

WEEKLY STRATEGY Perspectives



Private Wealth

WEEK ENDED OCTOBER 16, 2026

Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Rebalancing the World Order

"World order cannot be achieved by any one country acting alone. To achieve a genuine world order, its components, while maintaining their own values, need to acquire a second culture that is global, structural, and juridical – a concept of order that transcends the perspective and ideals of any one region or nation."

– Henry Kissinger, [*World Order: Reflections on the Character of Nations and the Course of History*](#)

The Through Line: In recent days, global crosscurrents have been feeding investor agita. For that we can thank a news flow gripped by ongoing trade tensions, rising interest rates, bloated sovereign budgets and the inflationary impact of two hot wars. It's worth remembering that, under the hood, the world remains an increasingly interconnected place – despite a constant reconfiguration of the ground rules. The current pace of change certainly feels intense. Seen from a longer perspective, however, global activity has been continually evolving for millennia. We highlight a few of the most impactful themes currently in motion, theorizing how they could craft a more constructively balanced future state.

Truly unprecedented? Or par for the evolutionary course?

We get it. Global headlines can seem a bit chaotic, forcing everyone to sort through multiple moving parts:

- **Bloated (and growing) sovereign debt** further strained by rising interest rates
- **Reconfiguration of trading partners** precipitated by geopolitical threats and new tariffs
- **Supply chain choke points** exposed by hot wars and unusual dry weather
- **The political status quo upended by** widely divergent views among populations electing fringe candidates (versus middle-of-the-road)
- **The need/promise to increase security and cyber security spending**

While it all feels new, many of the trends eating away at the post-WWII trade infrastructure were set in motion years ago. Sovereign debt, for example, grew from stepped-up fiscal spending following back-to-back economic traumas (GFC, COVID). After all, money was almost free courtesy of ultra-low interest rates prevailing at the time.

We could see hints that trade/energy supply routes were at risk as early as Russia's invasion of Crimea in 2014 and threats to global choke points (e.g., the Ever Given, which ran aground and blocked the Suez Canal for weeks in 2021 and LA dockworker strikes in 2024 that forced ships to queue for miles/days waiting to offload). Trade wars and tariff issues began in 2018 during President Donald Trump's first term (and were maintained/intensified under President Joe Biden's term). Most recently, the EU is considering the launch of country-specific tariffs on China to protect key critical industries such

as auto and defense.ⁱ **Bottom line: global trade – routes, partners, routines, alliances, trading blocs – are not static; they are an ever-evolving response to the dynamism inherent in business, political and geopolitical cycles.**

The kaleidoscopic world order

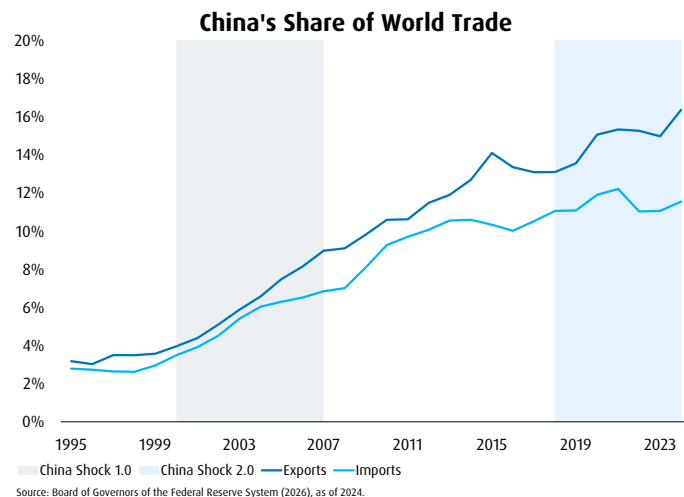
Many of the international systems we know today are rooted in a set of agreements established shortly after the end of WWII. The intent was to create a framework that would facilitate global trade cooperation in the belief that strong economic ties would discourage conflict (and perhaps – fingers crossed – encourage the spread of capitalism and democracy). For example, the international Bretton Woods agreement established the International Monetary Fund (IMF) and the World Bank while tying world currencies to the USD, which became the globe's reserve currency. Subsequent trade agreements (e.g., NAFTA), the creation of regional trading blocs (e.g., the European Union, BRICs, ASEAN) and formation of bodies such as the World Trade Organization also encouraged cross-border activity. **This facilitated a tripling of world trade as a share of global GDP between 1950 and its peak in 2008ⁱⁱ and lifted more than a billion global citizens out of abject poverty and into the middle class.ⁱⁱⁱ** Concomitantly, infant mortality has fallen from 25% dying before age five to (still sadly) about 3.5%.^{iv}

