

NATO Summit Lifts Defence Stocks Amid Debate Over 5% Spending Target

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Defence stocks edged higher this week as NATO leaders convened for a major summit, with markets responding to growing expectations of increased military spending across the alliance. The gains came amid discussions about a potential new target for members to spend up to 5% of GDP on defence, a figure that marks a significant step beyond NATO's long-established 2% benchmark.

While the proposal signals a shift in ambition, it's unlikely to receive unanimous support. Some member states are expected to resist formally adopting the 5% goal, citing budget pressures and domestic political constraints. Others, particularly those closer to Russia's borders or already investing heavily in their armed forces, have expressed openness to the idea or are already trending toward higher spending levels.

The discussions come against a backdrop of heightened global security concerns, with Russia's war in Ukraine still ongoing and tensions growing in other regions, including the Indo-Pacific. Supporters of the proposed increase argue that NATO must scale up its capabilities to meet the demands of a more complex and unpredictable security environment.

Still, the alliance is also navigating internal differences. While there is broad agreement on the need to invest more in defence, member countries vary in how far and how quickly they can go. Some may treat the 5% figure more as a political signal than a firm commitment, preferring flexible timelines or alternative measures of contribution, such as providing equipment or strategic support.

Despite the lack of a clear consensus, the summit has reinforced confidence in the defence sector. Investors are anticipating further contracts and procurement activity as governments prepare for a long-term security build-up. Major defence contractors have already seen modest gains, buoyed by expectations of continued demand.

As NATO looks to the future, the focus appears to be on finding a balanced path, acknowledging different national capacities while reinforcing the alliance's collective readiness. Whether or not the 5%

target becomes official policy, the broader direction of travel is clear: defence is firmly back at the centre of the agenda.