

MARKET INSIGHTS

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CARNEY'S CANADA:

The illusion of a revival or a prelude to reckoning?

Now that the Canadian election is over and Mark Carney has won, the hard part begins. The campaign trail is behind him; the spotlight now shifts to the daunting reality of governing a nation under siege from global headwinds and domestic skepticism. Mark Carney, the 24th Prime Minister of Canada, inherits not just the legacy of a decade of Liberal rule but a country whose economic standing and reputation are under intense scrutiny from global capital markets and geopolitical rivals alike. The euphoria of victory will be fleeting if it is not followed by decisive, credible action.

IN THIS ISSUE

- › The mirage of reform
- › Alberta's revolt and the energy dilemma
- › Net zero ambitions in retreat
- › Global context: Growth slows, liquidity swells
- › The world is watching—and waiting
- › The Trump factor and the spectre of a new accord
- › The end of illusions
- › Adam Smith's blueprint: Moral sentiments and market dynamism
- › What must change
- › Investor outlook: Caution, skepticism, opportunity
- › The road ahead: No more illusions

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I, however, place economy among the first and most important republican virtues, and public debt as the greatest of the dangers to be feared.

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- Thomas Jefferson

The mirage of reform

Carney's platform, which helped sweep him into office, is a paradox. It promises market-friendly incentives—\$22 billion in income tax cuts, reversal of capital gains hikes, GST exemptions for new home builds—and vows to expedite energy project approvals, diversify trade, and break regulatory logjams. Yet, beneath the surface, the old ghosts of persistent deficits, ballooning debt, and regulatory inertia remain. Carney's refusal to dismantle Bill C-69—the “no pipelines bill”—and his retention of divisive social programs signal a reluctance to break with the Trudeau-era legacy that has weighed heavily on Canada's resource sector and investor confidence.

The numbers are sobering. Deficits are projected to hit \$63 billion in 2025-26, with debt-to-gross domestic product (GDP) stuck above 42 per cent and a federal balance sheet that has doubled over the past decade. Carney's pledge to “catalyze private dollars” through public borrowing is, to many, a rebranding of Modern Monetary Theory (MMT)—a doctrine rapidly falling out of favour as global debt markets tighten and the refinancing wall looms. The world is now fixated on debt sustainability, not creative accounting or campaign slogans.

Alberta's revolt and the energy dilemma

No region illustrates the challenge more starkly than Alberta. The province's energy sector, battered by tariffs, weak prices, and regulatory gridlock, is openly skeptical of Ottawa's intentions. Bill C-69 continues to choke off investment and delay projects, despite Carney's promises of a “one project, one approval” regime. CEOs warn of divestment, and business leaders question whether the new government is prepared to deliver meaningful reform. Alberta's frustration is not an isolated phenomenon; it is a signal to global markets that Canada's internal divisions and regulatory gridlock remain unresolved.

Net zero ambitions in retreat

Meanwhile, Carney's net zero ambitions, once a symbol of Canadian leadership, are unravelling. The exodus from the Glasgow Financial Alliance for Net

Zero (GFANZ) is accelerating, as Wall Street and Bay Street giants abandon climate-first pledges in favour of returns. Canada's insistence on carbon taxes and regulatory overlays is increasingly out of step with a world recalibrating toward energy security and hard assets. The risk is that Canada's climate policy, once a source of pride, becomes a competitive disadvantage in the global race for capital.

Global context: Growth slows, liquidity swells

The challenge facing Carney's government is not just domestic. The latest International Monetary Fund (IMF) and S&P outlooks are clear: global growth is slowing, downside risks are mounting, and the era of easy gains is over. Major economies are recalibrating after years of extraordinary stimulus and swelling debt. The U.S. dollar remains strong, but the prospect of a new “Mar-a-Lago Accord”—a modern echo of the Plaza Accord—hangs over markets, hinting at a possible global effort to address imbalances, currency volatility, and trade distortions.

Liquidity is abundant, but conviction is scarce. Investors are no longer content to chase yield at any price. They demand credible fiscal anchors, regulatory clarity, and a return to sustainable growth models. In this environment, Canada's deteriorating stance is impossible to obscure. The country's growth forecast has been slashed, with real GDP now expected to limp along at 1.3–1.7 per cent in 2025, masking a pronounced loss of momentum as the year progresses. Trade uncertainty and the spectre of a full-blown tariff war with the U.S. could tip Canada into recession, especially as investment decisions are delayed or redirected elsewhere.

The world is watching—and waiting

Canada's reputation as a stable, reliable destination for capital has eroded. The world's largest asset allocators are not fooled by rhetorical pivots. They see a country that doubled its debt in less than a decade, layered on regulatory burdens, and clung to progressive fiscal experiments long after the world lost patience for them. The IMF, S&P, and every major allocator are now focused on debt sustainability, productivity, and credible policy. Canada's experiment with progressive economics has run its course.

Carney's personal credentials—his stewardship of the Bank of Canada during the 2008 financial crisis and the Bank of England through Brexit—are impressive. But markets are forward-looking. The halo of past heroics does not immunize a government from the consequences of policy drift and fiscal excess. The message from global capital is clear: the age of infinite borrowing is over; the refinancing wall is real, and the cost of capital is rising everywhere.