Technology and advanced logistics systems also helped globalize activity by enabling manufacturing to occur in places where there was an ample supply of inexpensive labor, specialized manufacturing expertise (semiconductors in SE Asia, biotechnology in China, advanced manufacturing in Japan) and/or more lenient regulatory/environmental policies. **Decades of intricate planning, development and investment created a spiderweb of global interdependencies.**

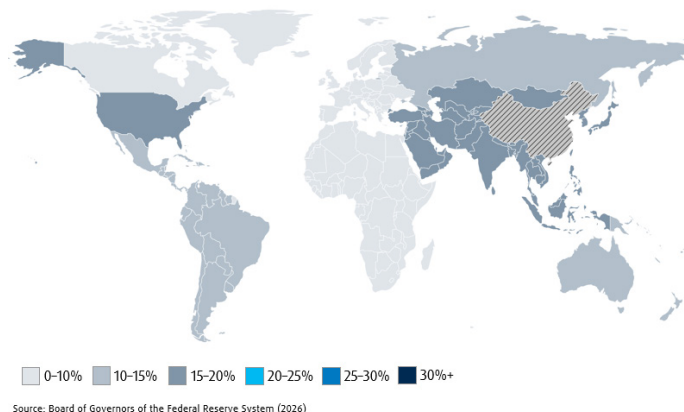
China: aspiring, economically dominant hegemon

After 14 years of negotiations, in 2001 China was admitted into the World Trade Organization and given emerging market status. Based on its seemingly bottomless pool of low-cost labor, Beijing put an intense focus on developing manufacturing and distribution expertise in a host of industries. In 2015, the Middle Kingdom released its “Made in China 2025” industrial policy plan, outlining key industries it aimed to dominate, including solar panels, EVs, robotics and batteries. The impact of this intentionality is evident in the charts below – and by the announcement this week that China’s exports grew 36% in September (relative to an expected increase of “just” 25%) and is on track to break last year’s record full-year trade surplus of \$1.2 trillion.^v

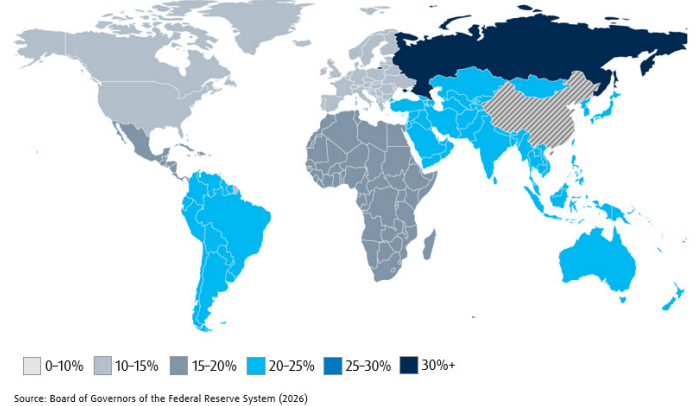
China has placed an intense focus on becoming a manufacturing powerhouse, arguably at the expense of balancing domestic consumption activities (particularly in the wake of the intractable problems still lingering in its real estate sector). **This has led to a finely tuned system churning out substantially more product in key areas than its own citizens – or even the globe – can support.** Case in point: A recent *Foreign Affairs* article points out that China has the capacity to build 55 million cars – roughly 60% of the global market.^{vi}



