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# MARKET INSIGHTS

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## BULL MARKETS, PEACE DIVIDENDS, AND THE FEDERAL RESERVE'S NEXT WAR: Investing at the crossroads of history

### Prologue: The edge of transformation

Bacon's wisdom, that true prosperity is won by strategic preparation, not by accident, serves as the north star for sophisticated investors navigating the closing months of 2025. As we approach the U.S. Midterm Elections looming in 2026, a remarkable convergence of geopolitics, technology, and policy is setting the stage for a potentially historic bull market.

It's impossible to ignore the historical parallels between today and another moment of profound transition, the early 1990s. U.S. President Donald Trump's diplomatic efforts are channelling the "peace through strength" ethos that defined U.S. foreign policy at the end of the Cold War. Much like the peace dividend of that era, which allowed capital to flow from the military-industrial complex into innovation and new industries, Trump's new deals aim to lower global tension,

“

A wise man will make more opportunities than he finds.

”

- Francis Bacon, *The Essays* (1597)

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cut risk premiums, and unlock resources for economic expansion. The 1990s bull run was powered by a once-in-a-generation innovation wave and the release of pent-up productivity, but also by a demographic tailwind as a new cohort of workers and consumers entered the market. Investors today should study that era closely as the demographic backdrop is strikingly similar with a surging younger population and heightened entrepreneurial dynamism. Yes, history doesn't repeat, but in markets it certainly rhymes. A secular bull market fueled by innovation, favourable demographics, and the tangible rewards of peace may well define the decade ahead.

Trump's unmistakable imprint—radical deregulation, deep tax cuts, and aggressive “deal diplomacy” from Ukraine to the Middle East—is fueling speculation about a peace dividend and risk asset explosion. Bitcoin's roaring breakout, a surging S&P 500 (with 7,500 in sight for the second quarter of 2026), and the prospect of a new golden era for housing and tech seem inevitable, all while Jerome Powell's Federal Reserve remains famously reactive.

Yet beneath the surface, sophisticated investors must look beyond the headlines and the consensus: deflationary forces are gaining momentum (notably, lower oil prices are poised to undercut cost pressures further), the U.S. labour market and gross domestic product (GDP) data paint a picture of an economy losing steam, and the case for sharply lower rates is building, though that path won't guarantee easy profits for all.

What will set successful investors apart is their ability to look five to six quarters ahead, piercing the fog of Wall Street's persistent group think. Consensus is a powerful, and often misleading, force—rarely has it been truer than today. The incessant churn of market narratives on trading desks often blurs the vital reality that the real economy is not the same as risk assets. As the pace of economic activity slows and traditional metrics signal caution, liquidity injections, the arrival of a peace dividend, and rate cuts can catalyze risk assets to new highs. This divergence allows for robust multiple expansion, as lower rates and geopolitical breakthroughs reset the denominator for asset valuations. In the face of pervasive skepticism and noisy short-term data, disciplined investors who anticipate, rather than react, will capture the opportunities of a

secular bull market driven by innovation, demographics, accommodative policy, and the compounding logic of renewed risk-appetite.

The current investment landscape is uniquely defined by the blending of Trump's “Art of the Deal” with the timeless strategic principles of Sun Tzu's “Art of War,” creating a hybrid playbook for both global leaders and sophisticated investors. Trump's approach uses the public spectacle, aggressive negotiation, and visible power plays characteristic of modern deal-making, yet the underlying strategic logic often mirrors Sun Tzu's emphasis on preparation, asymmetry, and psychological advantage. Rather than relying solely on brute force, Trump's “peace through strength” negotiations, in Ukraine, the Middle East, and much of his domestic policy, combine the subtlety of positioning for invisible victories (avoiding costly conflict, reaping dividends through diplomatic breakthroughs) with the very visible assertion of leverage meant to drive outcomes in public view.

For investors, this synthesis means tracking both the quiet, compounding effects of structural change and the headlines of market-moving deals: the art is in knowing when to act behind the scenes and when to capitalize on the spectacle, as both can deliver outsized gains in an era where strategy and showmanship are inextricably linked.

## **I. The flawed lens of economic data: BLS and beyond**

Before unpacking the bullish setups, it's critical to pierce the illusion built on traditional economic indicators. The U.S. Bureau of Labor Statistics (BLS) is producing headline job data that, while superficially robust, contains cracks beneath the surface. Participation rates remain below pre-pandemic highs, full-time work gains have stalled, and much of the payroll growth is part-time or gig-based, distorting traditional measurements of economic health.

Similarly, GDP prints are painted with an increasingly revisionist brush. Inventory adjustments, net export volatility, and government spending have all masked tepid underlying demand. Productivity numbers, when properly deflated for tech-induced efficiency gains, show growth, but not uniformly or robustly across sectors.

These flaws have led to a dangerous consensus that the economy is stronger than it is, a mistake that, for investors, can create as much risk as ignoring an oncoming recession.

