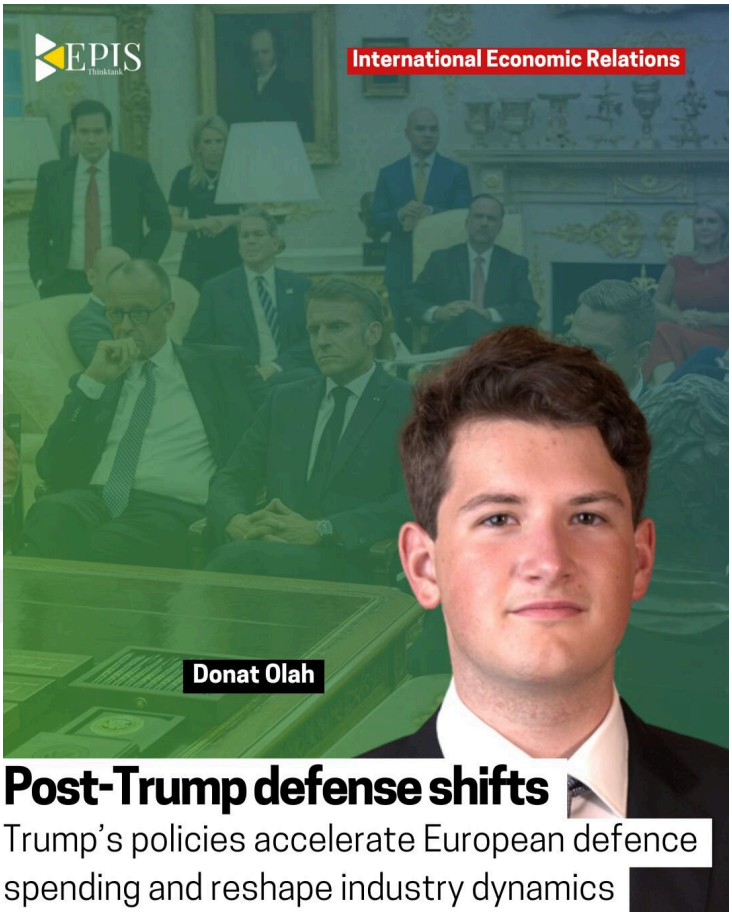
Post-Trump defense shifts

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What is the outlook for the defence industry in the wake of Trump's presidency?

Note: 1. The purpose of this report is to analyse the impact of the Trump administration and the current trade war on the defence industry, certain generalizations will be made. We will consider the broader Aerospace & Defence classification. This is a widely accepted generalization in the financial industry to classify firms.

Highlighted sentence: Defence companies are mainly shielded from tariffs because of the nature and structure of their activities.

The Defense Sector is the worldwide industrial complex that enables research and development of military weapons systems, subsystems, and components or parts.

Cover image:

Source : India Today, 2025 https://www.google.com/url?sa=i&url=https%3A%2F%2Fwww.indiatoday.in%2Fworld%2Fstory%2Ffrance-emmanuel-macron-rafale-jet-post-europe-reliance-us-military-hardware-2743802-2025-06-20&psig=AOvVaw0n7aJtrY1LULMHYL6311f_&ust=1761350837122000&source=images&cd=vfe&opi=89978449&ved=0CBgQjhxqFwoTCPDxyqnFu5ADFQAAAAAdAAAAABAE

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Introduction:

The policies of Donald Trump's second term have been radical both abroad and at home. His presidency has brought uncertainty and confusion to economic and political circles. The defence industry might however even benefit from the change the 47th President is bringing to the world.

Trump's tariffs have fundamentally shaken the world's economic and trade order. The United States – the world's largest economy – has raised tariffs to a level not seen since the 1930s. Such high barriers to trade will hurt many American and non-American firms. Many companies will need to rethink their way of doing business and restructure their global operations. While it seems – at the time of writing – that most uncertainty is gone with the US signing new trade agreements with most major economies, the long term impact of these tariffs or whether they will remain is still unknown.

