WORLD ECONOMIC OUTLOOK
FINANCIAL MARKETS - WORLD FINANCIAL STATE – CHINA - POTUS 2024 - UKRAINE WAR
HUGHES ECONOMICS (HE) – Mid-September 2024

Papers on the above topics are available on this website as are various spreadsheets in **xlsx** format. These spreadsheets are easily adaptable using different inputs for other scenarios. Recent events justify a mid-month update at this time.

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 as are spreadsheets. Some variations for atypical scenarios are outlined in the paper ***Variations in Probability Assessment for Atypical Scenarios*** available on 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 above 41,000.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000⁻ or a 20%+ correction.
- **SQ**: Status Quo, no major moves for the Dow around 41,000 (currently 41,394).

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	0.045	0.036	0.041	4	4	Base	Base
BB	BB/TINA	10.00	12.00	0.455	0.438	0.446	45	41	10.88	11.25
SQ	SQ/BB	1.10	1.20	0.500	0.526	0.513	51	55	1.15	1.13
				1.000	**1.000**	**1.000**	**100**	**100**		

The Fed is now on track to lower the Fed Funds Rate in September but by how much still remains unclear. The gap between **BB** and **SQ** narrows in this update, but the US economy is producing good numbers on consumer sentiment, growth, jobs, and inflation.

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

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	0.077	0.032	0.055	5	10	Base	Base
HL	HL/CL	2.00	3.00	0.154	0.097	0.125	13	12	2.27	2.60
NL	NL/HL	2.00	3.00	0.307	0.290	0.299	30	28	2.39	2.31
SL	SL/NL	1.50	2.00	0.462	0.581	0.521	52	50	1.74	1.73
				1.000	**1.000**	**1.000**	**100**	**100**		

It now appears that a **CL** is more unlikely, and we reduce this probability to 5%. The soft landing outcome increases slightly in probability again. Interest rates around the world are falling with CBs cutting official rates.

CHINA'S ECONOMY

Possible scenarios for China in order of likelihood are:

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

PROBABILITIES ON CHINA'S GROWTH PROSPECTS (no changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
BO	Base = 1	1.00	1.00	0.031	0.016	0.023	2	2	Base	Base
BU	BU/BO	1.50	2.00	0.046	0.032	0.039	4	4	1.70	2.00
RE	RE/BU	4.00	5.00	0.185	0.158	0.172	17	21	4.41	4.25
SW	SW/RE	4.00	5.00	0.738	0.794	0.766	77	73	4.45	4.53
				1.000	1.000	1.000	100	100		

China's economy continues to under-perform and **HE** sees no reason to change the **SW** outcome favoured above.

POTUS 2024

The recent debate was judged a clear win for Harris and Trump currently rules out a rematch.

- **T**: Trump
- **H**: Harris

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
T	Base = 1	1.00	1.00	0.476	0.455	0.465	47	48	Base	Base
H	H/T	1.10	1.20	0.524	0.545	0.535	53	52	1.15	1.13
				1.000	1.000	1.000	100	100		

The recent debate sees Harris edge out a little further in the Presidential race. Trump could still win with the right policies and Harris missteps in the election lead-up, but the race is now Harris' to lose. Trump has a very loyal base but needs to advance innovative policies to expand this to win. **HE** suggests restoring US manufacturing supremacy (a winner with unions) with low-cost nuclear energy (possibly subsidizing expensive plant construction) as this employs leading US technology. It also supports US job creation in an AI world, which is itself energy intensive. Regaining the crown of the world's manufacturing powerhouse would indeed make America great again.

THE WAR IN UKRAINE

Options in order of likelihood as previously are:

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

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		

Ukraine has expanded the war into Russia proper and it remains to be seen how successful this strategy will be.