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MARKET INSIGHTS

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FROM EXTREMES TO THE CENTRE:

Charting a New Path for Economics and Investing as Trump Returns and Trudeau Steps Down

The Shifting Political Landscape

In today's politically charged atmosphere, it can feel as though standing for anything less than radical extremes invites scorn. As we entered 2025, a surprising emergence of centrist economic policies is reshaping our political discourse, defying party lines and pushing back against the extremes that have dominated the conversation.

The Overton window¹—a concept that illustrates the range of acceptable ideas in public discourse—has been strategically manipulated by progressive politicians who label any criticism of the progressive left policies as “far right.” This tactic aims to shift the narrative leftward, yet recent electoral results suggest that voters are beginning to reject this framing. And yet, while many view Trump's policies as extreme, an objective evaluation reveals them as moderate responses to pressing economic concerns.

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“ You have enemies? Why, it is the story of every man who has done a great deed or created a new idea. ”
- Victor Hugo

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This shift signals a wake-up call for the progressive left, indicating that their narrative is losing traction and a significant shift away from liberalism is afoot. It's clear that the West is undergoing what has been labelled a "vibe shift"—one that investors should not ignore. Wall Street legend Stanley Druckenmiller recently said, "I've been doing this for 49 years, and we're probably going from the most anti-business administration to the opposite."

We've seen this show before. Trump's latest outrageous claim about Canada becoming the 51st state isn't about conquest—it's classic Trump theatrics masking a real economic discussion we need to have. Remember *The Apprentice*? Trump's been playing the media like a fiddle since his reality TV days. His provocative statements are designed to grab headlines, and boy, do they work. But while everyone's clutching their pearls over his bluster, they're missing the steak behind the sizzle. What Trump's really pointing at—in his uniquely undiplomatic way—is the need for a "Fortress North America." It's about creating a more integrated economic powerhouse to compete with Asia and Europe. This aligns perfectly with Shannon K. O'Neil's book *The Globalization Myth: Why Regions Matter*, published by the Council on Foreign Relations (CFR).

In Canada, the political landscape is similarly evolving. Pierre Poilievre, leader of the Conservative Party, is advocating for policies that lean towards the centre. With Prime Minister Justin Trudeau announcing his intention to step down, the extreme policies underpinning the Liberal and NDP coalition remain intact. Often perceived as radical, these policies offer a stark contrast to Poilievre's practical, moderate approach. Investors should brace for complaints from the far left, as this shift threatens their ideological stronghold.

The median voter is increasingly concerned with the standard of living and is growing weary of extreme cultural issues. A grassroots movement is emerging, signifying the dawn of a new era driven by self-interest and the renewed "animal spirits" of capital markets. Change is on the horizon, promising to reshape the economic landscape.

Globally, we are witnessing this trend towards centrist values in countries like Italy, the U.S. and Argentina, placing Canada at a critical juncture. With the resignation of Trudeau and the Democrats' loss in the U.S., we are seeing the Overton window pan away from liberalism, back to the centre. This transition reflects the broader impact of the Trump administration and a resurgence of innovation and risk-taking. Investors should prepare for a landscape where entrepreneurial energy and economic dynamism flourish. Currently, consensus does not recognize the significance of such a movement.

Yet, this return to moderation may be mischaracterized as radical in today's polarized environment, emphasizing the "Exclusion of the Centre." This evolution reflects a shift in social norms rather than any specific political agenda. Adding to the irony is former Prime Minister Pierre Trudeau's warning in 1979, where he cautioned against straying from the centre. He emphasized that "being in the centre is not always exciting," and that true believers often scorn those who seek balance. His insights are particularly relevant as we navigate a political landscape that often dismisses centrist views in favour of more extreme positions.

While Trump and other governments are shifting back to the middle, we shouldn't assume that central banks will abandon their Keynesian approaches. In recent years, central banks—particularly the U.S. Federal Reserve—have acted in ways that elicit doubts about the reality of their political independence. This is evident when considering figures like Mark Carney, the former head of two central banks and a key driver of the global green initiative. In the U.S., Janet Yellen and Lael Brainard—one a former Federal Reserve chair and the other a former vice chair—oversaw the largest accumulation of debt in history. Investors must confront the reality that central bankers may represent the last stronghold of the progressive left's collectivist agenda.