Trump also shook up the US's diplomatic relationship with its allies and foes. He wants to reshape the US's relationship with NATO. The president's "America first" policy means that Europe needs to rethink its defence strategy as it cannot fully rely on America's help. This has led to a wave of announcements increasing defence spending in most European countries. European countries have drawn the conclusion from Trump's behaviour that they need to be more independent. European defence companies such as Rheinmetall, Leonardo, Rolls-Royce or Saab stand to benefit greatly from the instability caused by Donald Trump. Defence spending is set to rise in the coming years in Europe. Russia's threat is too important for European countries to ignore. Trump was able to institutionalize this increase in defence spending. In June 2025, NATO leaders agreed on a 3.5% + 1.5% increase in defence spending, where 3.5% of a country's GDP should be spent on the military with an additional 1.5% on infrastructure connected to defence.

In Germany, the government has ended 15 years of fiscal restraint and is planning on spending considerable amounts of money in the coming years. They achieved this by partially exempting defence and infrastructure spending from the country's constitutional provision which limits federal debt at 60% of the GDP and deficit at 3%. This can be partially attributed to

Trump's threat of tariffs, which Germany could greatly suffer from, as it has an export-driven economy.

The United States will not see such a considerable rise in defence spending as Europe will.

Despite these bullish news for the industry, there still remain considerable headwinds. Tariffs could mean disruptions to industrial supply chains – as most defence contractors have to source certain parts and commodities from overseas. For example, China is putting in place restrictions on rare-earth minerals which means a sharp increase in prices and sourcing problems. These rare earth minerals are found in many complex weapon systems. Secondly, most defence contractors still have considerable exposure to civilian industries – namely commercial aviation – such as Airbus, Boeing or Safran.

I. Trump has made Europe think about autonomy

European countries have already been increasing their military spending before the election of Trump, but his isolationist stance seems to have accelerated this process. The need to arm Ukraine and to deter any further Russian attack has been profitable to both European and American defence contractors. In fact, overall European defence contractors have seen their market valuation double from the start of the invasion of Ukraine to Trump's election. (STOXX, 2025, Europe Total Market Aerospace & Defense) Since last November, they have seen their valuation rise 80%. This can be explained by several reasons, which we will explore in the coming paragraphs.

Stoxx Europe Total Market Aerospace & Defense Index since October 2024. The index is up 75% as compared to a year before as of the 5th November 2025

Source: STOXX, 2025

Trump has threatened NATO's decades-old structure, which puts an American umbrella under the continent. This has made European countries rethink their defence strategies, with many of them opting to continue further increasing their defence spending, to allow more independence in terms of defence from the American army. Even Europe's most well-equipped armies don't have comparable operational and technological capabilities without the US's help. Therefore, the only way for deterrence is more spending.

Trump has also criticised European countries' freeriding on American protection, even in his first term. Indeed, in 2017 only four countries (including the US) met NATO's 2% defence target. (NATO, 2023, Defence expenditure of NATO countries (2014-2023)) In 2025, every NATO country is set to meet this target. In 2025, in big part thanks to Trump's pressure, countries agreed to raise spending to 3,5% of GDP, with an additional 1,5% related infrastructure spending. NATO's GDP (excluding the US) is about 25 trillion dollars. This bump in spending could amount to at least 375 billion dollars in additional spending per year by 2035.

To estimate how this might impact major contractors, at least 20% of NATO spending has to go into equipment and R&D, but overall, this spending seems to be hovering around 33%. (NATO, 2025, NATO's role in defence industry production) According to the French army, 80% of its spending on equipment goes to major corporations. (Ministry of Armed Forces (France), 2023, Le bulletin de l'observatoire économique de la défence) Assuming this constant rate for every NATO country, by 2035, major defence contractors in Europe (and Canada) could see a bump in revenue totalling 100 billion dollars per year. The 80 billion dollar increase in spending between 2024 and 205 could translate into roughly 15-20 billion dollars in additional revenue for defence contractors.

