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Global Defense Spending in an Uncertain World



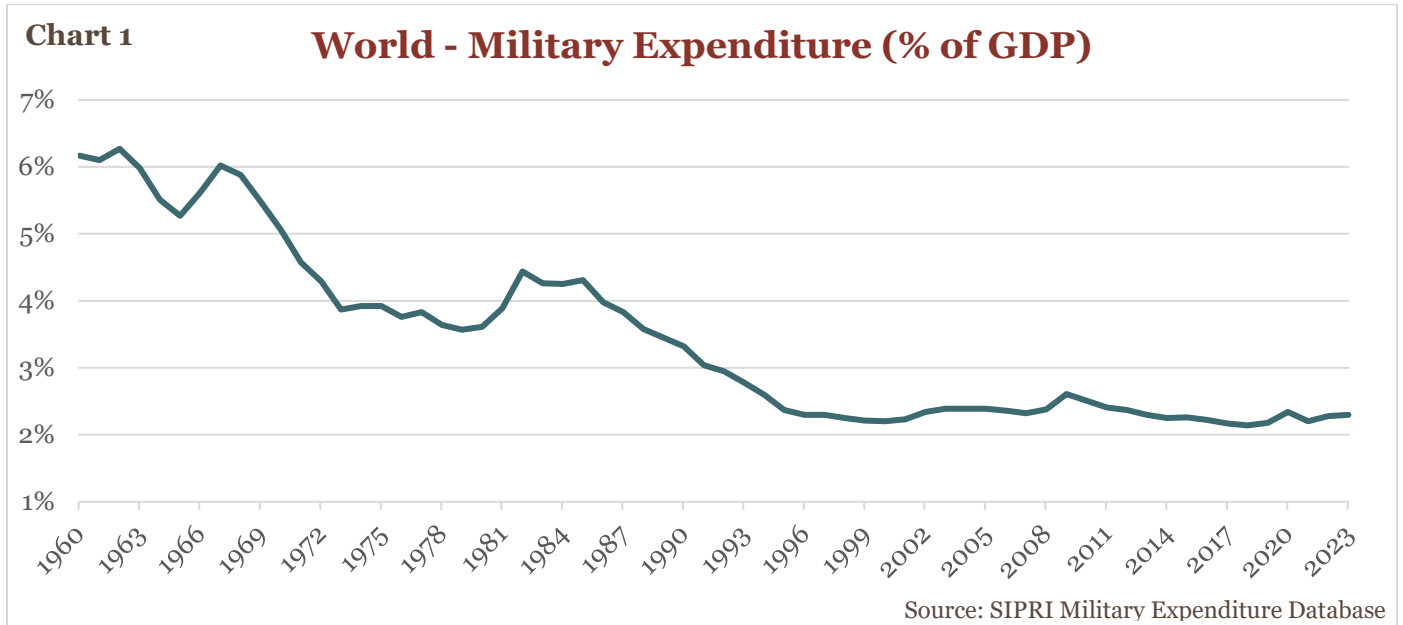
By Christian Lewton, Chief Investment Analyst

Global military expenditures surged by nearly 7% from 2022 to 2023, reaching a record \$2.44 trillion, driven by heightened geopolitical tensions. This growth, poised to continue throughout 2024, reflects the continued impact of the Russia-Ukraine war, escalating unrest in the Middle East, and ongoing tensions between the U.S. and China. When adjusted for inflation, global military spending has grown by over 55% in the past 20 years, highlighting the growing emphasis on defense amid increasing global instability.

While the absolute level of global military spending has reached record highs, it accounts for a smaller share of economic output for many nations. As shown in Chart 1, military expenditures as a percentage of global gross domestic product (GDP) peaked at over 6% during the 1960s, a period shaped by the Cold War arms race and significant conflicts like the Vietnam War. In contrast, recent decades have seen this figure stabilize, averaging just 2.3% of global GDP over the past 20 years.