## **II. Deflationary undercurrents and a realistic view of growth**

The irony of this phase is stark: while animal spirits soar in equity and crypto markets, the real economy is fighting mounting deflationary pressure. Key sectors such as retail, manufacturing, and goods logistics are seeing outright declines in pricing power. Technology is not only fueling productivity, it's creating a persistent drag on aggregate prices. Automation, optimization, and global supply chain improvements are pushing input and final goods costs ever lower.

These trends are set to intensify as the cost of energy, particularly oil, resumes its downward trajectory, removing a historic driver of headline inflation. With oil prices expected to weaken further, the deflationary impulse through the global economy will only grow, putting additional pressure on already softening wage and price dynamics.

Meanwhile, consumer debt burdens remain. Housing affordability, despite headline rallies in stocks, is challenged by the high cost of capital and wages that aren't keeping up with the cost of living. These structural headwinds will not be solved by easing monetary policy alone.

Most crucially for those eyeing the horizon, my base case is not a recession, but a material growth slowdown. As we saw in post-WWI and WWII eras, it is possible for optimism and asset rallies to coexist with economic slowdowns.

## **III. The limitations of policy: The Federal Reserve is behind the curve**

If investors are to profit from these historic times, they must first acknowledge monetary policy's lags. It is tempting to assign mystical powers to the Federal Reserve, but central banking operates on a significant delay, typically 18 to 24 months to see the full transmission of a rate hike or cut.

By this logic, the full brunt of the last tightening cycle has not yet been felt. At the same time, the future risk is not from overheating, but from undershooting potential, leaving policy too tight as deflation gathers strength. The Federal Funds Rate (FFR) should, in equilibrium, be at the "natural rate" ( $r^*$ ), a level thought to be between 2 per cent and 2.5 per cent in a structurally slow-growth, tech-driven environment. With the market still digesting the lagged effects of policy, there is real risk in waiting for the data to turn before acting.

That is why, despite the consensus for a slow, cautious approach, the Federal Reserve should cut 50 basis points at its September meeting, frontloading accommodation to avoid a deeper slowdown and to support a soft landing.

## **IV. The consensus trap and the perils of myopia**

A core mistake among Wall Street investors is their habit of taking cues from the Federal Reserve after the fact, rather than forecasting and discounting the future. The prime example? The housing sector. Despite high mortgage rates, investors have poured into homebuilders and related equities on the thesis that lower rates are coming, and housing shares have already staged massive rallies, well ahead of actual Federal Reserve cuts.

This phenomenon will likely repeat across the risk asset landscape. As consensus grows around the inevitability of large cuts, markets will move well before the Federal Open Market Committee (FOMC) acts. The lesson is vital: investing in risk assets is about the future, not the past. Those who wait to see confirmation or validation in lagged data rarely drive the best returns in historic cycles. To be clear, Trump reset the four-year cycle with the events surrounding Liberation Day in April of this year. A bull run into the midterms should be on everyone's bingo card.

## **V. Peace dividend, bull market, and digital wealth**

This backdrop of supply-side reforms—including peace dividend anticipation, deflationary oil, and monetary recalibration—creates conditions for powerful rallies in equities, crypto, and housing. A viable deal between Trump and Russian President Vladimir Putin

over Ukraine (potentially mirrored by Middle East arrangements) dramatically changes risk calculus. The prospect of “risk off” war-time premiums evaporating spurs capital inflows into cyclicals, infrastructure, and financials. Energy and materials sectors rebound.

Bitcoin is front and centre in this next phase. Not simply as an “inflation hedge,” but as a barometer of risk tolerance, monetary credibility, and the world’s appetite for digital assets as alternatives to fiat currencies. The current surge of digital assets reflects not only fear of central bank mistakes, but optimism about peace, policy-driven growth, and a technological future that transcends borders.

All this culminates in a projected S&P 500 bull run to 7,500 by the second quarter of 2026—a potent mix of earnings expansion, multiple rerating, and unprecedented flows from both retail and institutional pools. No, the era of U.S. exceptionalism is not over. The combination of rate cuts and a credible peace dividend lays the foundation for multiple expansion, further propelling risk assets even as the underlying economy is only treading water. This is the hallmark of a true secular bull market: liquidity and sentiment outpacing real economic activity for those bold enough to see past today’s consensus.

## **VI. The Art of War and the Art of the Deal: Wisdom for modern capital**

The strategic lens for investors in 2025 is more valuable than ever. Sun Tzu calls for invisible, anticipatory preparation, knowing not just oneself and the environment, but the adversaries and their incentives. Underneath, Trump’s Art of the Deal is about the spectacle—a visible, negotiated advantage—turning conflict and risk into public upside.

This synthesis is today’s playbook for navigating the blurred line between diplomacy and markets. The peace dividend is not guaranteed, but possible when leaders act boldly and investors read through the data, discount the future, and position for structural change, not just cyclical turns.

