

WORLD ECONOMIC OUTLOOK

FINANCIAL MARKETS - WORLD FINANCIAL STATE - MIDDLE EAST - POTUS 2024 - UKRAINE WAR

HUGHES ECONOMICS (HE) – February 2024

The current review below calculates probabilities for Financial Markets outcomes, the situation in the Middle East, the possibility of another depression, the 2024 US Presidential election, and the war in Ukraine. Papers as below are available on this website as are various spreadsheets in **xlsx** format. These spreadsheets are easily adaptable by users for other situations and/or 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. A short summary article **Assessing Probabilities With Minimal Calculations** (and accompanying spreadsheet) can also be downloaded from this website.

FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood:

- **TINA**: There is no alternative, and the Dow rises significantly to 40,000+.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction.
- **SQ**: Status Quo, no major moves for the Dow around 38,000.

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	%
TINA	Base = 1	1.00	1.00	0.250	0.200	0.225	22	3	Base	Base
BB	BB/TINA	1.00	1.00	0.250	0.200	0.225	23	69	1.00	1.05
SQ	SQ/BB	2.00	3.00	0.500	0.600	0.550	55	28	2.44	2.39
				1.000	1.000	1.000	100	100		

This month **HE** reverses the likelihood order for **BB** and **SQ** in favour of the latter. The US economy is doing well, and a “soft landing” looks possible. Although a market correction is also possible, the recession scenarios are now looking less likely, and the AI hype is supporting major tech stocks. With this background, **HE** now favours the **SQ** scenario.

WORLD FINANCIAL STATE

Various “landings” from the previous high inflation state are possible as outlined below:

- **CL** or Crash Landing: Geopolitical events deteriorate and disrupt world trade leading to an economic collapse.
- **HL** or Hard Landing: Policy mistakes make for a world recessionary outcome.
- **NL** or No Landing: World economy drifts on with low growth, high interest rates and maybe a higher target inflation rate.
- **SL** or Soft Landing: Inflation tamed, world growth recovers with a favourable outlook, geopolitical concerns managed.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS (No changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CL	Base = 1	1.00	1.00	0.083	0.038	0.060	6	7	Base	Base
HL	HL/CL	1.10	1.50	0.092	0.057	0.074	7	9	1.23	1.17
NL	NL/HL	3.00	4.00	0.275	0.226	0.251	25	24	3.39	3.57
SL	SL/NL	2.00	3.00	0.550	0.679	0.615	62	60	2.45	2.48
				1.000	1.000	1.000	100	100		

Job growth in the US remains strong and **SL** remains the most likely outcome. The US economy grew at a 3.3% annualized rate in the last quarter of 2023 with annualized inflation at 1.7% down from 2.6% in the previous quarter. These results are good news for Democrats and incumbents in the US 2024 elections. The outlook for China and Germany is not so bright, but a strong US economy continues to support a steady world state financially.

THE MIDDLE EAST

This month **HE** replaces the Taiwan issue with the situation in the Middle East. Scenarios in order of likelihood are:

- **WE:** The war escalates with Iran and extremist groups gaining traction.
- **SQ:** Status Quo with Israel and the IDF continuing operations. Iran and associates continue to gain increasing influence.
- **2S:** The US imposes a “two state” solution on Israel but Iran and associates still operate throughout the region.

PROBABILITIES ON MIDDLE EAST DEVELOPMENTS OVER THE NEAR FUTURE

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
WE	Base = 1	1.00	1.00	0.143	0.077	0.110	11	n/a	Base	Base
SQ	SQ/WE	2.00	3.00	0.286	0.231	0.258	26	n/a	2.35	2.36
2S	2S/SQ	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		

Developments seem to be moving towards the **2S** scenario. The region is clearly volatile and future developments very unpredictable. If the **2S** scenario does not eventuate, then **WE** seems inevitable.

POTUS 2024

Given recent developments, **HE** now allows for candidates other than Trump and Biden. In order of likelihood, these are:

- Other Republican: Someone other than Trump if legal or other developments disqualify him as a viable candidate.
- Other Democrat: Someone other than Biden if his age/competence develops into an electoral liability.
- Trump
- Biden

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
Other Rep	Base = 1	1.00	1.00	0.018	0.007	0.012	1	2	Base	Base
Other Dem	O Dem/O Rep	2.00	3.00	0.035	0.022	0.029	3	7	2.42	3.00
Trump	Trump/O Dem	9.00	11.00	0.316	0.243	0.279	28	38	9.62	9.33
Biden	Biden/Trump	2.00	3.00	0.632	0.728	0.680	68	53	2.44	2.43
				1.001	1.000	1.000	100	100		

Two forces have emerged that could prompt a game-changer for world politics. The US supports the formation of a Palestinian State with or without Israel’s acquiescence. Many Arab states would welcome limitations to Iran and Shiite influence in the region, which ongoing unrest augments. And secondly, a recognized solution to one of the region’s major problems would support a Biden victory over Trump and let the rest of the world take care of business. Re-globalization could resume but Ukraine would remain a problem. The economic outlook for the US economy supports a Biden victory in November, although Trump currently leads in the polls.

THE WAR IN UKRAINE

This month **HE** proposes new scenarios. As long as Putin (or similar successor) remains in control, negotiations are a non-starter.

- **RS:** Russia successfully achieves its aim of reducing Ukraine to a vassal state, if not part of Russia itself.
- **RE:** Russia is forced to exit Ukraine but possibly with some territorial gains.
- **STM:** A stalemate cements itself with battlelines little changed from those current, but all territories remain intact.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE

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	0.118	0.077	0.097	10	n/a	Base	Base
RE	RE/RS	1.50	2.00	0.176	0.154	0.165	16	n/a	1.70	1.60
STM	STM/RE	4.00	5.00	0.706	0.769	0.738	74	n/a	4.49	4.63
				1.000	1.000	1.000	100	n/a		

Ukraine recently replaced its top general, but significant gains by either side look unlikely.