Historically, the transition from Alan Greenspan to Ben Bernanke at the Federal Reserve illustrates this ideological shift. Greenspan, influenced by Russian American author Ayn Rand's philosophy of individualism and minimal government intervention,

¹ The Overton window is the range of ideas and policies that are considered politically acceptable by the mainstream population at any given time.

championed market-driven economics and believed in the self-regulating nature of free markets. In contrast, Bernanke embraced Keynesian principles, advocating for substantial government intervention to manage economic cycles through measures like quantitative easing and deficit spending.

The Federal Open Market Committee (FOMC) under Jerome Powell has maintained a strong commitment to Keynesian economics since 2000, which may hinder its ability to embrace emerging economic theories that favour individualism and market freedom, as seen in Milton Friedman's work. As society shifts towards centrist economic policies, different foundational economic beliefs should be recognized rather than dismissed as radical.

Federal Reserve officials have demonstrated a concerning double standard. Their overt criticism of Trump's economic policies contrasts sharply with their support for green initiatives. Recent evidence suggests that they actively worked against the adoption of blockchain technology. Furthermore, Biden's agenda of sustaining a deficit over six per cent after the COVID-19 crisis has received little scrutiny, while the Federal Reserve's worries about Trump's immigration policy highlight their selective engagement. They remained silent during Biden's open border policy, which contributed to shelter inflation.

Additionally, the central bank's concerns about tariffs ignore fundamental economic principles that indicate tariffs affect relative prices rather than the overall price level. This pattern implies a political bias in the Federal Reserve's actions and priorities. This combination of factors highlights the complexities and potential pitfalls in the ongoing dialogue about the balance between government intervention and free-market principles.

Centre-Right Policies vs. Keynesian Economics

A significant aspect of this political and economic discourse is the perception among Wall Street and the Federal Reserve that Trump's policies are extreme compared to those of the Biden administration. This situation exemplifies the Overton window in economics. Many on Wall Street and within the Federal

Reserve adhere to Keynesian principles, favouring interventionist policies that emphasize government spending and regulation. In contrast, the new policies emerging from the Trump administration align more closely with the theories of Milton Friedman and James Buchanan, advocating for private-sector solutions and the elimination of government waste. These theories are hardly extreme; they focus on efficiency and market-driven growth, yet they are often painted as radical by those entrenched in conventional Keynesian thinking.

As the political landscape shifts, U.S. industrial policy is pivoting away from environmental, social, and governance (ESG) measures, driven by Trump's renewed focus on growth and innovation. Major U.S. banks, including Morgan Stanley and Goldman Sachs, have exited the Net-Zero Banking Alliance, signalling a broader retreat from ESG commitments. This movement reflects rising concerns that ESG initiatives contribute to inflation and negatively impact living standards.

As we emerge from the pandemic's shadow, the economic challenges facing nations in 2025 and beyond require pragmatic, balanced approaches rather than strict adherence to ideological purity.

Consider monetary policy. After years of near-zero interest rates, central banks worldwide are navigating a return to normalcy. The Bank of Canada, which slashed rates to historic lows during the pandemic, is now cutting after aggressively raising them to combat supply shocks and irresponsible fiscal policies. Private sector economists predict that interest rates will stabilize around 2.75% by mid-2025, close to what the Bank of Canada considers the "neutral" rate. Yet, will this be enough to support the Canadian economy, especially as it faces the most significant economic deterioration since the Second World War?

The Bank of Canada has implemented the most severe interest rate hike regime in the post-Second World War era, tackling an economy overly reliant on real estate. This situation coincides with Ottawa's economic strategy, prioritizing specific economic virtues while neglecting fiscal responsibility. Declining per capita gross domestic product (GDP) and negative productivity are glaring indicators of this neglect.

This raises a crucial question: Will these adjustments be sufficient to support the evolution of the Canadian economy during this significant downturn? What is needed now is a return to the centre—a balanced approach that recognizes the importance of responsible fiscal policy alongside sustainable growth. This moment invites us to reflect on the interplay between monetary policy and economic resilience, urging a deeper examination of how these policy changes may influence both immediate and long-term recovery. All is not lost; Ireland, once labelled the "sick man of Europe," adopted pro-growth policies decades ago, resulting in a per capita GDP now 50 per cent higher than the U.S.

