

## CIO Perspective Defense Stock Whipsaw – Behavioral Risk in Real Time.

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### Defense stocks just gave us a masterclass in behavioral risk.

Wednesday afternoon: Trump threatens to block buybacks and dividends for defense contractors. Lockheed Martin falls 4.8%. Northrop Grumman drops 5.5%. General Dynamics slides 3.6%.

Wednesday evening: Trump proposes a \$1.5 trillion defense budget—a 67% increase from \$901 billion approved for 2026. Same stocks surge 7-8% in after-hours trading.

In less than 24 hours, these companies swung roughly 12-14% on social media posts.

Here's what didn't change during that time:

- Production capacity
- Order backlogs
- Revenue fundamentals
- The actual capabilities of these companies

What changed was the story. The narrative. The sentiment.

This is behavioral risk in its purest form. When billions of dollars in market capitalization move based on expectations about what might happen—rather than what a company can actually deliver—you're watching speculation, not valuation.

From 2021 to 2024, the top four defense contractors spent approximately \$89 billion on buybacks and dividends. That's real capital allocation. Whether the policy changes or not, those fundamentals haven't shifted.

Yet in one trading session, the market repriced these companies twice based entirely on headlines.

For advisors, this is a valuable teaching moment for clients.

When stock prices can move 10%+ in either direction based on tweets rather than earnings, that's not fundamental investing. That's trading on sentiment. And sentiment, as we just witnessed, can reverse in hours.

The advisors who build trust aren't the ones who chase these moves. They're the ones who can explain why they didn't—and why a disciplined approach matters when headlines get loud.

Before you adjust any defense positions today, ask: Am I responding to fundamentals, or am I responding to the same behavioral forces that just whipsawed these stocks?

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