Healey’s move to the Treasury strengthens the case for UK defence

Published 6 August 2026

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Key Takeaways

- Healey’s move to the Treasury puts a proven defence advocate in charge of the department that decides whether spending plans become funded reality.
- The Defence Investment Plan adds £15bn over four years, tilted towards the nuclear deterrent, munitions, drones and long-range strike.
- BAE Systems remains the anchor while Babcock, QinetiQ and Chemring map directly onto the plan’s priorities: readiness, test and evaluation, energetics and counter-drone capability.
- Fiscal rules remain the constraint. The autumn Budget will be the test of whether ambition becomes funded orders.

John Healey’s appointment to the Treasury matters because it brings a familiar defence advocate to the department that decides whether spending plans become funded reality. Healey was Defence Secretary until very recently, and his frustration with Treasury caution was well publicised. His message was simple. The UK needed to commit more resources to defend itself and meet its NATO commitments. That is now no longer a request from the outside. It is the view of the newly appointed Chancellor himself. He is arriving as someone who already understands the gap between strategic ambition and budget reality.

That shift is important for markets. Defence equities do not move on rhetoric alone. They move when budgets are credible, procurement is funded, and backlog turns into revenue. Healey’s appointment by the new Prime Minister, Andy Burnham, helped buoy UK defence stocks. Babcock International, which builds ships for the UK navy and helps manage the military's nuclear, air and vehicle assets rose 6.8%1. BAE Systems stock rose 3.3%, while engine maker Rolls-Royce climbed 1.9%. Defence technology group QinetiQ, which was spun out of the UK's Ministry of Defence in 2001, gained 4.1%2.

Implications of the Defence Investment Plan

Healey’s appointment comes at a time when the defence investment backdrop is already strong. NATO members are under pressure to spend more, Europe is scaling industrial capacity, and the defence order book across the sector remains firm. The July NATO summit in Ankara reinforced that European sovereign spending is accelerating, not reversing. It produced more than US$50bn in new contracts, a

Patriot production licence for Ukraine and fresh momentum in European defence mergers and acquisitions (M&A).

For UK defence, the most important point is that Healey is not inventing a new theme. He is accelerating an existing one. The headline number is £15bn in extra funding, set against a reported £28bn shortfall in the defence budget. That is nearly £1bn more than the level John Healey resigned over on the 11 June.

Figure 1: UK defence spending is set for a boost under Burnham



Source: NATO, UK Government as of 30 July 2026. Please note: NATO-qualifying spending. 2027 onward shows UK forecasts for fiscal years ending March (2027 = FY2026-27). **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

The UK government's Defence Investment Plan points to defence rising to 2.7% of gross domestic product (GDP) by the end of the decade, with almost £300bn of investment over the next four years and a clear tilt toward drones, air defence, long-range strike, munitions, submarines and procurement reform3. Of the new funding, £64bn is earmarked for nuclear deterrent, of which £47bn is directed towards submarines and upgrades at the naval bases in Faslane, Devonport and Portsmouth. Munitions and weapons should receive £11bn, including almost £6bn on conventional munitions. The plan reaffirms a commitment to build six new energetics facilities by 2030. Drones and autonomous weapons increase to £5bn, including funding towards an autonomous Navy built around the Common Combat Vessel programme. The Digital Targeting Web receives double its allocation to around £2bn.

How the plan aligns with UK defence holdings

- **BAE Systems is the anchor**. The company confirmed it had made a strong start to the year, kept full-year guidance unchanged, and still expects sales growth of 7%-9%, underlying earnings before interest and tax (EBIT) growth of 9%-11%, and underlying earnings per share (EPS) growth of 9%-11%4. It spans combat air, naval shipbuilding, land systems and C4ISR. The Type 26 frigate programme and the F-35 production ramp continue to provide multi-year revenue visibility. In a Healey-led environment, BAE appears well-positioned, should spending priorities develop as currently envisaged. The company is also supported by a broad international footprint, which makes it less dependent on one budget cycle while still giving it strong UK leverage.
- **Rolls-Royce is less of a pure defence prime, but it is still one of the most important UK defence names**. Its annual report says Defence order intake was £5.5bn in 2025, with a backlog of £17.4bn, equivalent to more than three years of revenue and around 90% cover for 2026. The business supports transport, combat, submarines, naval and helicopter markets, and it does so through propulsion and power rather than weapons. Its April 2026 update kept guidance at £4.0-4.2bn of underlying operating profit and £3.6bn of free cash flow5. That gives Healey a useful lever. If the UK pushes harder on submarines, sovereign engine capability, and future combat-air programmes, Rolls-Royce could benefit from increased investment in these areas.
- **Babcock is a different sort of defence stock**. It is not a weapons business. It is a readiness, support and engineering business. That makes it highly relevant to any Treasury that wants to move from aspiration to execution. Babcock's FY26 results showed revenue of about £5.2bn, margin above 8%, and re-confirmed medium-term guidance, but the Type 31 contract charge reminded investors that execution still matters. The company said FY27 should deliver another year of good progress, with around 70% revenue cover6. In a Healey framework, Babcock matters because higher defence spending is not just about equipment buys. Babcock's activities are aligned with the government's continued commitment to nuclear deterrence and AUKUS-related infrastructure.
- **QinetiQ** is another name that should benefit if the Treasury becomes more defence-friendly. The company's FY26 update pointed to record order intake, a £4.8bn backlog, 11.3% underlying operating margin, and FY27 guidance for revenue growth of 3%-5% with an operating margin of 11.0%. Crucially, the business is aligned to the less visible but increasingly important part of defence modernisation, namely test and evaluation, training, digital capability, autonomy, counter-drone systems and directed energy.
- **Chemring gives a different angle again**. Its H1 2026 interim results showed revenue up 6.5%, a record £1.4bn order book, and 91% of expected FY26 revenue already delivered or in the order book7. The company is also investing heavily in energetics capacity, which is exactly the sort of industrial bottleneck a more active Treasury may want to support.

The smaller UK defence names matter too. Cohort offers exposure to sonar, communications, cyber and electronic warfare. Senior provides specialist aerospace components. Goodwin brings niche but strategic manufacturing capability linked to submarines, frigates and US naval programmes. Melrose, through GKN Aerospace, provides component exposure to military aircraft. These are not the headline drivers of the

sector, but they matter because defence is as much about supply chains and specialist parts as it is about primes and ministerial announcements.

Conclusion

Healey’s move could strengthen the credibility of the UK defence story at exactly the right time. Add that to the structural NATO backdrop, the strong earnings runway and the more attractive valuation set-up, and the case for defence looks better than it did only a few months ago.

While the policy backdrop appears increasingly supportive, defence spending remains subject to government fiscal priorities, procurement timing and political decisions. Announced spending plans may change, and companies' future financial performance will depend on successful contract execution as well as broader market conditions.

1 Source: Bloomberg as of 20 July 2026.
2 Source: Bloomberg as of 20 July 2026.
3 Source: The House of Commons Library as of 30 June 2026.
4 Source: BAE Systems May 2026 trading update.
5 Source: Rolls Royce, April 2026 trading update.
6 Source: Babcock as of 1 April 2026.
7 Source: Chemring as of 2 June 2026.

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