible example, with the role he played heading the Department of Government Efficiency.[1] So too was the selection of J.D. Vance as Vice President; Vance had been a partner at the Silicon Valley venture capital firm of Peter Thiel, the co-founder of Palantir, a software company and Defense Tech stalwart.[2]

While this may bode well for America's superiority in Defense Tech, private equity firms are also betting it's good for their investors. Money has been flowing from


1 *https://www.reuters.com/business/aerospace-defense/spacex-ula-expected-clinch-multibillion-dollar-contract-key-pentagon-launch-2025-04-04/*
2 *https://www.defense.gov/News/Contracts/Contract/Article/4194643/*

VENTURE CAPITAL FLOWING INTO DEFENSE TECH ($B)

*Year to date, Defense Tech companies have raised over $28B across 361 deals, on pace to surpass 2024's nearly $38B.*




*Source: PitchBook, 1/1/2018 through 6/30/2025.*

Silicon Valley to the Defense Tech hub in El Segundo since the inauguration. Defense Tech funding exceeded $28 billion in private equity investment in just the first two quarters of 2025.[3] Public markets have noticed, too. Palantir, for example, joined the S&P 500 in late 2024 and rose 125% in the first six months of 2025.

The investor response makes sense given the real-time catalysts playing out in Ukraine and Gaza. Ukraine's military has used low-cost drones to destroy tens of millions of dollars' worth of Russian military hardware, including strategic long-range bombers.[4] In Gaza, the Israel Defense Forces (IDF) have relied on artificial intelligence (AI) tools to track and target Hamas operatives. In both wars, AI has guided missiles, pushing software across the kinetic line.[5] Europe, like the world, is watching this unfold with one eye on peace and the other on defense. With NATO member countries now pledging 5% of GDP on defense, Defense Tech stands to be a big beneficiary.

As Defense Tech gains ground on the traditional Defense sector, the lines are blurring between the tech tools of everyday life and those that will shape the battlefield

3 *PitchBook. (Aug 5, 2025). Vertical Snapshot: Defense Tech. https://pitchbook.com/news/reports/2025-vertical-snapshot-defense-tech*

4 *https://www.reuters.com/business/aerospace-defense/ukraine-releases-new-footage-drone-attack-russian-strategic-bombers-2025-06-04/*

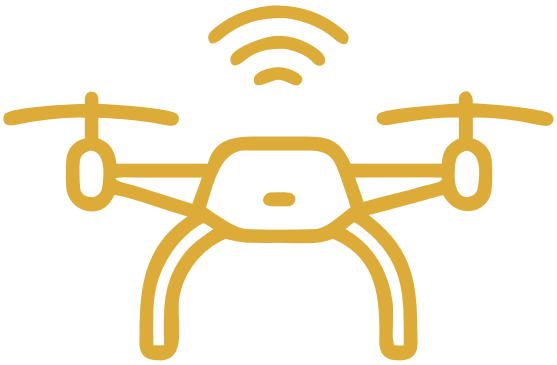
5 *https://apnews.com/article/israel-palestinians-ai-technology-737bc17af7b03e98c29cec4e15d0f108*

of the future. Drones are already used for infrastructure inspection, environmental conservation, search and rescue, and the delivery of medical supplies and consumer goods. Civilian agencies deploy drones during crises like flash floods, for border surveillance, and by police departments for crowd control and a host of other public safety uses.

Yet drones are the infantry of Defense Tech. AI is its military intelligence arm—while also being the commercial innovation of the millennia. AI informs everything from ride-hailing to crop planting. The same AI data-crunching power helping social media companies monetize clicks is now leveraged by Immigration and Customs Enforcement to identify individuals for deportation.

This overlap of military and civilian technology use is often quite intuitive; perhaps the best illustration is the ubiquitous smartphone. The military can use AI tools to track user location, collect metadata, and scan faces from personal devices. This is why the military typically prohibits smartphone use in operational theaters.

There is a long history of military innovation adapted for civilian products (think: semiconductors, microwaves, and duct tape). However, the new AI-based technologies powering Defense Tech may play an even larger role in society. AI's ever-improving computing ability is already central to markets and daily life. It also seems to be the key to future military superiority. This is one reason staying ahead of China in artificial intelligence is a national priority. It isn't just



***As Defense Tech gains ground on the traditional Defense sector, the lines are blurring between the tech tools of everyday life and those that will shape the battlefield of the future.***

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about consumer markets; the political and military implications are significant.

In this respect, Eisenhower's lesser-quoted warning feels prescient:

> *"Yet, in holding scientific research and discovery in respect, as we should, we must also be alert to the equal and opposite danger that public policy could itself become the captive of a scientific-technological elite."*

Over six decades later, his words are as relevant as the day he spoke them.

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