NATO's turning point: the 2025 summit's impact on European defence stocks

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Key Takeaways

- NATO's 2025 Summit is expected to target a major defence spending surge across Europe.
- Brussels is considering linking future EU funding to defence effort, prioritizing countries with clear military pipelines
- WisdomTree's Europe Defence UCITS ETF offers targeted exposure to firms aligned with NATO's evolving procurement goals
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The upcoming NATO Summit in The Hague (24-26 June 2025) is poised to be a pivotal moment for European defence strategy and the defence industry. The geopolitical backdrop could hardly be more charged as NATO gathers for its pivotal 2025 summit. Russia's protracted war in Ukraine, Middle East tensions and growing security concerns in the Indo-Pacific have all forced Europe to re-examine its long-standing dependence on the United States for defence. With discussions centred around significantly increasing defence spending and enhancing European military capabilities, the summit's outcomes could have profound implications for European defence companies.

The summit agenda: From spending to sovereignty

What began as a symbolic 2% of GDP target has morphed into a hard-nosed push toward 5%, with 3.5% earmarked for core defence and 1.5% for adjacent capabilities such as cyber security and infrastructure. NATO Secretary-General Mark Rutte unveiled this new framework ahead of the leaders' summit, describing it as a "huge leap forward" and vital to strengthening deterrence across the alliance.

This shift is not merely rhetorical. The United States, under President Trump, is pressing allies for clear budgets, timelines, and deliverables. As Ambassador Matthew Whitaker put it: "This is not going to be just a pledge, it's going to be a commitment."

Budget conditionality: Access to EU funds tied to defence effort

Europe is now going beyond political pledges and diplomatic nudges by introducing financial conditionality into the equation. At the heart of this is the €150 billion Strategic Technologies for Europe Platform (STEP) – formerly known as SAFE – which is being positioned as the EU's flagship tool for defence-industrial and technological resilience.

This emerging condition serves as a powerful economic lever, particularly for countries reliant on EU funding but underinvesting in defence. It signals that Brussels expects member states to put skin in the game, both fiscally and industrially.

The implications are profound:

- EU funds will prioritise countries with robust defence pipelines, interoperable systems, and joint procurement strategies.
- States falling behind on NATO obligations may also fall behind in access to the EU's innovation, energy resilience, and cyber defence capital.

This soft form of compliance enforcement – using budget incentives over legal sanctions – is a new frontier in European strategic coordination.

Toward a "buy European" defence architecture

One of the most notable shifts likely to gain traction at the summit is the emergence of a de facto European Defence Industrial Strategy (EDIS). This movement reflects a growing consensus that Europe must become more self-reliant in securing its defence needs, particularly as transatlantic politics grow less predictable. While NATO does not mandate a "Buy European" policy, it does set capability targets (e.g. missile defence, logistics, long-range fires) that member states must meet. As EU countries look to fulfil those targets, some are choosing to source defence solutions from within Europe to support their industrial base and reduce external dependencies, particularly on US systems, amid concerns about future transatlantic reliability.

Discussions are advancing around preferential treatment for European defence manufacturers in joint procurement programs. This would be complemented by measures to streamline cross-border licensing, coordinate export controls, and facilitate aggregated purchasing through vehicles like the European Defence Fund (EDF).

In parallel with increased spending, NATO strongly emphasises interoperability and capability convergence. Secretary-General Mark Rutte has been clear: money alone will not secure Europe's defence posture – what matters is how it's spent and what capacities it creates. The alliance's renewed focus is on delivering tangible capability outcomes, especially in high-priority areas such as air and missile defence, long-range strike, high-mobility logistics, and integrated ISR (intelligence, surveillance, reconnaissance) networks.