Even without Trump, defence spending would have sharply risen in Europe in the coming years. However, his actions have reinforced the belief in many European countries that a greater independence in defence is necessary, which prompts an acceleration in defence spending. The EU proposed in March 2025, ReArm Europe, later renaming it Readiness 2030 to fund and coordinate defence initiatives in the European Union. The program aims to develop Pan-European defence initiatives such as air defence systems. It also plans to lend out 150 billion euros to EU countries for defence spending and exempt certain expenditures on the industry from the EU's excessive deficit rule. (IRIS, 2025, The ReArm Europe Plan: Squaring the Circle Between Integration and National Sovereignty)

Trump has advocated for European countries to purchase American goods to close down the US's trade deficit. This includes him pushing certain countries to purchase American weapons. Some other countries might opt for this option to appease him. However, some countries have decided to purchase European-made weapons or develop a new equivalent to existing American weapon systems. As Trump has threatened weaker American involvement in NATO, many European countries have reacted by calling for greater strategic autonomy. Germany, which announced its defence budget for 2026, has mostly sidelined American weapons from its 80 billion procurement budget by only buying 8% of materiel from the United States. This is a blow for US arms manufacturers, as Germany has bought 18 billion dollars' worth of American weapons. (Politico, 2025, Germany's 80B rearmament plan sidelines US weapons) Buying weapons from the US will probably not end with Germany's 2026 military budget, but it signals that many European countries would prefer supporting local manufacturers and use homegrown technologies.

II. Tariffs: Defence companies are better protected than other firms might be.

Defence companies are mainly shielded from tariffs because of the nature and structure of their activities. Defence contractors mostly operate within one national economy or in Europe's case a highly integrated free-trade zone. The products are produced in their home country, and they mostly sell these products to their own national government. Exports

by defence contractors require government approval or formal intergovernmental agreements on arms sales. Therefore, defence contractors are shielded from exposure to tariffs on their products.

Tariffs could raise defence contractors' costs when using imported materials – primarily raw materials, such as steel, but also rare earth minerals. In the case of steel, the US has imposed a 50% tariff on steel. (PWC, 2025, Tax Insights: US tariffs on steel and aluminum imports from Canada)

The EU, as per its agreement with the US, is not imposing any levy on American goods. However, the EU as of October 16th has raised tariffs on steel to pressure the United States. If such high tariffs were to be applied, European defence companies could face higher prices for steel, if they purchase steel derivatives from outside the EEA. The impact is however more dire when it comes to rare-earth minerals. As a direct response to American tariffs, Beijing has restricted the export of rare earth minerals. Up to 90% of rare-earth minerals come from China. (Mining.com, 2025, China limits supply of critical minerals to US defense sector: WSJ) (Reuters, 2025, China expands rare earth restrictions, targets defense and chip users) These restrictions, in the medium term – European countries and the US have already started developing alternatives to the Chinese supply chains – could disrupt defence contractors production as these elements are often necessary components of high-tech weapon systems, such as fighter aircraft or radars. In a decision made at the beginning of October 2025, the Chinese government has decided not to issue export licenses for defence manufacturers. (Reuters, 2025, China expands rare earth restrictions, targets defense and chip users) (The Economiste, 2025, China's power over rare earths is not as great as it seems) If these restrictions are kept up, defence contractors might suffer from component shortages or from much higher prices. The prices for these metals have so far risen by up to 60% in the last year. (Strategic metals invest, 2025, Current strategic metals prices) (Rare earths, 2025, Price Development of Selected Rare Earths)

Defence contractors also have civilian branches which might be more exposed. In both Europe and the US, civilian aerospace is a very important industry. For the U.S., the industry accounts for about 130 billion dollars in exports and employs over 2 million people. (AIA, 2025, 2025 Facts & Figures: American Aerospace & Defense industry continues economic dominance) As we have detailed previously, the two industries go hand in hand, which explains why they are usually classified together. Both Boeing and Airbus, while mainly known for their civilian aircraft, have a sizable defence branch. Boeing gets about 35% of its revenues from defence. The uncertainty around trade and any possible economic trouble can hit the defence contracting businesses of these corporations, namely through higher financing costs. To prevent damages to the aerospace industry, they have been made exempt from any additional tariffs in the EU-US July trade agreements. (European Commission, 2025, EU-US trade deal explained)

There is a great variety of diversification of revenues for the A&D sector.

