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MARKET INSIGHTS

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EMBRACING A MULTIPOLAR WORLD:

Unlocking a new golden era for investors

The signing of the *Peace of Westphalia* in 1648 didn't just end the Thirty Years' War; it reshaped the global order. It established state sovereignty and balance-of-power principles that have governed international relations for centuries. As Hobbes insightfully noted, while conflict may be inherent in human nature, peace is achievable through mutual agreement among sovereign powers. Fast forward to today: the global order that emerged after the Second World War is crumbling. We are entering a multipolar era—one fraught with complexities, contradictions, and opportunities.

This isn't just another geopolitical shift. It's an economic transformation that will define global markets for decades. The question isn't whether you can afford to adapt; it's whether you can afford not to. The era of unipolar dominance is over. Investors who cling to outdated paradigms risk being left behind as the world rebalances itself towards multipolarity.

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"The condition of man ... is a condition of war of everyone against everyone;" yet, by the mutual agreement of sovereign powers, peace may be obtained, and the benefits of order secured.

- Thomas Hobbes, Leviathan (1651)

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Prologue: Embracing a new multipolar world post-Liberation Day

In the wake of Liberation Day, we find ourselves reflecting on the transformative shifts in global power dynamics as we transition into a multipolar world. The post-Second World War era is over, and the U.S. must adjust to this new reality. Once the undisputed leader, the U.S. is now akin to a parent telling its adult children that financial support can no longer be taken for granted. Extreme levels of debt mean that the U.S. is unable to support the global economy as it once did. Interest rates need to come down to refinance this staggering debt, and a managed devaluation of the U.S. dollar is already occurring.

This transition represents not merely an economic shift but a fundamental reordering of global relationships. The era of U.S. hegemony—where allies thrived under America's financial and military protection—is fading as the cost of maintaining this system becomes unsustainable, leaving nations vulnerable in an increasingly competitive global marketplace. While we may face a growth scare, a recession is not on the horizon. The only real surprise has been the fearful psychological response from Wall Street. It is time to quell those emotions and embrace the volatility of Trump 2.0.

In this context, Canada finds itself at a crucial crossroads. It must shed the complacency fostered by decades of U.S. economic leadership and position itself as a global leader in critical industries. With a federal election on the horizon, the stakes are high; retaliatory tariffs may provide temporary political satisfaction but are poor economic strategies. Canada must harness its abundant natural resources—energy, minerals, and agriculture—rather than react defensively. This means building pipelines, expanding refining capacity, and pushing back against policies that handicap Canada's ability to compete on the world stage. By fostering investment and streamlining regulations, Canada can leverage its comparative advantages and assert its role in this new world order.

As we navigate these changes, the pressing question is how major players like China will respond. The tariffs recently enacted by President Donald Trump's administration exemplify a classic implementation of *The Art of the Deal*, surprising Wall Street and prompting major shifts in interest rates and the U.S. dollar.

Reflecting on the significance of Liberation Day, we must consider how these developments will shape not only the U.S. but also the broader global power hierarchy.

While the challenges are significant, this moment offers an opportunity for countries to reshape their economic destinies. A new era is dawning—one that demands bold decisions and strategic action. As we stand on the brink of this multipolar future, the choices we make today will define the global landscape for generations to come.

The multipolar shift: A new reality

The post-Second World War dominance of the U.S. was built on two pillars: military might and financial hegemony through dollar supremacy. But cracks in this foundation have been visible for years. The efforts of Trump's administration to broker peace between Russia and Ukraine underscore the complexities of this new multipolar world. European leaders, anxious about being sidelined, fear Trump may concede too much to Russian President Vladimir Putin in exchange for a ceasefire. Kyiv could be left vulnerable without long-term security guarantees—a scenario that forces the European Union to rethink its role on the global stage.

At the same time, Trump's imposition of broad reciprocal tariffs on autos, steel, aluminum, and other goods signals an unapologetic shift away from free trade orthodoxy towards "fair trade." This is not just economic policy; it's a declaration of war on decades-old norms that have disproportionately benefited certain nations at America's expense. And let's not forget China. A grand bargain with Beijing looms large on the horizon, with potential discussions involving territorial compromises or adjustments in military support for Ukraine. This is high-stakes diplomacy at its finest—a delicate balancing act that reflects the precarious nature of multipolarity.

American economist Jeffrey Sachs has long warned about the dangers of unipolar dominance. The collapse of the USSR ushered in an era where unilateral policies often sidelined diverse national interests, leading to instability. In contrast, a multipolar world promises cooperation, mutual respect, and stability—or so we hope. The reality is more complicated: this transition will be messy, chaotic even. But it's also inevitable.

