

Industry Update

FY 2026 Budget Snapshot and a Peek at FY 2027

- Congress completed FY 2026 appropriations with a continued strong defense investment and a softer landing for Federal Civilian than the President’s request.
- Acquisition reforms and enhanced technologies signal faster, more commercial-friendly buying.
- Looking ahead, the administration has floated a \$1.5T FY 2027 defense topline, with a \$600B reconciliation package being considered to make that feasible.

\$1.6T

Total FY 2026 Discretionary Appropriations

\$839B

Total FY 2026 Defense Appropriations

FY 2026: What Actually Changed

Cabinet Department/Major Agency	Total Funding 2025 Enacted	Total Funding 2026 Request	Total 2026 Appropriations ¹
Defense ²	\$860.1	\$961.6 ³	\$838.7
Homeland Security ²	\$119.5	\$134.9	TBD
Veterans Affairs (VA)	\$129.2	\$134.6	\$133.2
Health and Human Services (HHS)	\$128.8	\$95.3	\$116.8
Education	\$78.9	\$66.9	\$79.0
Transportation	\$25.2	\$26.0	\$25.1
Energy	\$60.7	\$42.6	\$49.1
Justice	\$36.3	\$33.5	\$34.0
Housing and Urban Development	\$82.3	\$33.2	\$77.3
Agriculture	\$70.8	\$25.7	\$26.7
Other Agencies	\$29.2	\$21.1	\$31.0
National Aeronautics and Space Administration (NASA)	\$24.8	\$18.8	\$24.4
Environmental Protection Agency	\$26.6	\$17.8	\$8.8
Social Security Administration (SSA)	\$14.3	\$14.8	\$15.0
Interior	\$22.6	\$14.4	\$14.5
Treasury	\$14.2	\$11.5	\$13.1
State and International Programs (includes USAID)	\$58.7	\$9.6	\$9.4
Labor	\$13.6	\$9.0	\$11.9
Commerce	\$4.2	\$8.5	\$10.5
Corps of Engineers	\$10.2	\$6.7	\$10.4
National Science Foundation	\$8.8	\$3.9	\$7.0
Small Business Administration (SBA)	\$3.5	\$0.7	\$1.0
General Services Administration	(\$0.9)	\$0.5	\$9.7
Changes in Mandatory Program Offsets	(\$36.0)	(\$34.0)	-
Total	\$1,830.5	\$1,691.0	\$1,607.0

Source: H.R. 7148 - Consolidated Appropriations Act, 2026, Economic Policy Innovation Center, House and Senate Appropriations Committees and Congressional Budget Office

1) Figures shown are after rescissions, changes in mandatory programs (CHIMPS), and other offsets from gross new funding

2) Includes additional reconciliation resources

3) \$848.3 billion discretionary funding plus \$113.3 billion in reconciliation funding



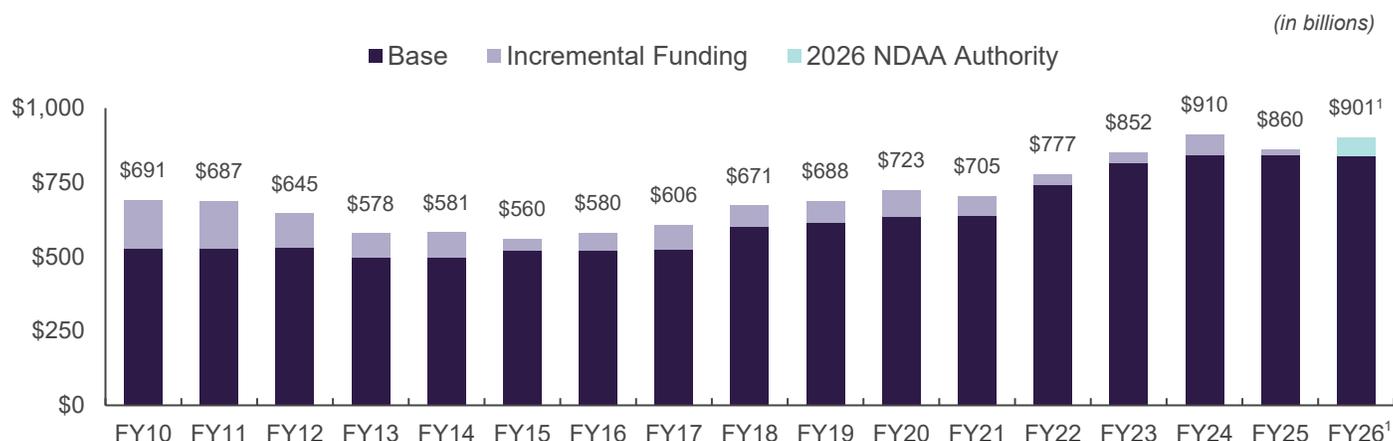
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FY 2026 Outlook and Trends

- Defense spending is up, heavily oriented to shipbuilding, missiles/space, and munitions including autonomous systems.
- Navy shipbuilding received \$27.2B for 17 ships, with additional funds to correct FY 2026 reconciliation shortfalls and strengthen shipyard capacity.
- Missile defense becomes a high visibility priority. The appropriations package adds near term air and missile defense quantities tied to Golden Dome requirements.
- The FY 2026 National Defense Strategy elevates Golden Dome and homeland air defense as a top line of effort.
- The bill provides multiyear authority for 8 critical munitions and adds roughly \$3B across munitions production and RDT&E. The multiyear missile set covers PAC 3, THAAD, SM 3, SM 6, AMRAAM, Tomahawk, LRASM, and JASSM ER.
- As of this publication, the FY 2026 budget for the Department of Homeland Security has not been passed and is in a state of partial shutdown.