Chinese Import Penetration by Region, 2007
Percent share of imports from China in total goods imports by region



Chinese Import Penetration by Region, 2024
Percent share of imports from China in total goods imports by region

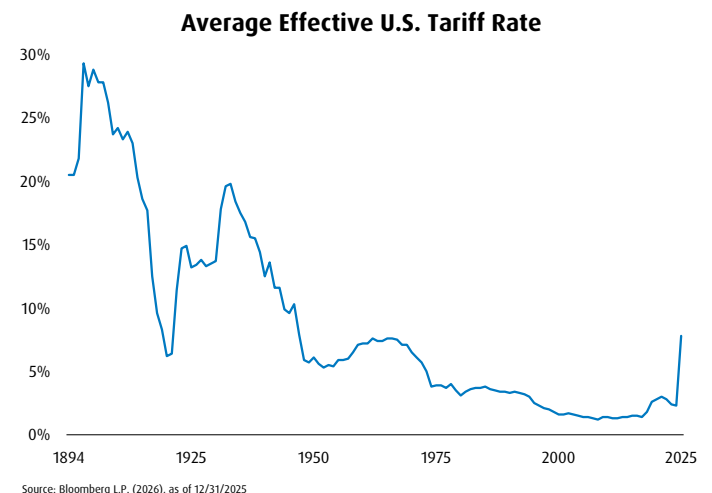


Bond vigilantes ride again

In a number of past issues, we profiled the persistent rise in longer-dated bond yields, noting that yield volatility has surpassed that of stocks for much of this year. **The increase has not been confined to Treasury bonds and loonies – global sovereign debt yields have also risen in France, Japan, Germany and the UK** (to name just a handful). Buoyant global growth (or growth better than feared for some countries) is a common driver underpinning higher global yields in general. However, country by country, bespoke contributing factors are driving varying magnitudes and speeds of the increases. Some (U.S., SE Asia) are due to strong AI-related demand-pull inflation. Others are more a reflection of challenging demographics (fewer workers plus more retirees to support), which exacerbate bloated fiscal deficits. In the long run, it’s tough to spend more if the markets demand accountability and refuse to buy your debts.

Tariffs, trade wars and trade (im)balances

It is a Herculean task to count the number of times U.S. tariffs have been on, off, increased, removed, applied, rescinded and/or overturned by a court of law. Suffice it to say, President Trump came into his first term in 2016 determined to change the decades-long global decline in average effective rates and has managed to do just that (chart). The 40-year experiment with free trade that began in the 1980s eventually exposed flaws in the theory after individual sectors, industries, individuals and regions were caught in the gears of subsidized, supported and incentivized production.



The deployment of new tariff regimes and trade agreements is not limited to the U.S. In addition to the auto tariffs, Bloomberg reports that Germany plans to press the EU to consider additional items such as chemicals – and potentially pharmaceuticals.^{vii}

Free-trade capitalism is a powerful economic force. In the fastest-growing areas of the economy, trade is accelerating and trade imbalances widening. This is despite tariff friction caused by the race among countries and companies to secure the necessary inputs for AI and infrastructure buildout. Many of the component parts come from SE Asian countries, including China, Japan and South Korea.

Silver linings: what is going/could go right?

The terminology around global issues often has negative connotations, but we see potential long-term benefits from shifting the world order along current trajectories:

- **Rebalancing of trading relationships and stabilization of supply routes is long-term healthy**, even if it is disruptive in the short run. Redundancy and building in backup plans could add to corporate resiliency, adaptability and responsiveness. While many parts are in flux, others are nearing final phases – including an actual trade deal with Viet Nam. In some areas, we already have a bit more clarity than we did 12 months ago.
- **Rising bond yields give investors more investment choices** than they had when cash/bonds yielded near zero. Because of higher policy rates, central banks now have more wiggle room to deploy stimulative cuts if/when their respective economies begin to falter.
- **Re sovereign indebtedness – bond yields are the price of money.** Making it more expensive to borrow is the best way to impose discipline on governments. The need for funds can be satiated two ways: borrow more or collect more (spending less is an option too, though one rarely selected by politicians intent upon retaining their jobs). *Perhaps the balancing act between broader fiscal stimulus and what bond investors will bear prompts a rethink about how revenues are raised and/or profits split between capital and labor.* During a recent interview, Microsoft co-founder Bill Gates suggested a robot tax, noting that the current tax codes encourage the deployment of non-taxed robots relative to the employment taxes that must be paid on individual employees.^{viii}
- **New trade routes are emerging.** While shifting climate is making certain trade routes more problematic (e.g., lack of rain for the Panama Canal and Danube River), melting and warming of other parts are leading to longer shipping seasons and/or brand-new routes in previously ice-locked areas.

Implications for investors

Global trade has become tightly integrated over the past 40+ years, creating an intricate, multi-layered set of impacts on companies' financial and operational affairs. It can be unsettling to markets and investors in the short term as these principals are shifted. To date, businesses and consumers have repeatedly proven their adaptability in the face of multiple shocks. Sovereign governments have a harder time removing stimulus once it is embedded in budgets – a fact that ruffles the feathers of watchful bond vigilantes.

Trade itself – and its impact on a company's incomes, operations and financing – is an ever-evolving process. As Henry Kissinger noted, world order demands constant rebalancing.

Next week in North America

U.S. earnings season rolls on; expect mid-sized and diversified financials and a broadening docket of reports. Fed policymakers will go dark on Saturday, October 17, when they enter the traditional quiet period before the next rate-setting meeting (October 28). In Canada, it's a rich week of data that will deliver reads on business, inflation, housing and consumer sentiment.

Monday 10/19:	U.S. NAHB Housing market Index Canada Inflation, CPI, BoC Business Outlook Survey, BoC Survey of Consumer expectations
Tuesday 10/20:	U.S. Housing starts, Pending home sales Canada none scheduled
Wednesday 10/21:	U.S. none scheduled Canada none scheduled
Thursday 10/22:	U.S. Weekly jobless claims, Leading indicators Canada PPI, Raw materials prices
Friday 10/23:	U.S. US Flash manufacturing and services PMIs, University of Michigan final consumer sentiment survey Canada New housing price index, retail sales, manufacturing sales



Information contained in this publication is based on sources such as issuer reports, statistical services and industry communications, which we believe are reliable but are not represented as accurate or complete. Opinions expressed in this publication are current opinions only and are subject to change. BMO Private Wealth accepts no liability whatsoever for any loss arising from any use of this commentary or its contents. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice, tax advice, a recommendation to enter into any transaction or an assurance or guarantee as to the expected results of any transaction. You should not act or rely on the information contained in this publication without seeking the advice of an appropriate professional advisor.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. BMO Nesbitt Burns Inc. is a Member – Canadian Investor Protection Fund and is a Member of Canadian Investment Regulatory Organization. BMO Trust Company and BMO Bank of Montreal are Members of CDIC.

“BMO (M-bar roundel symbol)” is a registered trademark of Bank of Montreal, used under licence.

Precious metal investing involves greater fluctuation and potential for losses.

Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index.

ⁱ [The Next Global Economic Crisis Could Be Made in China | Foreign Affairs](#)

ⁱⁱ [Rethinking Free Trade](#)

ⁱⁱⁱ [The arc of human history is toward cooperation, not division - Big Think](#)

^{iv} [Infant mortality rate, 2024](#)

^v [China's September exports soar, putting \\$1 trillion trade surplus in sight | Reuters](#)

^{vi} [The Next Global Economic Crisis Could Be Made in China | Foreign Affairs](#)

^{vii} [Germany to Push EU to Impose Caps on Additional Chinese Imports - Bloomberg](#)

^{viii} [Bill Gates Says FICA Taxes Should Apply to Robot Workers Too - Business Insider](#)