We are, unmistakably, living in historic times. The compounding impact of unconventional policy, radical innovation, demographic shifts, and modern deal-making is rewriting every forecasting model. Markets will reward those who see the world as it is becoming, not as it was.

## **VII. Contested independence: The Federal Reserve, Treasury, and the future of monetary policy**

The evolution of the Federal Reserve’s independence is the central contest shaping monetary policy in the U.S. The next act of this contest is already coming into view: expect the Federal Reserve to evolve in character, with its autonomy likely to be reduced in service of broader fiscal objectives. The growing national debt, lasting political pressure, and a global shift toward fiscal dominance are creating the stage for an era where the central bank’s policy may be increasingly coordinated with U.S. Treasury needs.

If a pre-1951 dynamic reasserts itself, where the Federal Reserve operates largely in support of federal refinancing, yield curve control shifts from theoretical risk to a practical policy tool. By explicitly or implicitly anchoring rates along the maturity spectrum, the Federal Reserve can help ensure cheap and predictable refinancing of government debt. The precedent of World War II and the Korean War periods illustrates how monetary policy, in the face of massive fiscal needs, was deliberately subordinated to the needs of government financing.

This coming world of fiscal dominance recasts the Federal Reserve’s mission. Rather than focusing solely on inflation and employment, monetary policy will be pressured to serve as a cost-containment engine for the Treasury. Lower rates and a managed yield curve would be the expected outcome, placing upward pressure on risk assets and rewarding those who anticipate the policy pivot.

The question is no longer whether the Federal Reserve will defend its independence, but how far and how fast political realities will force a rollback. Advocates of independence will warn about the dangers to price stability and the loss of the Volcker-era credibility. Critics, pressed by the sheer weight of debt service and fiscal math, will argue it is irresponsible not to coordinate.

In sum, investors should prepare for a regime where the Federal Reserve’s autonomy is diminished, yield curve control is not only on the table but actively engineered, and the world is unmistakably in an era of fiscal dominance. This shift will leave an indelible mark on interest rates, inflation probabilities, and the true long-term cost of capital throughout all asset classes. To ignore it is to ignore the central axis of the new investment era.

## VIII. Actionable guidance: Investing for the next cycle

1. Anticipate the future, don't wait for the Federal Reserve. Markets move fast. By the time Powell acts, asset prices will have already recalibrated. Focus on forward indicators and discount the coming policy easing not just current conditions.
2. Emphasize secular growth, but hedge for volatility. With a slowdown (not a recession) as the base case, start getting exposure to high-quality cyclicals, the artificial intelligence (AI) theme, gold, and digital assets.
3. Question the data. Consumer Price Index (CPI), Personal Consumption Expenditures (PCE) and GDP numbers are flawed—supplement headline metrics with private, real-time data and on-the-ground intelligence. The four-year cycle has been reset.
4. Position for a 2 per cent terminal FFR—with  $r^*$  in focus. The only solution to our current debt crisis is economic growth and negative real rates of interest. Prepare for the Federal Reserve to lose some of its autonomy. Yes, yield curve control is on the horizon.
5. Embrace risk, selectively. Housing is a microcosm, few expected the stock rallies given high rates, but anticipation is everything. Apply this logic to under-owned asset classes and regions that stand to benefit earliest from the new cycle. Yes, demographics are important.
6. Lean into the structural themes:
  - AI: The defining engine of productivity, automation, and disruption. AI consumes energy, the economy with the lowest cost energy has a huge competitive advantage.
  - Crypto: Beyond Bitcoin, digital assets are foundational to next-generation finance. The tokenization of Real-World Assets (RWA) will be a major theme.

- Housing: Lower rates and peace-induced capital flows will drive further upside even as affordability pressures persist.
- Finance: Lenders, fintech, and capital markets firms stand to benefit as peace and policy reduce volatility.
- Gold: The ultimate hedge, still relevant as policy shifts, geopolitical risks linger, and currency regimes face fresh credibility tests.

## Conclusion: Prosperity awaits the prepared

For investors, to profit from peace is to prepare for prosperity. The coming years are unlikely to mirror the past. Policy lags, deflationary pressure (especially from falling oil prices), data flaws, and the evolving reality of fiscal dominance and reduced central bank independence mean Wall Street's playbook must evolve with history's tide. Growth will slow, not collapse, but the market will discount this well in advance.

The wisest investors will see beyond the Federal Reserve's next step, beyond incomplete statistics, and recognize the scale of opportunity when peace, policy, and technology align. Those who invest with vision, embracing AI, digital assets, housing, finance, and gold, will reshape the future, not merely endure it. Real discipline in this cycle means looking five or six quarters ahead, resisting the gravity of consensus, and remembering that the economy itself is not the same as the returns earned from risk assets. If history is any guide, the widening gap between economic growth and asset performance will keep rewarding those with the conviction to anticipate what's next.

Act boldly, invest with discipline, and remember, in a world remade by the Art of War, the Art of the Deal, and the shifting balance of power at the Federal Reserve, peace has never been more profitable.

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