Compounding these challenges is the current FOMC, which includes members with a left-leaning Keynesian perspective. Their focus on ideological adherence over pragmatism is concerning. Despite the changing economic landscape, their insistence on maintaining high interest rates reflects a troubling unwillingness to assess data through an objective, non-partisan lens. This dogmatic approach raises serious alarms about a potential credit crisis, as it overlooks the broader implications of their policies.

With a new Trump administration focused on government efficiency, fiscal policy is undergoing a significant recalibration as the era of unlimited spending comes to an end. Governments are now grappling with mounting debt burdens. In the U.S., the debt-to-GDP ratio exceeds 120 per cent, and transitioning from a wartime economy to one dependent on the private sector presents new challenges for investors. This evolution reflects a more centrist approach to fiscal management, aiming to balance investment needs with long-term sustainability.

Even on contentious issues like climate policy and immigration, there is a growing recognition that extreme positions are no longer tenable. While addressing climate change remains urgent, policymakers are increasingly seeking solutions that reconcile environmental goals

with economic realities. For instance, is the carbon tax truly the optimal strategy in Canada? Is it wise to overlook our abundant natural resources as a foundation for economic growth, especially as global energy demands evolve in an artificial intelligence (AI)-driven landscape? A common-sense, centrist perspective would argue that it is not. Affordable energy prices are a competitive advantage that underpins a robust, forward-looking industrial policy.

Similarly, after years of ambitious immigration targets that strained housing markets and public services, a more measured approach is gaining traction. Will central bankers acknowledge that extreme interest rate hikes contribute to inflation and hinder supply-side adjustments? The move back to the centre encourages policymakers and central bankers to abandon their extreme adherence to Keynesian economic policy and look to the theories of Milton Friedman and James Buchanan. At this midpoint, diverse economic theories can coexist, recognizing that the invisible hand of the market is the most efficient way to allocate resources while acknowledging that unchecked government administration can lead to rent-seeking behaviour that increases economic inefficiency and public debt, robbing future generations of their potential.

Economic Pressures and Policy Re-evaluation

As opposition to ESG initiatives intensifies—especially in Republican-led states—financial institutions are feeling pressure to align with a growth-centric agenda that prioritizes economic expansion over stringent environmental regulations. In Canada, the upcoming implementation of a carbon tax increase on April 1 adds complexity to the landscape, highlighting a shift in the Overton window as major banks reconsider their commitments to ESG principles. Even the Federal Reserve has abandoned its commitment in this regard. The new agenda seeks to balance economic vitality with responsible resource management, fostering a resilient and competitive industrial sector.

Politicians seem to have forgotten the first rule about elections: voters want to focus on their lives, not leaders or identity politics. Rising negative productivity, declining per capita GDP, and falling living standards are pressing concerns in Canada. The glaring lack of a coherent industrial policy reveals a critical truth: being "green" does not equate to having a comprehensive industrial strategy. The damage inflicted by this oversight has generated an urgent need for significant structural adjustments, underscoring the call for pro-growth, capital-friendly private sector initiatives.

The FOMC's insistence on maintaining high interest rates, even as economic indicators shift, signals a potential misstep that could precipitate a credit crisis. While the Federal Reserve has largely achieved its dual mandate of maximum employment and stable prices, its reluctance to normalize rates exposes a troubling reality: that many members view centrist policy as radical and possibly inflationary. This mindset contributes to an increasingly precarious economic environment.

A Path Towards Centrist Revival

With the incoming Trump administration focused on government efficiency, we can expect a recalibration of fiscal policy. Investors should prepare for realignments in sensitive areas like climate and immigration policy, as the efficacy of the carbon tax comes under scrutiny and immigration policies are reassessed to safeguard infrastructure.

As we approach 2025, Canada stands at a critical juncture. Trump's return could dramatically reshape North American economic dynamics, emphasizing private sector growth and deregulation. Key measures will be essential, such as extending the *Tax Cuts and Jobs Act* and reducing corporate tax rates to encourage domestic production. The concept of "Fortress North America," championed by Alberta Premier Danielle Smith, could enhance trade, bolster energy security, and improve collaboration on defence and technology, positioning both countries to compete more effectively against global economic blocs.

