OCTOBER 2025

MARKET INSIGHTS

James Thorne, *Chief Market Strategist*

WELLINGTON-ALTUS

TRUMP, CARNEY, AND THE WESTERN AWAKENING:

A new era for Canada is about to begin

> I read in a newspaper that I was to be received with all the honors customarily rendered to a foreign ruler. I am grateful for the honors; but something within me rebelled at that word 'foreign'. I say this because when I have been in Canada, I have never heard a Canadian refer to an American as a 'foreigner'. He is just an 'American'. And, in the same way, in the United States, Canadians are not 'foreigners', they are 'Canadians'. That simple little distinction illustrates to me better than anything else the relationship between our two countries.
>
> - Franklin D. Roosevelt, address in Quebec, 1936

IN THIS ISSUE

For more insights from James Thorne, please visit wellington-altus.ca/market-insights
You can also follow him on LinkedIn and X.

This simple yet profound truth, that Canada and the United States are bound not merely by treaties but by something closer to a familial bond, demands reaffirmation in today's shifting landscape. With the postwar order under immense pressure and North America once again tested by the weight of history, recognizing this essential kinship is more than nostalgia, it is a requirement for strategic renewal. Over generations, Canada has managed its internal divides with calibrated compromise and transfer payments, while maximizing the economic links forged with its southern neighbour. But now, as old models falter, drift must be replaced by deliberate action. New forces, a resurgence of American assertiveness, Carney's vision for a pragmatic, resilient Canada, and an unrelenting global hunger for security, challenge the nation to be honest, bold, and willing to let the West lead.

The essential kinship, not mere alliance, between Canada and the United States, has never been more relevant or more in need of reaffirmation. During the Second World War, that bond saw its boldest expression in the creation of the "Devil's Brigade", the 1st Special Service Force. This unique commando unit, forged from American and Canadian volunteers, pioneered modern special forces. Their shared courage and tactical brilliance not only terrified enemies but also left a living legacy: that when North America's two nations train, plan, and fight together, the results reshape history itself.

As the United States embraces Trump-style "Reaganomics"— a supply-side economics concept attributed to Canadian Nobel Prize-winning economist Robert Mundell—Canada exhibits extreme trepidation. Recall in the early 1980s, Canada re-elected and then revolted against Pierre Trudeau in his final term as prime minister, with progressive momentum shifting to centre-right reprioritization by the end of the decade. Canada lagged the United States in embracing centrist economic policies during this period, resulting in significant economic consequences.

Economic regimes pushed to their ideological extremes often yield negative outcomes. The 1990s debt battles and austerity shaped market-oriented reforms. Since 2000, Keynesian demand management has dominated Western policy, fueling rising debt and crowding out private enterprise. Post-global financial crisis, the U.S. Federal Reserve's expanded mandate and balance sheet deepened this imbalance, blurring boundaries between public and private sectors. A centre shift, reintroducing supply-side incentives and selective privatization, appears increasingly necessary to restore sustainable prosperity in both nations.

Think of the generational moments Canada has faced before, moments when it was clear that the path ahead required new thinking. The difference now is the speed and interconnectedness of global change. Supply chains stretch globally, and vulnerabilities are revealed with every new shock. Therefore, the ability to build a North American resource and innovation platform, anchored in shared goals, has never been more compelling or necessary.

Old compacts and the shadow of dependency

The foundation of modern Canada was built on a combination of compromise and confidence. The 1960s, remembered as a golden era of national self-definition, saw social programs, a newly minted flag, and the spirit of Expo 67 embodying the country's hopes. Quebec's Quiet Revolution gave rise to regional assertion and endless constitutional debate. Yet the economic structure beneath these triumphs was defined by a historical compromise: the National Policy prioritized Ontario and Quebec's industrial interests, while the resource-rich West and Maritimes supplied raw materials and labour.

The 1965 Auto Pact seemed, at first glance, a victory for Canadian industry. In practice, it deepened dependency. Jobs multiplied in Ontario, but capital, R&D, and strategic command largely remained south of the border and in foreign hands. This "branch plant" economy became a persistent feature, with Canadian innovation too often finding its breakthrough moments abroad rather than at home.

Most tellingly, this logic of centralization gave Canada's federal government a mandate to act as the steward of national unity and the cautious manager of foreign exposure. Provincial ambitions, especially from Alberta and Saskatchewan, were carefully contained. The West could prosper, but always under the oversight of Ottawa, and never as the unambiguous leader or agenda-setter.