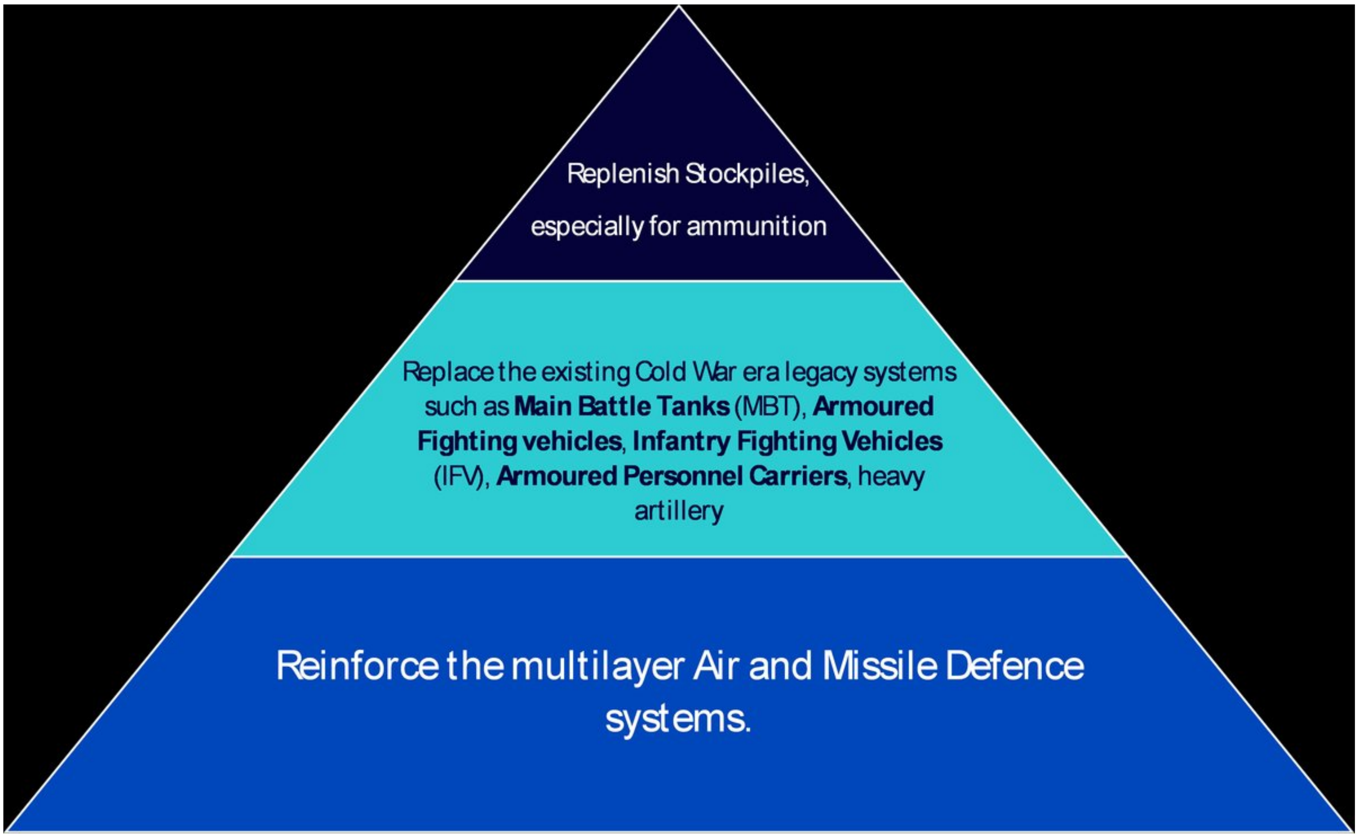
Interoperability, logistics, and platform commonality

Achieving this will require deeper standardisation across NATO forces, particularly in platform design, data protocols, and logistics systems. The pressure is on manufacturers to offer equipment that can plug into multinational operations from day one. Legacy systems that cannot meet interoperability thresholds may struggle to win future contracts, while original equipment manufacturers that can deliver NATO-compliant, upgradeable, and modular systems stand to benefit most. This dynamic will shape not just procurement but also R&D strategies, partnerships, and even corporate investment decisions across the European defence landscape.

At WisdomTree, we believe that core defence capabilities – from aerospace systems to munitions platforms – represent the backbone of long-term strategic resilience.

This view is now directly aligned with NATO's spending blueprint, which earmarks 3.5% of the new expected 5% target for core defence functions. This emphasis resonates with the European Defence Agency's analysis, which has consistently identified core defence equipment as the area of greatest underinvestment during peacetime cycles.

Figure 1: European Defence Agency's analysis of defence investment gaps



Source: European Defence Agency as of September 2024

Conclusion

The 2025 NATO Summit will not merely reaffirm transatlantic unity – it will operationalise it. The fusion of NATO pressure with EU financial incentives creates a strategic environment where compliance is rewarded, underperformance has consequences, and defence-industrial policy is moving to the heart of European sovereignty.

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