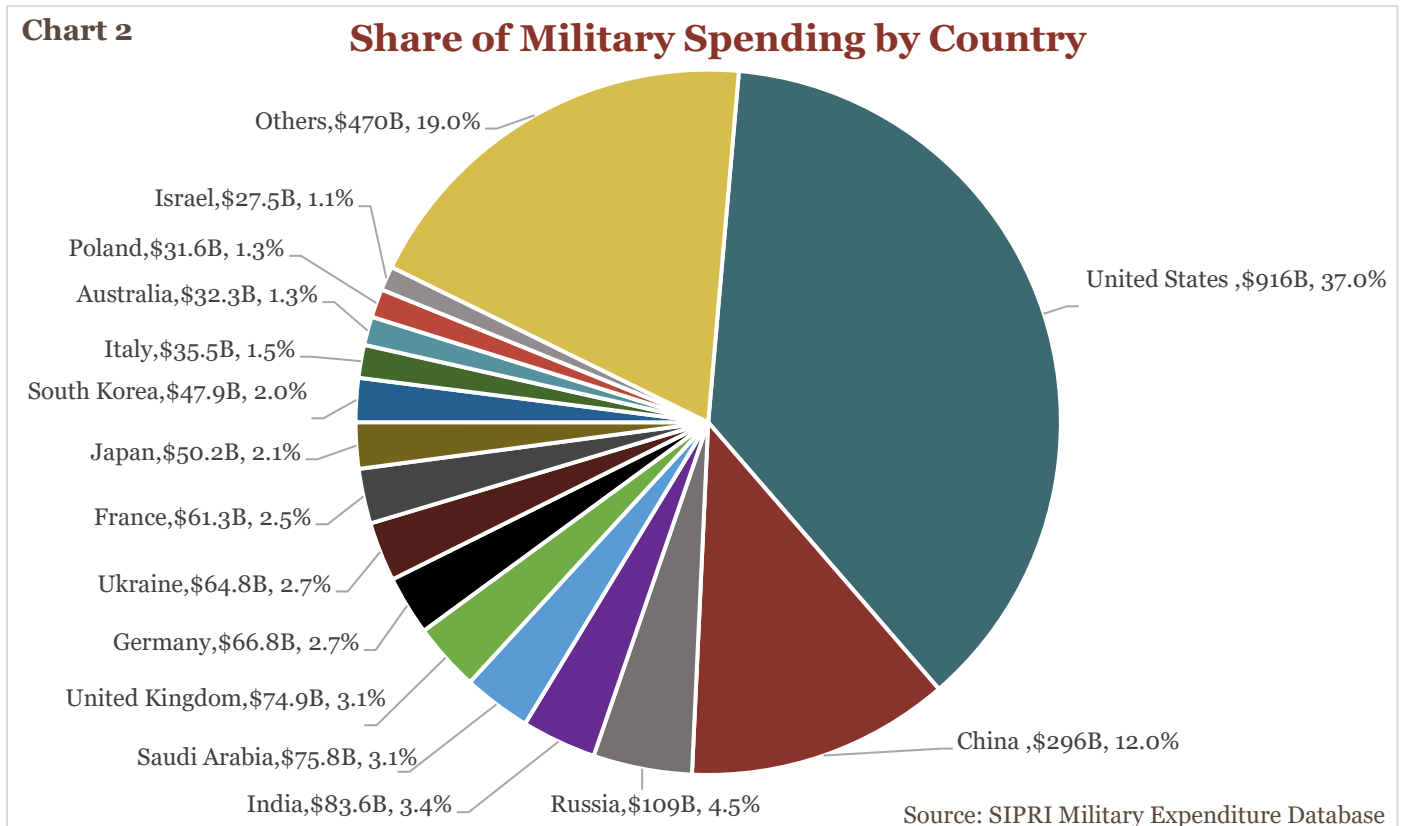
The ongoing increases in absolute military spending underscores nations' growing emphasis on defense amid increasing global instability.

With conflicts frequently arising across the globe, including the recent toppling of the Assad regime by Syrian rebels, a pivotal question arises: Are we on the cusp of a shift where military expenditures, as a percentage of GDP, start to rise again, reversing the steady trend of recent decades?