The consequences of this structure are evident today. Gross domestic product (GDP) data consistently shows Canada's reliance on resource exports and foreign investment, while headlines about the "brain drain" signal the outflow of ambition. For a rising generation of business leaders and thinkers outside of Central Canada, the compact feels not just outdated, but fundamentally limiting. With per capita GDP declining, productivity growth negative, an industrial policy that has ignored its true competitive advantage, and the realities of Donald Trump's second term as U.S. president, one can easily make the case that the historical missteps are recognized by prime minister Mark Carney.

The resource revolution deferred

By the late 1970s, the economic map was ripe with possibility. Skyrocketing global oil prices put Alberta, Saskatchewan, and British Columbia in a position to become central players in a new global order, the drivers of a resource revolution that could have given Canada a commanding role in matters of energy, technology, and scale. Western expertise in extraction technology, environmental stewardship, and large-scale infrastructure set the stage for a leap forward.

Pierre Trudeau's approach effectively channeled industrial policy to Eastern Canada, favouring manufacturing and finance headquartered in Central Canada, while constraining the economic ascent of the energy-rich West—ignoring Canada's true competitive advantage, natural resources. Canada thus turned away from the opportunity to establish itself as a global resource superpower in the 1970s, deciding instead to protect central Canadian industries. This sowed lasting regional divides between the East and West.

Yet, when the National Energy Program (NEP) was imposed in 1980, it was less a harnessing of potential than a distribution of spoils. Instead of empowering the West to lead, resources were redirected to fuel federal priorities, stymying innovation and investment. To this day, Western Canadians remember the NEP as an act of federal overreach and, in many quarters, outright betrayal. The bitterness is real and durable.

Meanwhile, the branch plant model continued to define Canadian industry. Despite playing crucial roles in the emergence of the Internet, wireless communication, artificial intelligence (AI), and agricultural technology, Canadian entrepreneurs and scientists were more often celebrated for their success abroad than for nation-building at home.

Anecdotes abound. The story of a world-class AI startup launched in Ottawa, only to be acquired by a California giant and then moved south, is as familiar as it is disheartening. Talented young engineers from British Columbia, Alberta, Saskatchewan, and Manitoba often note that "if you want to make it big, you have to leave."

Simultaneously, the first tremors of American retrenchment were felt. U.S. policymakers, frustrated by the cost of global leadership, began murmuring about "America First." For Canadians, the moment was both a warning and a missed opportunity to claim equal footing.

Debt downgrade and the pursuit of fiscal credibility

In the 1980s, prime minister Brian Mulroney aligned closely with U.S. president Ronald Reagan, culminating in the 1989 Canada-U.S. Free Trade Agreement. This further integrated Canada with the U.S. economy. At the same time, loose credit conditions drove a real estate boom. The U.S. achieved secure access to Canadian energy through the proportionality clause. The Canadian branch plant economy endured, and the dream of becoming a "resource superpower" with a diverse client base was once again shattered.

In the late 1980s, Bank of Canada governor John Crow believed that defeating inflation required deliberately breaking speculative excess. His strategy was to raise interest rates so sharply that it would trigger a collapse in the real estate market—and he succeeded. The crash crushed housing demand, drove up unemployment, and left many Canadians underwater on mortgages. GDP growth slowed dramatically, setting the stage for prolonged structural adjustment.

The reckoning came in the early 1990s when years of deficit financing triggered a full-scale fiscal emergency. Serial downgrades of Canadian sovereign debt by major credit rating agencies, rising bond yields, and the specter of external intervention forced Ottawa's hand. The "honorary member of the Third World" editorial in The Wall Street Journal was a humiliating wake-up call.

The government's response—massive spending cuts, broad-based restructuring, and a sharp reduction in entitlements—was controversial and painful. Federal employment shrank, and provinces bore much of the burden. But the fiscal transformation was real as debt-to-GDP ratios fell and discipline was restored. Canada reemerged as a fiscal model among the G7, and the conversation shifted from crisis management to opportunity, a shift some today now take for granted.

What is sometimes overlooked by contemporary policymakers is that this credibility was not achieved by abstract values, but through the realities of pressure, both economic and political. Today, echoes of that era resound: rising global interest rates, volatile commodity prices, and questions about the sustainability of deficits in an unstable world. If history is any guide, complacency would be a grave mistake.

