WORLD ECONOMIC OUTLOOK

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

HUGHES ECONOMICS (HE) – Mid-October 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.

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 at: https://doi.org/10.17265/2328-2185/2024.04.004 or from this website.

Currently, world events with POTUS 2024 and the Middle East are moving swiftly prompting more frequent updates than usual.

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 43,000.
- **BB**: Bubble bursts and Dow corrects to significantly below 40,000⁻ or a 20%+ correction.
- **SQ**: Status Quo, no major moves for the Dow around 43,000 (currently 43,065).

PROBABILITIES ON FINANCIAL MARKETS 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	%
TINA	Base = 1	1.00	1.00	0.009	0.007	0.008	1	3	Base	Base
BB	BB/TINA	45.00	50.00	0.396	0.361	0.379	38	39	47.38	38.00
SQ	SQ/BB	1.50	1.75	0.595	0.672	0.613	61	58	1.62	1.61
				1.000	**1.000**	**1.000**	**100**	**100**		

US financial markets continue to creep upwards, but some commentators remain convinced a crash is coming – the so-called "Minsky Moment". Other financial markets seem to be adopting a "wait and see" attitude with POTUS 2024 definitely a factor.

WORLD FINANCIAL STATE

Various "landings" from the previous high inflation state are possible as outlined below in order of increasing likelihood:

- **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	0.015	0.006	0.011	1	5	Base	Base
HL	HL/CL	10.00	15.00	0.152	0.093	0.122	12	12	11.09	12.00
NL	NL/HL	2.00	3.00	0.303	0.277	0.290	29	28	2.38	2.42
SL	SL/NL	1.75	2.25	0.530	0.624	0.579	58	55	1.99	2.00
				1.000	**1.000**	**1.000**	**100**	**100**		

The US economy continues to perform well on the inflation and jobs fronts, and this is very important for the world economy. Again, POTUS 2024 is keeping people throughout the world uneasy. Even though Trump may lose on election night, his legal machinations in the aftermath could be a negative for world trade and financial markets. A clear win for Harris on the night would do much for a positive **WFS** in 2025 and after.

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 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	%
BO	Base = 1	1.00	1.00	0.014	0.009	0.011	1	2	Base	Base
BU	BU/BO	1.00	1.00	0.014	0.009	0.011	1	3	1.00	1.00
RE	RE/BU	12.00	15.00	0.162	0.140	0.151	15	15	13.73	15.00
SW	SW/RE	5.00	6.00	0.811	0.841	0.826	83	80	5.47	5.53
				1.001	**0.999**	**0.999**	**100**	**100**		

China continues to stimulate various sectors in the economy but possibly "too little, too late" may be the final verdict. Commodity markets are still subdued, which is good news for world inflation if not for basic resource stocks.

POTUS 2024

The two candidates in order of election likelihood are:

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

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES (no changes from previous)

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	0.455	0.435	0.445	45	47	Base	Base
H	H/T	1.20	1.30	0.545	0.565	0.555	55	53	1.25	1.22
				1.000	**1.000**	**1.000**	**100**	**100**		

The Economist assesses the Democrats chance of winning the House at 60% with Republicans a 2/3 chance in the Senate. The Presidential race is now 50/50 according to their model. Predictions are as of 11.10.24. **HE** sees a Harris win.

THE WAR IN UKRAINE

Outcomes 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 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**		

THE WAR IN THE MIDDLE EAST

Possible outcomes in likelihood order are:

- **CF**: Ceasefire for an extended period
- **WW**: A wider war develops with countries like Iran becoming directly involved.
- **LW**: A current local war continues but with spillovers into neighbouring countries such as Lebanon.

PROBABILITIES ON WAR IN THE MIDDLE EAST

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CF	Base = 1	1.00	1.00	0.062	0.040	0.051	5	14	Base	Base
WW	WW/CF	3.00	4.00	0.188	0.160	0.174	17	16	3.41	3.40
LW	LW/WW	4.00	5.00	0.750	0.800	0.775	78	70	4.45	4.59
				1.000	**1.000**	**1.000**	**100**	**100**		

To illustrate an assessment variation, **HE** currently views the WW/CF ratio as a very significant likelihood gain for **WW** above at 3 – 4 times "more likely" foreshadowing a low probability for **CF** after all assessments are completed. And **HE** views the LW/WW likelihood gain as even more likely than the previous assessment with a 4 – 5 times "more likely" range in this case. The overall result is a low 5% chance for **CF** and a high 78% chance for **LW** to continue as currently. Note that relative gains in assessments using pairwise ranges as the DM proceeds through the ranking as above may be the only way for the DM to meaningfully assess relative likelihoods. If the last two range assessments above were 4 – 5 and 5 – 6 respectively, the resulting distribution becomes 3%, 15% and 82%, very similar to that above. This suggests that starting at either 3 – 4 or 4 – 5 times "more likely" does not matter too much as long as the same pattern with following assessments is maintained. That is, *relativities* for succeeding ranges matter more than starting values for deriving an accurate "ballpark" distribution.