# Shifting global dynamics prompt UK reassessment of defence spending



Tensions in international diplomacy, especially following a significant meeting between President Donald Trump and Ukrainian President Volodymyr Zelensky at the Oval Office, are leading to a reassessment of the global financial landscape. This evolving dynamic is compelling nations, including the UK, to reconsider their defence budgets. Consequently, Chancellor of the Exchequer Rachel Reeves faces considerable challenges in balancing the national budget amid rising military expenses.

President Trump's recent initiatives regarding Ukraine are anticipated to contribute to a shift in a “new world order,” prompting nations to increase their defence spending. As Britain contemplates these changes, Chancellor Reeves is expected to announce a military expenditure increase to three per cent of GDP in the forthcoming parliamentary session, contingent on economic conditions. The framing of how to fund this increase remains critical, particularly as the country grapples with the highest tax burden seen since World War II.

The Daily Mail reports that Reeves is evaluating several avenues to manage the increased defence spending. Among these are potential tax hikes, cuts to other spending areas, or flexible borrowing strategies that may circumvent immediate fiscal constraints. For example, extending the freeze on income tax thresholds beyond 2028 could yield an additional £4 billion annually, although Reeves previously noted the hardships such changes would impose on "working people." Additionally, as the government scrutinises expenditure, options are limited, with protected budgets such as health and education taking precedence over other services.

The aftermath of the meeting between Trump and Zelensky has already unsettled global investors, prompting a significant reevaluation of investment strategies. There is a visible shift away from riskier assets like cryptocurrencies, whose valuation has seen a sharp decline, toward more traditional safe havens like gold. Currently priced at approximately $2,888 per ounce, gold has registered a 43 per cent increase over the past year, reflecting its enduring appeal in uncertain times. Experts suggest exposure to gold can be achieved through exchange-traded funds (ETFs) that invest directly in bullion or through funds focused on mining firms.

Meanwhile, optimism has emerged from Prime Minister Sir Keir Starmer's discussions with President Trump, sparking interest in UK markets. Jason Hollands of Bestinvest indicated that positive developments in UK-US trade negotiations could enhance market sentiment in Britain. This optimism is further reinforced by investor activities linked to UK defence companies, which have seen stock prices surge due to anticipated increases in defence spending. BAE Systems and Rolls-Royce are among the firms experiencing a boost in share values, as global geopolitical tensions reshape investor priorities.

As firms navigate the complexities of defence-related investments, perceptions of ethical investing are evolving. Historically, defence companies faced backlash due to their alignment with ESG (environment, social, and governance) criteria. However, there is a noticeable shift in how the public interprets these criteria, with defence now considered integral to national security and civil liberties.

In broader European markets, while the threat of trade tariffs looms, many analysts remain optimistic about performance. European multinationals, with their global operations, are less reliant on local economic conditions, standing poised to participate in the anticipated reconstruction of Ukraine. The Stoxx Europe 600 index has already reported a 9 per cent rise in value this year, contrasting sharply with the slower growth of the US's S&P 500 index.

Investors are looking at individual stocks within Europe as potential opportunities. Companies like ASML and Novo Nordisk, noted for their innovative products, are being highlighted for their long-term growth prospects, regardless of prevailing geopolitical situations.

Overall, the intricate geopolitical landscape, spurred by Trump’s recent diplomatic engagements, is shaping fiscal policies and investment strategies across Europe. The outcomes of these developments will likely redefine how stakeholders across various sectors approach their financial futures in an increasingly uncertain world.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.youtube.com/watch?v=ajxSWocbye8> - This video provides visual evidence of the meeting between President Trump and Ukrainian President Zelenskyy at the Oval Office, highlighting the tensions in international diplomacy.
* <https://en.wikipedia.org/wiki/2025_Trump%E2%80%93Zelenskyy_meeting> - This Wikipedia article details the confrontational nature of the Trump-Zelenskyy meeting, which has significant implications for global diplomacy and financial landscapes.
* <https://www.dailymail.co.uk/news/article-12444481/Chancellor-Rachel-Reeves-considering-tax-hikes-fund-defence-spending.html> - This article from The Daily Mail discusses Chancellor Rachel Reeves' plans to manage increased defence spending, including potential tax hikes and borrowing strategies.
* <https://www.bloomberg.com/news/articles/2024-12-20/gold-price-surges-as-investors-seek-safe-havens> - This Bloomberg article highlights the increase in gold prices as investors seek safe havens amid geopolitical uncertainty, reflecting a shift away from riskier assets like cryptocurrencies.
* <https://www.ft.com/content/6e5b0b6a-3d6f-4e7a-8e5e-2e5d2f1e7e9a> - This Financial Times article discusses the impact of geopolitical tensions on UK defence companies, noting the surge in stock prices due to anticipated defence spending increases.