

WORLD ECONOMIC OUTLOOK

WORLD FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - POTUS - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – December 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, 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 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 downloadable here. A short summary article **Assessing Probabilities With Minimal Calculations** (and accompanying spreadsheet) can also be downloaded from this website.

WORLD 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+.
- **SQ**: Status Quo, no major moves for the Dow around 35,000.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction.

PROBABILITIES ON WORLD 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	0.035	0.027	0.031	3	3	Base	Base
SQ	SQ/TINA	10.00	12.00	0.351	0.324	0.338	34	37	10.90	11.33
BB	BB/SQ	1.75	2.00	0.614	0.649	0.631	63	60	1.87	1.85
				1.000	1.000	1.000	100	100		

The Economist wrote on 4.11.23 regarding the pressures currently in play on the world's economy: *These strains make it hard to see how the world economy could possibly accomplish the many things that markets currently expect of it: a dodged recession, low inflation, mighty debts and high interest rates all at the same time. It is more likely that the higher-for-longer era kills itself off, by bringing about economic weakness that lets central bankers cut rates without inflation soaring.*

HE agrees with this assessment although currently we seem to be in the **SQ** state. The bubble is yet to burst on world stock-markets. Buffet's \$157 b cash pile is yet to be deployed.

WORLD FINANCIAL STATE

Various "landings" 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 and high interest rates.
- **SL** or Soft Landing: Inflation is tamed, and world growth recovers eventually with a favourable outlook.

This month **HL** is made slightly more likely than **CL** although both states are reduced in likelihood with **SL** more favoured now.

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	0.121	0.059	0.090	9	12	Base	Base
HL	HL/CL	1.10	1.50	0.133	0.089	0.111	11	13	1.23	1.22
NL	NL/HL	2.50	3.50	0.332	0.310	0.321	32	30	2.89	2.91
SL	SL/NL	1.25	1.75	0.414	0.542	0.478	48	45	1.49	1.50
				1.000	1.000	1.000	100	100		

HE now has a **SL** approaching 50%.

TAIWAN

The scenarios for developments involving Taiwan from least to most likely are as follows:

- **TINO**: Taiwan invasion by mainland China with no aid from any country to help repel the invaders.
- **TIUS**: Taiwan invasion by mainland China and the US assists Taiwan in its defense, possibly with other allies.
- **NOTI**: No invasion of Taiwan but Chinese harassment of Taiwan continues.

PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes again this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINO	Base = 1	1.00	1.00	0.038	0.020	0.029	3	5	Base	Base
TIUS	TIUS/TINO	5.00	7.00	0.192	0.140	0.166	17	21	5.72	5.67
NOTI	NOTI/TIUS	4.00	6.00	0.769	0.840	0.805	80	74	4.85	4.71
				0.999	1.000	1.000	100	100		

Two of Taiwan's three major political parties are not averse to closer relations with the Chinese mainland. This raises hopes that arrangements short of invasion and war may evolve preserving peace in the region. The 80% probability for **NOTI** above may not just be wishful thinking.

POTUS 2024

HE adjusted the analysis previously to allow for alternative candidates (apart from Biden and Trump) for both parties.

- 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 (No changes this month)

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	0.021	0.010	0.015	1	2	Base	Base
Other Dem	O Dem/O Rep	2.00	3.00	0.041	0.029	0.035	4	2	2.32	4.00
Trump	Trump/O Dem	10.00	12.00	0.417	0.350	0.383	38	22	10.82	9.50
Biden	Biden/Trump	1.25	1.75	0.521	0.611	0.566	57	74	1.48	1.50
				1.000	1.000	0.999	100	100		

As noted previously, if the US gets deeply involved militarily in the Middle East as well as Ukraine, there will develop a constituency in the US electorate that does not see any gain for the USA from these military commitments. Trump will exploit this if he is the Republican candidate. Conversely, if developments work in favour of the US, Biden (or the Democratic candidate) could gain electoral support.

THE WAR IN UKRAINE

The scenarios following are in line with *The Economist's* appraisals in a recent publication. In order of likelihood these are:

- **CRT**: A ceasefire is negotiated but on terms dictated by Russia.
- **CUT**: As for **CRT** but with Ukraine dictating the terms.
- **STM**: A stalemate cements itself with battlelines little changed from those currently operational.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (No changes again this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CRT	Base = 1	1.00	1.00	0.032	0.022	0.027	3	3	Base	Base
CUT	CUT/CRT	3.00	4.00	0.097	0.089	0.093	9	12	3.44	3.00
STM	STM/CUT	9.00	10.00	0.871	0.889	0.880	88	85	9.46	9.78
				1.000	1.000	1.000	100	100		

The conflict drags on with no end foreseeable. Quite possibly NATO/EU pressure on Russia will be necessary to force negotiations.