Source: SIPRI, 2023, SIPRI Arms Industry Database

III. Possible brakes to the sector

There seems to be a global tendency for rearmament, but as quickly as tensions have risen in the last few years, as quickly as they can fall. It seems unlikely that tensions will ease in the coming months or few years, but it is possible that there will be steps to ease tensions between countries. The end of the war in Ukraine might be such a possible event. When the US and Russia were conducting negotiations to explore a possible end to the conflict on the 18th of February 2025, European market indices tracking the Aerospace & Defence sector fell by as much as 5%, possibly due to heightened expectations that the conflict might end and with it, there would be a lower demand for weapon systems. (The Guardian, 2025, US and Russia agree to explore mutual opportunities of end to Ukraine war) (STOXX, 2025, Europe Total Market Aerospace & Defense) The same tensions that have fuelled expectations and growth in the A&D sector could ultimately bring an end to this.

Trump's budget for 2026 keeps the defence budget essentially flat (there is a 13% growth in total spending allocated to it, but this increase will go to border security). Overall, there will be a decrease in real terms in the Department of Defense's budget (possibly renamed to Department of War). This decision, if not dramatic for a year, might in the long-term hinder the DoD's abilities to invest into new materiel and R&D. (Forbes, 2025, President Trump decreased U.S. defense budgets, here's the real impact) (White House, 2025, Discretionary budget request 2026)

There might not be much space left to extend defence spending in many cases. Both France and the United Kingdom – Europe's two most powerful militaries – have been suffering from considerable public deficits. France had a deficit last year of 5.5% of GDP and the UK 4.9%, Poland, one of Europe's biggest defence spenders, is at 6.7%. (The Economist, 2025, Economic and Financial Indicators) Neither France nor the UK have much wiggle room for decreasing spending while increasing military budgets at the same time, as they are meeting social opposition to any cuts and have not seen any considerable economic growth in the last few years, which is worsened even more by Trump's tariffs and the uncertainty they cause. Both have signed up for NATO's budget increase and have so far met their targets, but it is unsure if they will be able to keep up such spending without any social tensions at home.

At the same time, Eurosceptic and anti-NATO parties have emerged in many European countries. These parties are either backed by Trump or his close allies (e.g. AFD in Germany) or draw inspiration from his isolationist policies. These parties, since they have appeared have lightened their rhetoric criticising their institutions – and some have even supported Ukraine, such as Giorgia Meloni in Italy. Most of these parties' rhetoric still opposes strong action in Ukraine and implicitly argue that defence spending should be spent elsewhere. These parties are very close to power

in many countries, leading the polls in France, the UK or in Germany. Once in power, it is unclear how they will address the defence industry, but we can expect a weaker stance against Russia for example or a slowdown or even cuts for the military.

Conclusion:

Without a doubt Trump has stirred up the global security landscape and with it the defence industry. This increased uncertainty has prompted European countries to reconsider their own security strategy and earn more independence in terms of security. The direct consequence of this is a considerable increase in defence spending, which has sent European defence stocks up. The industry will benefit both from material orders from many European countries and R&D agreements. This trend has been started by Russia's invasion of Ukraine and has been strongly accelerated by Trump's hostile stance to NATO and him sidelining Europe in negotiations with Russia. The defence industry will probably not be heavily affected by tariffs. It mostly works for local markets and therefore does not face tariffs when selling its products. The industry will still probably feel the uncertainties caused by tariffs and a strain in supply chains directly caused by Trump's trade feud with China, notably through Chinese export restrictions on some key components. The industry will therefore probably see considerable growth in the coming years.

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