The end of unipolar illusions

Let's be brutally honest: the transition to a multipolar world doesn't mean America is finished as a superpower. Far from it. What it does mean is the post-Second World War order—a system propped up by unsustainable debt and military overreach—is collapsing under its own weight. With U.S. debt levels soaring to world war heights and government spending comprising 25 per cent of gross domestic product (GDP), deficit financing has reached its breaking point.

Wall Street is finally waking up to this harsh reality: years of excessive debt and regulation created an illusion of growth fuelled by wartime levels of government spending. A deficit nearing seven per cent and a debt-to-GDP ratio approaching 125 per cent were never sustainable metrics—they were ticking time bombs. And now? The party is over.

What comes next won't be pretty. A detox period looms on the horizon as the economy pivots back towards private-sector-driven growth. The light at the end of the tunnel—a 1990s technology boom supported by strong demographics. Investors must prepare for this structural adjustment by shedding their reliance on outdated narratives about perpetual U.S. dominance, while looking five to six quarters ahead.

Trump's strategy: Order through chaos

Love him or hate him, Trump's approach to this transition is nothing short of audacious—and deeply polarizing. His strategy resembles Alexander Hamilton's protectionist policies more than anything we've seen in modern times. By leveraging tariffs as both carrot and stick, Trump aims to compel reciprocal agreements from trading partners who've grown far too comfortable exploiting America's open markets. Too often pundits give only part of the story—Trump is capitalizing on the vagueness of extreme tariffs akin to William McKinley as negotiating leverage, as articulated in *The Art of the Deal*. Take Trump seriously not literally—the majority of analysis from Wall Street is tingled with pedantry.

Consider this: what if Trump succeeds in brokering a peace deal between Russia and Ukraine? Such an agreement could stabilize Eastern Europe and ease energy market volatility—a win-win scenario for investors starving for clarity amidst chaos. And what about China? A grand bargain here could reshape global trade dynamics overnight.

Domestically, Trump's economic pivot confronts decades of fiscal excess fuelled by spending sprees under former President Joe Biden. His focus on deficit reduction, deregulation, and private-sector revitalization aligns perfectly with Hobbesian resilience in a multipolar world. Critics argue this marks the end of U.S. exceptionalism; I say it's about time we stopped kicking the can down the road.

The peace dividend

At the heart of Trump's vision lies an often-overlooked concept: the peace dividend—the idea that resources once allocated to military engagements can be redirected towards domestic investment and innovation. This isn't just smart policy; it's survival strategy in a world where economic stability increasingly trumps military dominance as a measure of power.

But let's not kid ourselves: this pivot isn't without risks or contradictions. By emphasizing economic stability over brute force, Trump reveals both his strengths as a dealmaker and his vulnerabilities as a leader navigating uncharted waters.

Financial dominance in a digital age

William Engdahl's *Gods of Money: Wall Street and the Death of the American Century* reminds us that U.S. financial hegemony has always rested on two pillars: dollar dominance and military power. But even as these pillars face unprecedented challenges, new tools are emerging to reinforce America's influence in an increasingly digital economy. The Biden administration's mistake of weaponizing the U.S. dollar and U.S. Treasury cannot be ignored. A key element of having sustainable debt is the willingness of foreign investors to finance the massive U.S. fiscal deficit. Decisive action is needed.

Enter Trump's Strategic Bitcoin Reserve—a move that appears revolutionary but ultimately serves to strengthen dollar dominance by integrating digital assets into U.S.-led financial systems. Similarly, stablecoin legislation ensures that as digital currencies proliferate globally, they remain anchored to U.S.-centric frameworks.

Make no mistake: we are witnessing the birth pangs of a new Bretton Woods[1] system—one designed for a multipolar world where digital currencies coexist with traditional financial instruments.

[1] Agreement reached in 1944 establishing a new monetary system following the Second World War.

Key players in multipolarity

As global power shifts away from unipolarity, several nations are positioning themselves strategically:

- Germany has committed to increasing defence spending to three per cent of GDP while launching a 500-billion-euro infrastructure fund aimed at asserting its sovereignty.
- Japan is enhancing its military capabilities in ways reminiscent of pre-Second World War sentiments.
- China has enacted pro-private sector reforms to prevent debt deflation while exploring trade accords with the U.S.
- Saudi Arabia, under Crown Prince Mohammed bin Salman's Vision 2030 initiative, is reducing oil dependence through investments in infrastructure and renewable energy.
- India continues deepening trade ties across Asia and the Middle East while securing energy supplies critical for its growing economy.

