

WORLD ECONOMIC OUTLOOK

FINANCIAL MARKETS - WORLD FINANCIAL STATE - CHINA - UKRAINE WAR - MIDDLE EAST WAR

HUGHES ECONOMICS (HE) – December 2024

Papers on the above topics are available on this website as are various spreadsheets in **xlsx** format. These spreadsheets can be downloaded from here and are easily adaptable using different inputs for other scenarios.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** available at <https://doi.org/10.17265/2328-2185/2022.05.006> and also downloadable here. Some variations for atypical scenarios are outlined in the paper **Variations in Probability Assessment for Atypical Scenarios** available at: <https://doi.org/10.17265/2328-2185/2024.04.004> or from this website.

FINANCIAL MARKETS

HE finds forecasting market outcomes very difficult currently. A Trump future looks to be “market friendly” but the basic uncertainty on market reaction, together with institutional reactions (Fed , Treasury etc.), public reactions and geopolitical concerns all combine to make for a lack of predictability. Possible market outcomes are redefined in likelihood order as follows:

- **BU**: Bust where something goes wrong as in a world trade war, massive supply chain disruptions etc.
- **BO**: Boom, new perspectives, AI continues to spark gains, sky’s the limit expectations, MAGA rules.
- **Mod**: Moderate outcomes and adjustments, no major moves for the Dow around 45,000 (currently 44,911).

PROBABILITIES ON FINANCIAL MARKETS FOR THE NEXT 6 MONTHS

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
BU	Base = 1	1.00	1.00	0.182	0.108	0.145	15	n/a	Base	Base
BO	BO/BU	2.00	3.00	0.364	0.324	0.344	34	n/a	2.37	2.27
Mod	Mod/BO	1.25	1.75	0.454	0.568	0.511	51	n/a	1.49	1.50
				1.000	1.000	1.000	100	n/a		

Briefly, ups and downs balance out and the markets follow a middle path but with **BU** and **BO** both possible, if not likely. Some commentators are still warning of an impending market crash. With the current geopolitical issues, they may ultimately be correct.

WORLD FINANCIAL STATE

The **WFS** calculations are similar to those for **Financial Markets**. The Trump world foreshadows turmoil – just how it all plays out is awaited with some trepidation. The possible outcomes are redefined in likelihood order as follows:

- **WD** or world disorder: Trade wars and similar actions, geopolitical events become problematic for the world.
- **MAGA** or US hegemony: MAGA policies accommodated with no major retributions by other countries.
- **BAU** or business as usual: World economy soldiers on with higher tariffs and some destabilizing actions but no chaos.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
WD	Base = 1	1.00	1.00	0.143	0.077	0.110	11	n/a	Base	Base
MAGA	MAGA/WD	2.00	3.00	0.286	0.231	0.258	26	n/a	2.35	2.36
BAU	BAU/MAGA	2.00	3.00	0.571	0.692	0.632	63	n/a	2.45	2.42
				1.000	1.000	1.000	100	n/a		

The probabilities for the **WFS** are similar to those for **Financial Markets**. As outlined above, just how MAGA policies affect the world economy remains to be seen. Germany’s election is also a potential destabilizing factor.

CHINA'S ECONOMY

China at last seems to be taking major steps to improve the economy there. This allows **HE** to reverse the previous order of the **BO** and **BU** outcomes as below. Possible scenarios for China in order of likelihood are now:

- **BU**: The economy depresses even further or bust.
- **BO**: The economy booms with 10% plus GDP growth.
- **RE**: The economy shows a moderate recovery but slower growth than previously.
- **SW**: The economy goes sideways for a prolonged period.

Probabilities for the China scenarios are calculated in the table following.

PROBABILITIES ON CHINA'S GROWTH PROSPECTS

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
BU	Base = 1	1.00	1.00	0.019	0.010	0.015	1	1	Base	Base
BO	BO/BU	1.25	1.50	0.023	0.015	0.019	2	1	1.27	2.00
RE	RE/BO	15.00	20.00	0.348	0.300	0.324	33	18	17.05	16.50
SW	SW/RE	1.75	2.00	0.610	0.675	0.642	64	80	1.98	1.94
				1.000	1.000	1.000	100	100		

The increased stimulus by the Chinese government bolsters the chance of **RE** in this update. Tariff headwinds, however, will face the manufacturing sectors and this could help stall any **RE** outcome.

THE WAR IN UKRAINE

Trump pronouncements on the Ukraine war have engendered apprehension. **HE's** previous scenarios in order of likelihood were as follows:

- **RS**: Russia successfully achieves its aim of reducing Ukraine to a puppet state, if not part of Russia itself.
- **RE**: Russia exits Ukraine but possibly with some territorial gains.
- **WW**: A "Weimar Triangle" of Germany, France and Poland prepares to help Ukraine – a wider war becomes possible.
- **STM**: A stalemate cements itself with Ukraine now engaged in Russia, but only two belligerents confront each other.

Probabilities for the above scenarios are shown in the table below:

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (no changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
RS	Base = 1	1.00	1.00	0.045	0.031	0.038	4	5	Base	Base
RE	RE/RS	1.00	1.00	0.045	0.031	0.038	4	5	1.00	1.00
WW	WW/RE	4.00	5.00	0.182	0.156	0.169	17	16	4.45	4.25
STM	STM/WW	4.00	5.00	0.727	0.781	0.754	75	74	4.46	4.41
				0.999	0.999	0.999	100	100		

Putin continues to stonewall any peace initiatives. Trump may have some ace to play and force a settlement to the conflict. It seems very unlikely that Trump would want to go down in history as the man who sold out Ukraine to Russia. That would dog his presidency for the next four years. If, however, some parts of Ukraine currently under Russian control truly wish in future to be part of Russia and not Ukraine, **HE** believes that this should be acceptable to NATO and the West generally. Whatever the outcome of the current conflict, one thing seems certain: the historical enmity between Russia and Ukraine will continue on to the detriment of Russia's future. In the words of former Swedish PM Carl Bildt, "The West could never achieve what Putin has: Ukraine's total alienation from Russia."

THE WAR IN THE MIDDLE EAST

A 60 – day ceasefire between Israel and Hezbollah is now in place. Gaza still remains a war zone. At least Iran is currently on the sidelines so a wider war is now less likely. Watch this space.