The Trump factor and the spectre of a new accord

The U.S. remains Canada's indispensable trading partner, absorbing the lion's share of exports. Trump's tariffs are a blunt reminder of Canada's vulnerability. Carney's retaliatory measures and talk of diversification cannot mask the reality: Canada's leverage is limited, and its regulatory stance on energy is a glaring weakness in any negotiation. There is growing speculation that a new "Mar-a-Lago Accord" could emerge—an international effort to address currency misalignments and trade frictions. If such an accord materializes, it will be driven by the interests of the world's largest economies. Canada, diminished by years of drift, will be a bystander—not a shaper—of the new order.

The spectre of a new global bargain, possibly brokered at Mar-a-Lago or elsewhere, looms large. Such an accord would address the imbalances and volatility that have plagued currency and trade markets since the pandemic. For Canada, the risk is clear: unless it can demonstrate credible reform and alignment with global priorities, it will be relegated to the sidelines, its influence faded and its access to capital constrained.

The end of illusions

Let there be no illusion: Canada's standing in the world has deteriorated, and the world has noticed. Global capital will not tolerate another four years of progressive policy and MMT-style fiscal management. The world is not waiting for slogans—it is waiting for action.

Canada's resource wealth, once a magnet for global investment, is now mired in regulatory confusion and political indecision. Productivity growth lags the U.S. by two per cent annually, and foreign direct investment has fallen sharply. The Fraser Institute reports a 40 per cent drop in foreign direct investment since 2015; the C.D. Howe Institute warns of a five per cent GDP per capita decline by 2035 without meaningful deregulation. These are not abstract risks—they are the symptoms of a country that has lost its way.

Adam Smith's blueprint: Moral sentiments and market dynamism

A pivotal question now faces Carney's government: will he draw inspiration from Scottish economist and philosopher Adam Smith's dual legacy to redefine Canadian capitalism for this era, or simply perpetuate the progressive excesses of the Trudeau years? Smith's *Theory of Moral Sentiments* provides a philosophical foundation for a capitalism that is not merely transactional but rooted in empathy, justice, and the public good. Smith argued that self-interest, when tempered by moral sympathy and the desire for mutual approbation, could knit together a virtuous society, allowing each nation to shape its own brand of capitalism. In this sense, Canada has the latitude to define its economic model in a way that balances prosperity with social cohesion.

Yet Smith's later work, *The Wealth of Nations*, is unequivocal: sustainable prosperity requires unleashing the private sector and embracing structural change. Smith warned of the dangers of monopoly, regulatory capture, and excessive government intervention—pitfalls that now threaten Canada's competitiveness. Carney, who has often referenced both Smithian texts in his roles as central banker and Brookfield executive, must now move from rhetoric to action. The world is watching to see if he can pivot from Trudeau's progressive orthodoxy to a pragmatic capitalism that prizes both moral sentiment and market dynamism. If he fails, Canada's decline will be indisputable.

What must change

If Carney wants to restore confidence, he must do what his predecessor would not: deliver tangible, visible reform. Repeal the regulatory barriers that stifle investment. Rein in deficits, not with creative accounting, but with real discipline. Signal to the world that Canada is serious about competitiveness, resource development, and fiscal sustainability.

Global capital is pragmatic. If Carney can prove by action—not words—that he is not Justin Trudeau, that he understands the gravity of the moment, then and only then will capital begin to return. But the window is closing. In a world of slowing growth, swelling liquidity, and looming global bargains, Canada cannot afford another lost decade.

Investor outlook: Caution, skepticism, opportunity

For investors, the message is clear: Canada is no longer a default safe haven. The dispersion of possible outcomes is wide, and the risks are real. Slowing global growth, abundant liquidity, and the possibility of a new global accord to address imbalances all add to the uncertainty. Watch for signals—not slogans—of genuine reform. Monitor global negotiations, shifts in U.S. policy, and the trajectory of Canadian fiscal and regulatory action.

Investor action points

- Stay nimble. Global growth is decelerating, and volatility is rising.
- Watch liquidity trends. Abundant capital is chasing fewer credible opportunities—Canada must compete for every dollar.
- Track global negotiations. A new Mar-a-Lago Accord could reshape currency and trade dynamics overnight.

- Demand proof, not promises. Only real fiscal and regulatory reform will restore confidence.
- Be ready to pivot. If Canada signals credible change, opportunities will emerge. If not, capital will continue to flow elsewhere.

The road ahead: No more illusions

To be clear, a minority government is not a strong mandate. If Carney ignores the warnings from capital markets, investors should not rule out a swift return to the polls. However, given Carney's extensive experience at the helm of Brookfield, one might expect him to be highly attuned to the sensitivities of global investors. It's worth remembering that the markets rejected his previous net-zero program, signalling that he will need to carefully navigate investor concerns moving forward.

Now that the election is over and Carney has secured victory, the real challenge begins. The world is watching closely. The era of progressive experiments fuelled by limitless debt has come to an end. Only genuine reform—fiscal discipline, regulatory clarity, and a sustainable economic vision—will restore Canada's international standing and attract the capital it so desperately needs. The illusions of easy solutions and reckless spending are no longer tenable.

If Carney commits to governing as a prudent reformer, there is still hope that Canada can reclaim its position as a desirable destination for global capital. But failure to do so risks accelerating the country's slide into irrelevance. Investors are increasingly impatient; they will not wait indefinitely for Ottawa to catch up. The window for meaningful change is narrowing, and the stakes have never been higher.

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