From integration to intertwining: Trump, Carney, and the multipolar world

As the 1980s gave way to the 1990s, the Free Trade Agreement and, later, the North American Free Trade Agreement (NAFTA), bound Canada and the United States more tightly than ever. What was sometimes overlooked is how technical measures, like the proportionality clause, locked Canadian resources into the American market, diminishing flexibility and reinforcing dependency. Ottawa, ever cautious, did little to upset this equilibrium, even as economic and geopolitical tides began to turn globally.

The 2008 global financial crisis put Canada in the world spotlight. Carney, who was the Bank of Canada governor at the time, won praise for navigating the nation through stormy waters. Canadian banks, holding to conservative lending practices, oversaw a financial system that emerged largely intact. This "Canadian moment" was widely celebrated. Yet, deeper questions were brushed aside—why wasn't that prudence paired with reinvigoration? Why did asset bubbles in real estate and chronic underinvestment in innovation persist?

Trump's entry onto the stage changed the tempo. Whether admired or opposed, Trump made it clear that American indulgence towards its allies, including Canada, had limits. The abrupt upending of trade agreements and strong-arm tactics on national defense jolted Ottawa out of old habits.

Here, Carney's approach diverged. Rather than defending outdated arrangements, he called for a new vision built on resilience and ambition. Positioning himself not as a manager of decline but as a champion of renewal, Carney challenged Canada to step up, to treat partnership as kinship, to act as a backbone rather than a branch.

His argument resonated powerfully in the Prairies and among the growing segment of investors, technologists, and policy thinkers who see the next transition as both necessary and attainable. If Canada is to stand alongside the United States, it must contribute on equal terms, and with confidence grounded in competence.

Building the next era: NATO, Churchill, and a new resource alliance

In 2025, new pressures have shaped both national conversation and strategic action. Security threats, environmental chaos, and fractured supply chains mean that NATO and the U.S. are not merely asking, but insisting on real partnership.

Carney's response, a $500 billion investment in coordinated infrastructure, defense, and strategic assets, is unlike anything seen in modern Canadian history. The commitment is not just to meet NATO targets, but to modernize the very skeleton of Canada's resource system: pipelines, railways, ports, electrification, and the grid. Projects like the revitalization of Churchill, Manitoba's deep-water port, are not mere symbolism, they reimagine the role of Prairie and Arctic resources as linchpins of continental strategy.

As North America faces unprecedented strategic and economic tests—from mounting security threats to the transformation of global supply chains—Canada is stepping up, not only rhetorically but with profound structural commitments. Chief among these is Carney's explicit pledge that Canada will meet the bold new NATO requirement of spending 5 per cent of GDP on defense by 2035, a dramatic escalation from previous targets, and one advanced through forceful U.S. advocacy, most notably from Trump.

Crucially, this commitment marks more than a military rearmament. Of that 5 per cent, only 3.5 per cent is earmarked for core defense—a vast expansion of direct military capabilities and readiness. The remaining 1.5 per cent encompasses a sweeping vision of national

defense: capital poured into resource and infrastructure development, ranging from new Arctic and Atlantic ports to telecommunications, dual-use airports, deep-water export terminals, and the acquisition of new icebreakers to extend Canada's reach in the far North. Embedded within the defense target are the industrial arteries—pipelines, grids, rail, and corridors—that bind the West's resource capacity to both domestic and global security objectives. This is a wholesale recasting of national security and nation-building as partners, not rivals, with economic sovereignty flowing directly through the strengthened sinews of Western infrastructure.

The strategy is not just policy, it is the rebalancing of political and economic power from East to West. To fully deliver on this resource superpower vision, Carney's government is championing projects once mired in regulatory gridlock and intergovernmental wrangling. Support has come not only for long-contentious projects like pipeline construction—sending a message that Canada will claim its place as a critical energy player—but also for the accelerated development of liquefied natural gas (LNG) export platforms, potentially uniting Atlantic and Prairie aspirations in pursuit of continental and global relevance.

These decisions underscore that pragmatism has replaced paralysis, and that leveraging the full range of Canadian resources is now cast as an essential element of national strategy.

This reckoning asserts that to secure North America's future, the alliance must transcend the old grudges of region and history. Resource integration between Canada and the United States, long recognized as an untapped force of continental might, is claiming new currency. A shared command of hydrocarbons, critical minerals, agricultural output, port logistics, and renewable energy now forms the foundational logic for economic resilience and geopolitical strength on both sides of the border. The spirit of partnership is not just a policy inclination but lived history, from the confidence of shared infrastructure to stories such as Franklin Roosevelt's legendary visits to Oak Island, Nova Scotia, on the hunt for gold. Even in the twentieth century, leaders of vision sensed that combining North American assets, whether resource, innovation, or will, made for a force to be reckoned with.

