

“A WHOLE NEW WORLD”

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By Brahm Satov

I don't like to write about politics, in fact I will be surprised if this newsletter makes it through compliance. However, when politics affects the economy and in this case the investment environment as well...

Not long ago, the United States was seen as the defender of democracy, the face of capitalism, and the U.S. dollar was solid and strong. Much has changed, dare I say, it's "a whole new world". I realize as I write this, that to many, it may not be popular, but as I have done for the past 13 years since I arrived at CIBC, I will share my honest thoughts. I believe we have started down a road of crony capitalism, crony currency (I may have coined that phrase myself), and crony democracy. Some may recall the song, "A Whole New World", from the movie *Aladdin*. If you can believe it, the movie was released in 1992, about 33 years ago. The voice of the genie by the multi-talented, Robin Williams, he is certainly missed. Back in 1992, I was in my 20's, and as I sit here at my desk, it is easy to see that compared to then, it is a whole new world.

In this new world of crony capitalism, the economic system tilts toward those with the right political ties. Businesses with political connections get the breaks such as tax incentives, grants, and special treatment, while real competition takes a backseat. It is not the free market we like to imagine, and it makes the system less efficient. Other countries have long operated like this, but lately I feel the United States has started heading down the same road. And remember, in the developed world, the U.S. consumer has been king of the road, perhaps that is also changing.

Crony democracy is not much better. On the surface it looks like a functioning democracy with elections and representation. But underneath, it is often shaped by cozy relationships between politicians and big business. Government takes stakes in companies, tariffs, and payoffs are all part of the picture. It is not hard to argue that this is already playing out in the United States.

Canada may already be in recession, with less immigration that previously was artificially supporting economic growth and falling exports due to tariffs, this one two punch may be too much. Moreover, government spending has soared on both sides of the border, now well over 20% of GDP. That is a far cry from my grandparents' time, when spending was only a sliver of the economy and growth relied mostly on consumers. Add in today's towering levels of government debt, and you get a simple truth: just like households living beyond their means, governments have been doing the same. This generation has been living larger than it should have, and the bill with heavy debt and rising interest costs will fall on future generations. Moreover, now that governments have shown a propensity to try to do almost anything to avoid an economic downturn, and kick the can further down the road, we need to take that into consideration.

Other nations, like Turkey, have successfully pressured central banks to be more dovish using lower rates to foster economic growth. The ramifications have been devastating, with extreme inflation, devaluations of currency and economic hardship. I write this with trepidation, we have come to the point in North America, at least South of the border, where the central bank, the Federal Reserve, which is supposed to be completely independent is being pushed around by the administration. Not only has the current administration used threats to put pressure on the Fed Chairman to reduce rates, but it looks as if they may also be manufacturing criminal allegations against democratic members of Fed members to get these members removed, such as Lisa Cook. Economist and winner of the Nobel Memorial Prize in Economic Sciences, Paul Krugman, calls these actions by the current administration, "Disasters in the making" ('Disaster in the making': Nobel economist warns, US headed for 'Wile E. Coyote' moment, Story by Robert Davis, 8/29/2025). I think Krugman is referring to the move away from competitive advantage and towards crony capitalism, crony democracy and perhaps even crony currency. Needless to say, so much has changed, it is a whole new world.

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

Sincerely,

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