These moves illustrate how nations are adapting to multipolarity by balancing domestic priorities with global ambitions.

Canada at a crossroads

And then there's Canada—an outlier struggling to find its footing amidst these seismic shifts. High debt levels, regulatory inertia, and stagnating productivity have left Canada ill-prepared for this new reality.

The renegotiation of the *North American Free Trade Agreement (NAFTA)* into the *United States-Mexico-Canada Agreement (USMCA)* restored Canadian sovereignty over energy resources but also weakened U.S. leverage—a double-edged sword that highlights Canada's precarious position in this new world order.

Prime Minister Mark Carney faces critical challenges ahead of the recently called April 28 federal election. His decision to scrap consumer carbon taxes while retaining industrial carbon pricing has sparked intense debate over its implications for climate goals versus economic competitiveness.

Opposition leader Pierre Poilievre offers an alternative vision focused on deregulation and tax cuts—policies aimed at attracting investment but criticized by some as overly Trumpian in style. Mr. Poilievre should learn from the mistakes of Kamala Harris' campaign—a policy platform on how he will help Canadians increase their standard of living is needed.

The burning question remains: Can Mr. Carney's experience in central banking and the private sector support his vision for Canada in this new multipolar world? If global capital markets buy into his strategy, Canada might see a surge in investment. But let's not kid ourselves—wasn't he the architect of former Prime Minister Justin Trudeau's economic agenda? His success will depend on balancing domestic demands with international pressures in this volatile landscape, while convincing voters the Liberal Party under his leadership is pivoting back to the centre-left.

The real test? How will capital markets and Canadian voters respond? Will Canada pivot to attract investment? Will we witness deregulation and tax cuts? Will natural resources finally receive the green light? In an artificial intelligence (AI) world where cheap, reliable energy is the cornerstone of success, Canada stands at a critical crossroads. The world's capital allocators—and Canadian voters—are watching closely, and so are we.

Economic transition: Opportunities amidst volatility

The global economy is transitioning from excessive government spending towards private-sector-driven growth—a shift which creates short-term volatility but offers long-term opportunities for investors willing to adapt.

Deflationary forces—debt burdens, demographic shifts, and technological advancements—are reshaping market dynamics as businesses grapple with consumer resistance to price hikes amidst excess capacity pressures. Periods like these often precede secular bull markets driven by innovation—a reminder that patience can yield significant rewards for those who stay focused on fundamentals.

A call to action for investors

Navigating this multipolar age requires bold action:

1. Focus on innovation-driven sectors: AI, blockchain technology, renewable energy.
2. Diversify with hard assets: Gold or bitcoin during dollar downtrends.
3. Study historical trends: Insights from post-Bretton Woods adjustments to navigate economic transitions effectively.

History shows us that periods marked by upheaval often spark creativity—and prosperity—for those willing to embrace change rather than resist it.

Embracing chaos

While the Trump administration's communication strategy leaves much to be desired, there is method in its madness. The fiscal crisis must be addressed decisively. A flat tariff of 10 per cent could generate approximately US$300 billion in revenue, providing a substantial boost to public finances. Additionally, onshoring critical supply chain elements is prudent, as it enhances national security and economic resilience. In trade wars, surplus nations often face the brunt of the consequences; due to inelastic supply, the majority of tariff costs will typically be absorbed by these nations. However, in an environment where emotions run high, facts often take a backseat. The hysteria stoked by mainstream media and Wall Street is disappointing, as it obscures the underlying economic realities.

Currently, markets are pricing in five Federal Reserve rate cuts, a scenario we anticipated, alongside fears of an economic slowdown that could drive rates toward two per cent. An inter-meeting rate cut would not be surprising given the circumstances.

As we embark on this new journey into a multipolar world, it's essential to adopt a forward-looking mindset—perhaps even embracing some optimism amidst the chaos. The principles that have historically ended centuries of conflict now provide a roadmap for navigating the complexities of modern investing.

Investors who capitalize on this shift by targeting sectors poised to thrive in a multipolar context—such as innovation-driven industries like AI and blockchain—will be well-positioned for sustainable growth and resilience in an interconnected world. The future belongs not only to those who adapt but also to those who dare to lead amid uncertainty. By embracing bold strategies and innovative thinking, investors can navigate challenges and seize opportunities, ultimately profiting from the evolving landscape. As we move forward, let us remember that in times of turmoil, the most significant rewards often go to those willing to take calculated risks and challenge the status quo.