Today, these investments are not about symbolism or nostalgia, but the deliberate construction of a modern industrial backbone—one that links Canadian strength with the United States, feeds European and Asian demand, and unlocks the next era of prosperity, security, and relevance for the West.

A new compact and a respectful reckoning

Ultimately, the turning point is not simply about Alberta or even the West as a whole. This is a reckoning with the limits of incrementalism, a call for Canada to become, as FDR described, the family the world needs—united not just by sentiment but by action.

For Ottawa, this means a willingness to invest, to relinquish managerial comfort for the risks of genuine ambition. For the West, it means stepping into national leadership, not by demanding concessions, but by making nation-building central to its ethos. For local communities, the payoff is in jobs and pride; for the nation, it is in relevance, leverage, and resilience.

For the United States, the relationship must mature as well. The "Canadian exception" cannot be maintained through habit or nostalgia. In a world where family matters more than formality, the U.S. has every reason to embrace Canada as an equal contributor, as FDR envisioned.

The world watches closely, hungry for models that balance pragmatism with solidarity, self-interest with common purpose. The Churchill project, new supply corridors, and investments in critical minerals and next-generation agriculture are signals, both to North Americans and the world, that a new era is possible.

What should investors do

Our thesis coming into 2025 was that Canada would experience a relief rally, a surge that typically occurs when markets recognize that an administration with extreme progressive policies is about to lose an election and be replaced by a more centrist government. That honeymoon trade has now played out. In this environment, we continue to recommend exposure to gold and bitcoin, given their resilience amid fiscal and monetary volatility.

This positioning was driven by our belief that the extreme level of government spending by progressive-left governments in the West had gone too far. Our road map drew on parallels with both the 1950s and the 1990s, periods marked by renewed private sector leadership and fiscal discipline. In a period of fiscal dominance and financial repression, strong nominal growth and negative real interest rates are needed as the post-Second World War period revealed.

We contend that the Federal Reserve has overplayed its hand and now must retreat to allow the private sector to take the lead in driving growth. An independent monetary policy is needed, agreed. But that does mean unaccountable actions in other areas. The mission creep is now obvious, and the Federal Reserve needs to be put in the penalty box. Yes, the Keynesian-run Federal Reserve is already political. This all speaks to rates being cut. The Bank of Canada overnight rate could get to around 1 per cent, while I assume the Federal Reserve's overnight rate will be headed to the natural rate of 2.75 per cent. As Trump's supply-side policies come to the fore, we anticipate a return to non-inflationary growth and the restoration of real interest rates.

Tariffs, contrary to some expectations, are not inherently inflationary, and demographic trends point to the prospect of a secular bull market for risk assets. Both the Federal Reserve and the Bank of Canada have made fresh policy mistakes. Critically, the Bank of Canada wrongly assumed Canada has a balanced, diversified economy; it does not. Investors should prepare for a balance sheet recession in Canada and rates that are headed much lower. In the U.S., a slow growth period will materialize until Trump's supply-side policies kick in.

Over the past decade, fourth-quarter seasonal returns have shown a wide performance gap across asset classes. Bitcoin leads with an exceptional average gain of 59 per cent, far outpacing traditional assets. Among equities, regional banks have averaged an 11 per cent return, followed by small-cap value at 6.23 per cent, the Nasdaq 100 at 5.50 per cent, and the S&P 500 at 5.31 per cent. By contrast, gold has delivered a modest 1.9 per cent —given its strong run in September a period of consolidation would not surprise.

In this context, secular growth remains a winning strategy. In Canada, companies positioned to benefit from a generational structural shift, particularly those linked to resources, infrastructure, and supply chains, stand to gain the most as the country transitions from incrementalism to bold renewal.

Final thoughts

There is a lesson that loops through this entire story: history does not reward those who cling to the past in the face of change. It rewards those who see, early and clearly, how tides are turning, and have the courage, subtlety, and vision to follow through.

Canada stands at this inflection point. The West is ready. The world is waiting. And with Carney and Trump willing to lean in, the new era truly begins now. Investors should expect a new trade agreement between Trump and Carney. True to the Art of the Deal, be prepared for an interesting negotiation process. Fights within families can be intense, as witnessed in the 4 Nations Face-Off tournament this past February, but history has shown that when the U.S. and Canada team up, they are a global force to be reckoned with.