Trump's recent comments about using "economic force" to acquire Canada have ignited discussions about North American economic integration. These provocative statements can be seen as a theatrical call for a new regional trading bloc, encouraging further discussion about trade relationships and economic strategies in an increasingly competitive world market.

Trump's rhetoric aligns with the growing trend towards regionalization in global trade, as highlighted in *The Globalization Myth: Why Regions Matter*. O'Neil argues that regional economic blocs, like those in Asia and Europe, have become increasingly important over the past four decades.

"Fortress North America" reflects the potential for deeper economic ties between the U.S., Canada, and Mexico. This integration could enhance the region's competitiveness against other economic alliances like the European Union and those in Asia. Currently, North America lags behind, with intra-regional trade declining from a peak of 47-48 per cent around 2000 to about 40 per cent today.

The paradox of centrist "extremism" becomes evident in this evolving landscape. For discerning investors, the centrist economic revival does not represent a retreat from core principles; rather, it is a strategic pivot towards sustainable solutions. Initiatives that some may label extreme—such as potential cuts to carbon taxes or capital gains taxes, or even reducing the federal workforce—actually signify a return to the centre. Historical examples from countries like Ireland and Argentina illustrate the transformative power of effective policies.

In 2025, we should expect a revival of "animal spirits" driven by pro-private sector strategies, promising significant growth opportunities for those willing to adapt. Investors should anticipate discontent with these changes from both far-right and far-left factions, highlighting the balanced nature of this centrist approach and a need for moderation in governance.

What Should Investors Do?

As we navigate through 2025, it will become increasingly evident that the policies of a second Trump administration represent a shift back to the centre, or a more moderate approach. This transition should alleviate fears surrounding deficit irresponsibility and inflation, potentially allowing the Federal Reserve to cut rates more aggressively than the market currently anticipates.

However, a significant unknown remains: how will the market respond to a notable reduction in government spending, which could initially create a growth scare? My base case is that the market will respond positively. As interest rates are cut further than expected and growth slows, risk assets should perform well. It's important to remember that monetary policy operates with a lag of about 18 months; thus, the real economy will still be adjusting to previous rate hikes.

A pro-growth, deregulatory, and innovation-friendly policy environment, coupled with tax cuts, should bolster expectations for future non-inflationary economic growth. Additionally, the use of tariffs will help ensure reciprocal trade, while pivoting away from aggressive green policies may further reduce inflation, aided by a "drill, baby, drill" approach to energy production.

Expect the U.S. dollar to slowly decline as these moderate policies take shape. Until there is substantial evidence supporting this shift, secular growth stocks are likely to outperform. In the second half of 2025, anticipate a broadening of market breadth as these trends become more apparent.

As the federal funds rate (FFR) continues to normalize towards its natural rate of around 2.75 per cent, keep an eye on Trump's embrace of bitcoin, which could

encourage other countries to adopt it as a reserve asset. This shift could create a favourable environment for cryptocurrencies.

In terms of commodity prices, expect oil to trade down to around US\$50 per barrel, contributing to a decline in energy prices and supporting disinflation. Additionally, China's ongoing export of deflation will play a role in shaping the economic landscape.

Given these dynamics, a target for the S&P 500 of 7,000, with a stretch target of 7,500 by February 2026, would not be surprising.

Investors should prepare for a market environment characterized by moderate policies that support non-inflationary growth. Emphasizing risk assets, remaining flexible, and keeping an eye on evolving economic indicators will be crucial as we move forward into this new era.

As we embrace this centrist revival, we may uncover our best hope for building a more integrated and prosperous North American economy. The growing discontent with current political narratives serves as a reminder that voters want elections to focus on their lives and experiences—an essential truth that must guide us moving forward.

In conclusion, it's time to remember that the ultimate goal of governance should be to serve the people's needs. This principle must guide decision-making and policy formulation as we move forward, focusing on the real challenges facing voters. Embracing a centrist revival offers a pathway towards sustainable growth, innovation, and improved living standards for all citizens. Echoing Hugo's wisdom, "You have enemies? Good. That means you've stood up for something."

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