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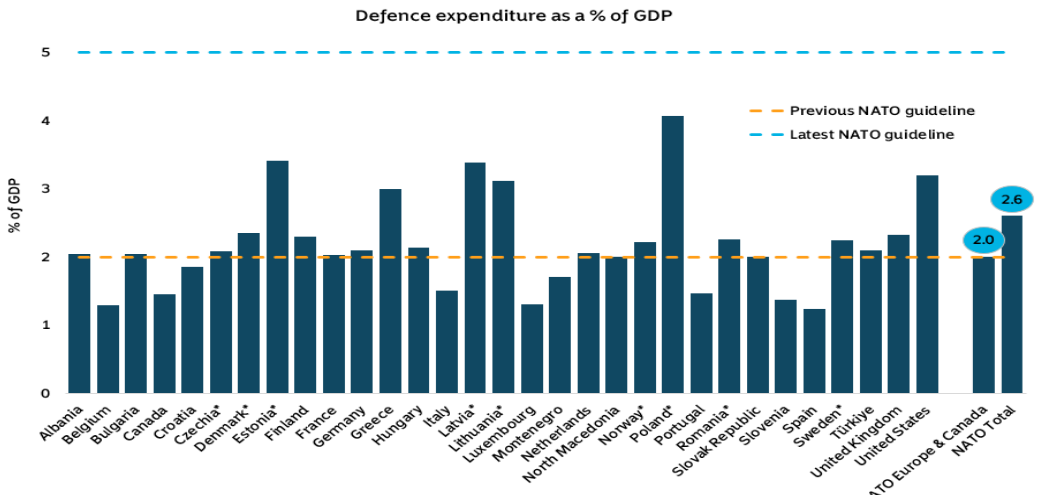
The Five Percent Club

By Gabby Byron



Source: Momentum Global Investment Management, NATO, 2024. Figures for 2024 are estimates. *These Allies have national laws or political agreements which call for 2% of GDP to be spent on defence annually, consequently future estimates are expected to change accordingly.

What this chart shows

This chart shows NATO members' estimated defence expenditure as a percentage of GDP for 2024. The orange dashed line shows NATO's long-standing 2% guideline, while the blue line shows the alliance's newly agreed pledge to allocate 5% of GDP to defence, and resilience and security, by 2035. Although the new target is non-binding, it marks a significant shift in tone. The US, Poland and other countries close to Russia continue to lead in defence spending, while countries like Spain and Belgium remain well below target. Notably, Spain negotiated an exemption from the 5% pledge ahead of the summit, citing political and fiscal constraints. The announcement, made at the NATO meeting in the Netherlands last week, triggered a fresh rally in European defence stocks, with the MSCI Europe Aerospace and Defence index up 5%* over the summit days and almost 70%* year-to-date.

*in USD terms as at 26th June 2025

Why this is important

The renewed commitment to defence spending comes amid rising geopolitical tensions and concerns that the US could scale back its support for NATO. Investors have been rotating into European defence names, encouraged by increased ETF issuance and a growing belief that increased government spending will support long-term sector growth. That said, the sector's recent rally has been largely driven by sentiment. With many NATO countries under fiscal pressure, delivering on the 5% pledge may prove challenging, suggesting this may mark a near-term peak in optimism. Even so, the strategic shift in defence policy is the most significant since the Cold War, and the emergence of governments as dominant buyers has provided a powerful tailwind. Defence stocks are highly sensitive to geopolitical tensions and conflict escalations, as seen after the invasions of Ukraine in 2022 and Israel in 2023. With ongoing conflict risks still to be resolved, the sector remains tightly linked to any geopolitical developments.

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Important notes