

WORLD ECONOMIC OUTLOOK

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

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Papers on the above topics 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. Two short summary articles **Assessing Probabilities With Minimal Calculations** and **Probability Assessment With Conditions** 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 above 40,000.
- **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 38,000 (currently 38,884).

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 | 0.137 | 0.091 | 0.114 | 11 | 22 | Base | Base |
| BB | BB/TINA | 3.00 | 4.00 | 0.411 | 0.364 | 0.387 | 39 | 23 | 3.39 | 3.55 |
| SQ | SQ/BB | 1.10 | 1.50 | 0.452 | 0.545 | 0.499 | 50 | 55 | 1.29 | 1.28 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

Markets seem undecided but conditions are definitely moving against **TINA** as above revisions indicate.

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 | 0.132 | 0.062 | 0.097 | 10 | 5 | Base | Base |
| HL | HL/CL | 1.10 | 1.50 | 0.145 | 0.094 | 0.119 | 12 | 6 | 1.23 | 1.20 |
| NL | NL/HL | 2.00 | 3.00 | 0.289 | 0.281 | 0.285 | 28 | 20 | 2.39 | 2.33 |
| SL | SL/NL | 1.50 | 2.00 | 0.434 | 0.563 | 0.498 | 50 | 69 | 1.75 | 1.79 |
| | | | | 1.000 | 1.000 | 0.999 | 100 | 100 | | |

Commentators seem to be losing confidence that a soft landing can be achieved. Complex financial conditions worldwide (including COVID debt refinancing) are complicating central bank policy decisions. Mistakes will be easier to make in the future. The hard landings become more likely. US jobs continued to grow but at a slower pace than previously.

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

| 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 | 0.045 | 0.031 | 0.038 | 4 | 4 | Base | Base |
| BU | BU/BO | 1.00 | 1.00 | 0.045 | 0.031 | 0.038 | 4 | 4 | 1.00 | 1.00 |
| RE | RE/BU | 4.00 | 5.00 | 0.182 | 0.156 | 0.169 | 17 | 21 | 4.45 | 4.25 |
| SW | SW/RE | 4.00 | 5.00 | 0.727 | 0.781 | 0.754 | 75 | 71 | 4.96 | 4.41 |
| | | | | 0.999 | 0.999 | 0.999 | 100 | 100 | | |

Apart from the property sector, China’s economy is showing more resilience than previously thought possible.

POTUS 2024

Outcomes in order of likelihood for the Presidential election follow:

- **K:** Kennedy or other Independent.
- **T:** Trump or Republican nominee.
- **B:** Biden or Democratic nominee.

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|-----------|----------|----------------|-------|---------------|--------------|--------------|------------|------------|--------------------|-------|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| K | Base = 1 | 1.00 | 1.00 | 0.016 | 0.011 | 0.014 | 1 | 2 | Base | Base |
| T | T/K | 30.00 | 40.00 | 0.480 | 0.460 | 0.470 | 47 | 45 | 33.57 | 47.00 |
| B | B/T | 1.05 | 1.15 | 0.504 | 0.529 | 0.516 | 52 | 53 | 1.10 | 1.11 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

The Trump/Biden popular vote is almost tied but Trump is slightly ahead currently.

THE WAR IN UKRAINE

We expand the options to four now that a wider war in Ukraine (**WU**) is becoming an option. In the words of French President Emmanuel Macron “We have undoubtedly been too hesitant by defining the limits of our action to someone who no longer has any and who is the aggressor”. (*The Economist* interview 2 May 2024). Options now, in order of likelihood, are as follows:

- **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.
- **WU:** NATO puts troops in Ukraine and threatens to use them if necessary – a wider war becomes possible.
- **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 | 0.071 | 0.043 | 0.057 | 5 | 6 | Base | Base |
| RE | RE/RS | 1.00 | 1.00 | 0.071 | 0.043 | 0.057 | 6 | 15 | 1.00 | 1.20 |
| WU | WU/RE | 2.00 | 3.00 | 0.143 | 0.130 | 0.137 | 14 | n/a | 2.40 | 2.33 |
| STM | STM/WU | 5.00 | 6.00 | 0.714 | 0.783 | 0.749 | 75 | 79 | 5.47 | 5.36 |
| | | | | 0.999 | 0.999 | 1.000 | 100 | 100 | | |

Almost 100 years ago, a country leader with unrealistic expectations threatened neighbouring countries with military action. His rationale was that citizens of those countries (but of his nationality) were being persecuted and he would intervene to protect them. Worldwide, ideas of appeasement and isolationism became fashionable responses, but in the end only brute force and an unfashionable empire stalled the takeovers. And eventually, other countries had greatness thrust upon them. The threat was ultimately eliminated at the cost of millions of lives. In the words of Mark Twain: “History doesn’t repeat itself, but it often rhymes”. NATO’s hour of destiny approaches.