Lessons from the 1990s

The 1990s technology boom offers insights relevant to today's innovation wave, spurred by advancements in AI, blockchain, and the rising influence of millennials. In 1994, the U.S. Federal Reserve raised interest rates by 300 basis points to combat inflation from a tightening labour market. Although this led to global issues, such as the Mexican Peso Crisis, it set the stage for strong equity performance after rates were cut in 1995.

Today's innovation landscape, combined with demographic shifts, mirrors the late 1990s, suggesting significant growth potential if trade tensions ease and the economy pivots towards private sector growth. The rise of a multipolar world and new trade deals is reshaping global economic dynamics, enhancing collaboration opportunities.

Since 1980, the S&P 500 index has seen 21 corrections of 10 per cent or more. After each bottom was reached, the average return was positive over the next 12 months. Despite the latest volatility, we believe that nothing has fundamentally changed, which sets up an excellent opportunity for long-term investors. Corrections serve as a cleansing mechanism, enabling the markets to ascend the proverbial "Wall of Worry." Investors are becoming more comfortable with Trump's focus on government efficiency and trade. Much like in the mid-1990s, the stage is being set for renewed growth.

Periods of upheaval often foster innovation. As we navigate this evolving landscape, it is important to take thoughtful action to transform challenges into opportunities. In periods of extreme fear, being calm and waiting for factual data to appear is the dominant strategy. The secular bull market remains intact, primarily driven by demographic trends, which have not changed. We face a growth scare, declining interest rates, declining commodity prices, and increased global liquidity, it's essential to maintain a long-term perspective.

As market volatility decreases, investors should focus on the next five to six quarters, recognizing that liquidity can sometimes overshadow fundamental factors. With a more measured approach to political dynamics, risk assets are poised for appreciation. By adopting a calm and strategic outlook, we can better position ourselves to thrive in this environment. As Warren Buffett suggests: "Until you can manage your emotions, don't expect to manage money."

In early 1995, the U.S. stock market was rebounding from a challenging 1994 marked by Federal Reserve interest rate hikes. By March 1995, the central bank paused these hikes, boosting investor sentiment.

From March to June 1995, the stock market gained traction, with the Dow Jones Industrial Average surpassing 5,000 for the first time in November, contributing to a 36 per cent annual rise. The S&P 500 ended the year with a robust 34.1 per cent gain, reflecting recovery from the previous year's difficulties.

Key drivers included optimism around technology and the internet, benefiting companies like Microsoft and Intel. Falling rates improved bank profitability and investor confidence, while a stable economy eased fears of further Federal Reserve action. Looking ahead, the combination of technological advancements, favourable demographics, and a multipolar world could fuel a new growth wave akin to the transformative 1990s. With declining volatility and clearer market dynamics, risk assets are well-positioned for appreciation in this evolving economic landscape.

Final thoughts: The future of financial markets

As we stand on the brink of a global rebalancing towards a multipolar world, investors must prepare for a generational transformation akin to those following the First and Second World Wars. Contrary to popular belief, tariffs do not drive inflation; they stifle economic growth. With interest payments on government debt now surpassing military expenditures, the urgency for action has never been greater.

The economy is transitioning from government dependence to a private-sector focus, creating fertile ground for a growth scare—or necessary detox period. Yet, the Jerome Powell-led Federal Reserve seems stuck in its old ways, failing to learn from the mistakes of the 2018 tariffs debacle. This stubbornness is perplexing, especially given the clear evidence: tariffs undermine growth and are not inflationary.

Deflationary forces—debt, demographics, and innovation—are stronger than ever. Policies are bringing down energy prices (oil is now approaching our forecast of US$50 from US$70), as well as interest and mortgage rates—all of which are healthy for Main Street. Conference calls echo concerns about consumer pushback against price hikes. In a market saturated with excess capacity, businesses will resort to price cuts to defend market share. Together, these forces will help offset any potential price increases from Trump's tariff strategy. Thus, we expect a growth slowdown, not a recession in the U.S.

With the federal funds rate (FFR) significantly above the natural rate of interest, a reckoning is imminent. Expect the FFR to plunge below two per cent as this cycle progresses. The stakes are high, and the time for decisive action is now. The Federal Reserve must wake up—policy mistakes loom, and inaction is no longer an option.

As we navigate this complex landscape, it's crucial to remember that risk assets do not equal the economy. In a slow-growth environment with increasing liquidity, managing emotions and looking ahead is essential. Those who do will uncover current investment opportunities and strategically position their portfolios for success.

The future of financial markets will be shaped by those who embrace multipolarity with a forward-thinking mindset. It's time to seize this moment and explore the possibilities ahead with optimism and courage.