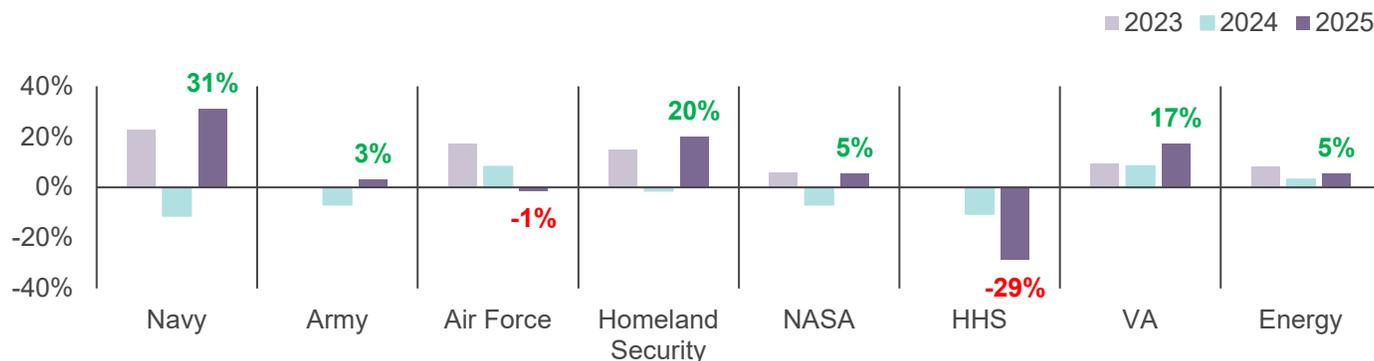
Defense Spending Over the Years



1) Reflects FY 2026 appropriations (\$839B) and excess authorization from the National Defense Authorization Act (NDAA). \$901B reflects defense spending that has been authorized by the NDAA.

Year-over-Year Changes in Prime Contract Obligations by Major Agency

- Prime contract obligations in FY 2025 largely aligned with FY 2025 federal spending patterns and administration priorities.
- The Navy continued to see meaningful growth in new obligations driven by mission-critical warfare programs and major shipyard awards while Homeland Security experienced tailwinds tied to administration priorities and increased ICE-related service needs.
- In contrast, Department of Health and Human Services (HHS) absorbed significant budget cuts in FY 2025, resulting in pauses and delays across several contracting pipelines.
- However, with the FY 2026 appropriations package restoring and expanding funding for HHS, contracting activity is expected to rebound materially in the year ahead.



Source: FY2026 Defense Budget, USASpending.gov, FY2026 NDAA

Federal Spending Themes

Federal Civilian avoided deep cuts

- Congress avoided deep civilian-agency cuts by rejecting major proposed reductions and instead restoring or increasing funding—reflected in sustained investment across major agencies such as VA (\$133.2B), HHS (\$116.8B), and NASA (\$24.4B).

Acquisition speed and commercial access

Acquisition reforms through the FY 2026 NDAA and upcoming Federal Acquisition Regulation simplifications are accelerating commercial-first buying by:

- Expanding the use of Other Transaction Authorities (OTAs) and Commercial Solutions Openings (CSOs).
- Raising the Cost Accounting Standards compliance threshold to \$100M.
- Lowering barriers for mid-market firms.
- Enabling faster pricing, evaluation, and award cycles.

IT and AI Direction

- Federal technology spending in FY 2026 is expected to surpass the estimated \$130 B in FY 2025, continuing the steady year-over-year increases.
- The DoD's FY 2026 IT budget request totals \$66 B, up \$2 B from FY 2025, with major investments in AI, cyber, cloud, autonomous systems, command and control, digital modernization, and enterprise software, while reducing lower-value legacy programs.
- Federal Civilian technology funding is roughly comparable in size to defense which is spread across Homeland Security, VA, and HHS, with growing emphasis on cybersecurity, cloud migration, and IT modernization.
- These shifts position contractors with strengths in AI, automation, and cyber for continued growth even as some traditional IT categories decline.

Looking Ahead to FY 2027

The Administration is signaling a potential \$1.5T FY 2027 defense budget, supported by a proposed \$600B FY 2026 reconciliation package that would unlock and accelerate funding for shipbuilding, munitions, missile defense, autonomous systems, and AI.

Key Considerations for Government Contracting Leaders



Align portfolios to the Administration's priorities

Whether a manufacturer, systems integrator, or service provider, prioritize named multiyear programs and areas where the greatest federal dollars are going. Focus on delivering the outcome needed by your government client more efficiently.



Position early for the AI and cyber ramp

Prioritize use of technology including AI to deliver better and faster solutions. Every contractor should be using AI to be more productive and cost-effective internally.



Pursue Full & Open contracts given pressure on Small Business and 8(a) contracts

Diversify go to market strategies using Governmentwide Acquisition Contracts (GWACs), Best-in-Class (BICs), and teaming roles to reduce dependency on restricted sole source pathways. Maintain centralized documentation and financials to ensure restricted contract eligibility.



Increased Defense spending

With increased defense spending, focus on pursuing new or increased defense work to the extent possible. Even if historically not a defense contractor, evaluate potential common areas to seek defense work based on your past qualifications.



Reassess Federal Civilian pipelines for opportunities

With cuts moderated, focus on areas including veteran affairs, energy, homeland security such as air traffic control, NASA, and enterprise technology services that Congress protected or expanded.



Lean into commercial contracting pathways

Update capture strategies for commercial solution openings, OTAs, and portfolio level solicitations. Focus on using Commercially Available Off-The-Shelf (COTS) solutions in order to simplify pricing and reduce compliance overhead on mid sized bids.