Global Defense Spending by Country

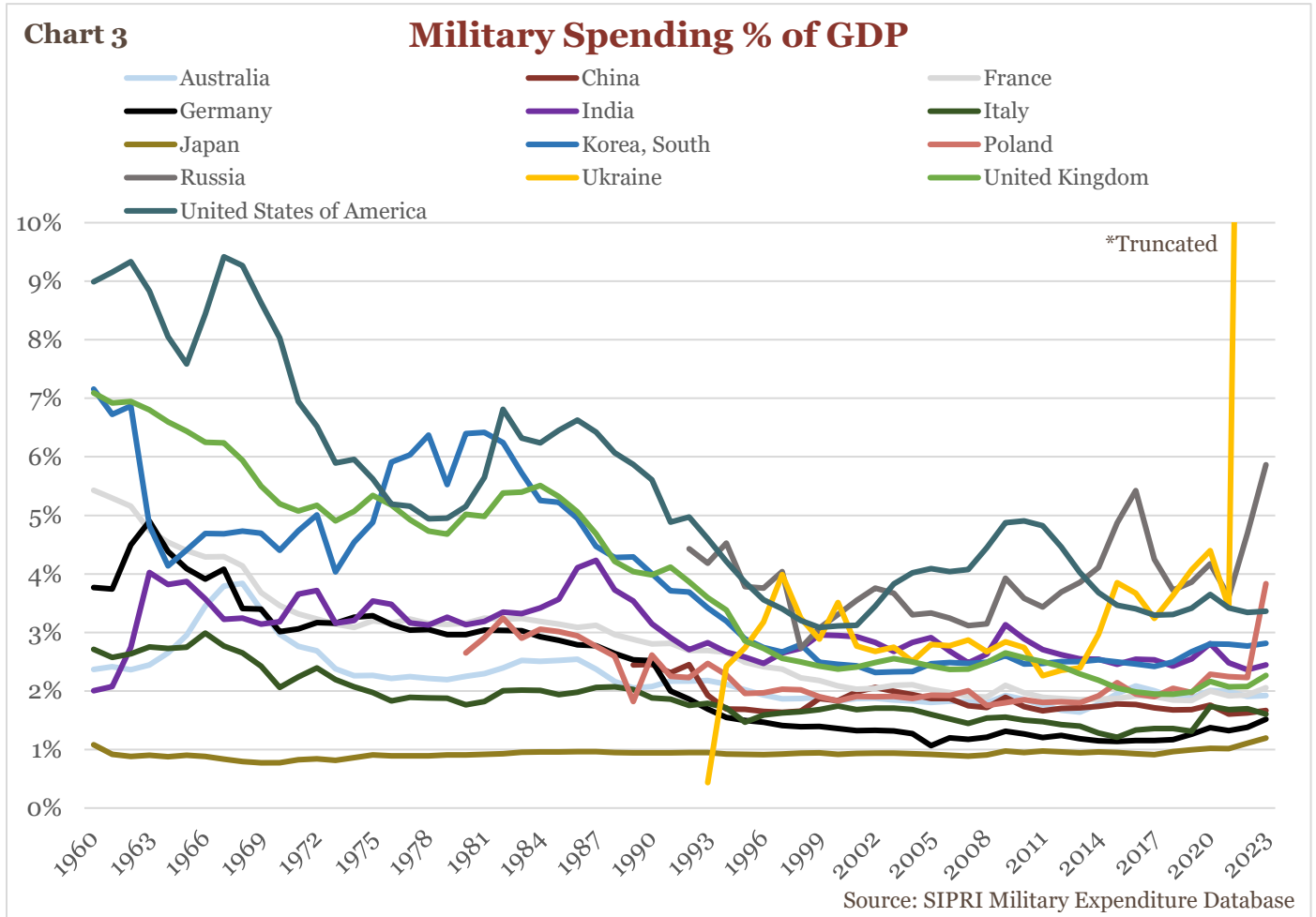
This question is best explored by analyzing the spending patterns of individual nations, particularly as just 10 countries contribute nearly 75% of global military expenditures. The United States stands out as the largest military spender worldwide, surpassing the combined budgets of the next nine countries and spending more



than three times that of the second-largest spender, China (whose spending is estimated by Stockholm International Peace Research Institute, SIPRI).

While the U.S. leads in nominal defense spending, purchasing power parity (PPP) highlights that China’s military budget achieves greater cost efficiency. Lower personnel and production costs allow China to stretch its budget further, narrowing the gap in defense capabilities. This makes it crucial for the U.S. to maintain its large defense spending advantage to preserve its technological edge and global military dominance.

In 2023, the U.S. accounted for 37% of global military expenditures (see Chart 2), allocating over \$916 billion to defense. Despite the substantial funds allocated to defense, defense spending as percent of GDP for the U.S. is currently just over 3.3%, below the average over the past decade of 3.49%, and well off the highs seen during the Cold War era (see Chart 3).



Ukraine and Russia, both among the top 10 countries in total military spending, have experienced dramatic increases in their defense budgets, both in absolute terms and as a percentage of GDP, driven by the ongoing conflict between them. In 2023, Ukraine's defense spending soared to nearly 37% of GDP, while Russia's reached close to 6%—its highest level since SIPRI began collecting data for the country.

NATO members, such as Poland, which shares a border with Ukraine, have significantly increased military spending in recent years. In 2023, Poland's defense budget rose by 70% compared to 2022, with total spending expected to exceed 4% of GDP in 2024. Other NATO members, including the United Kingdom, Germany, and France, have also ramped up military expenditures in response to the nearby conflicts.

However, in these countries, defense spending remains below 2.5% of GDP (as of 2023). Combined in 2023 the 31 NATO members (32 now with the addition of Sweden in March of 2024) spent \$1.34 trillion on defense, a 6.8% increase in real terms from 2022. In 2024, it is estimated that 23 of NATO's 32 members will meet or exceed the alliance's target of allocating at least 2% of GDP to defense spending. Poland, adopting a proactive approach, has called for NATO to raise its minimum defense spending target to 3% of GDP, highlighting its dedication to enhancing collective security. This proposal has also been echoed by the incoming Trump administration, which has emphasized the need for stronger financial commitments from NATO allies to ensure the alliance remains capable of addressing evolving security threats effectively.

Shifting to the Asia-Pacific region, China continues to ramp up its military spending, increasing its defense budget by over 7% in 2024. U.S. allies in the region—Japan, Australia, and South Korea—have also significantly boosted their defense budgets in response to growing regional tensions. Japan has announced a record \$59 billion defense budget for fiscal year 2025, aiming to approach 2% of GDP by 2027. Australia set its 2024 defense budget at a record \$37 billion, exceeding 2% of projected GDP. Meanwhile, South Korea plans a 3.5% increase in defense spending for 2024, reflecting its commitment to keeping pace with rising military expenditures both regionally and globally.

Summary

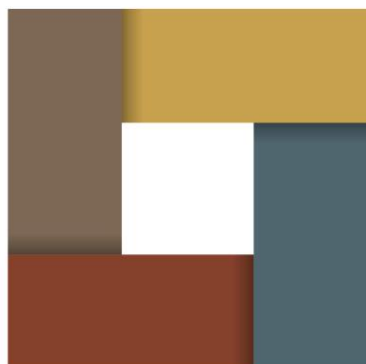
In summary, global military spending has surged to record levels, driven by heightened geopolitical tensions and the growing costs of safeguarding national security. While absolute defense budgets are increasing, military expenditures as a percentage of GDP for many nations remain well below Cold War-era peaks. This trend reflects defense priorities as well as fiscal constraints.

A key factor shaping modern military spending is the reduction in personnel costs, enabled by advancements in technology and automation. Modern militaries now rely on fewer troops and more sophisticated precise systems, which, while expensive, allow nations to maintain effective defense capabilities. This shift continues to benefit defense contractors, particularly those in the United States, where advanced technological innovation drives investments in cutting-edge systems and modernization efforts for customers worldwide.

In the U.S., current defense spending reflects a strong focus on national security despite tight fiscal constraints. While these constraints make significant increases in spending unlikely, cuts are equally improbable given the critical prioritization of national security. This careful balance highlights the ongoing challenge of reconciling fiscal discipline with the need to address rising global instability.

Ultimately, security is both a critical and costly priority. Protecting citizens and managing global instability requires sustained investment in defense. The ongoing increases in absolute military spending, particularly for the U.S. and its allies, highlights nations' enduring commitment to maintaining stability in an unpredictable world. As defense expenditures evolve, they will continue to shape global security and economic dynamics in the years ahead.

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