

WORLD ECONOMIC OUTLOOK

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

HUGHES ECONOMICS (HE) – 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.

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 42,000.
- **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 42,000 (currently 42,313).

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	0.036	0.024	0.030	3	4	Base	Base
BB	BB/TINA	12.00	15.00	0.428	0.355	0.392	39	45	13.07	13.00
SQ	SQ/BB	1.25	1.75	0.536	0.621	0.578	58	51	1.47	1.49
				1.000	1.000	1.000	100	100		

The Fed cut rates by 50 bps in September – it clearly does not want to fall behind the curve. Usually 25 bps is the first move. Some commentators are still wary about the future for equity markets.

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	0.071	0.030	0.051	5	5	Base	Base
HL	HL/CL	2.00	3.00	0.143	0.090	0.117	12	13	2.29	2.40
NL	NL/HL	2.00	3.00	0.286	0.271	0.278	28	30	2.38	2.33
SL	SL/NL	1.75	2.25	0.500	0.609	0.554	55	52	1.99	1.96
				1.000	1.000	1.000	100	100		

The 50 bps cut by the Fed marginally increases the chances of a **SL** to 55% making it quite likely, although **BB** above is also a 39% chance. The annual US inflation rate fell to 2.2% in August from 2.5% in July supporting the **SL** scenario.

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 above 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	0.026	0.014	0.020	2	2	Base	Base
BU	BU/BO	1.50	2.00	0.039	0.027	0.033	3	4	1.65	1.50
RE	RE/BU	4.00	5.00	0.156	0.137	0.146	15	17	4.42	5.00
SW	SW/RE	5.00	6.00	0.779	0.822	0.801	80	77	5.49	5.73
				1.000	1.000	1.000	100	100		

Countries that supply China as in Australia, New Zealand etc., are feeling the pinch from lower exports. Less commodity demand is, however, good news for world inflation. A large economy as China's is needs to perform better for world growth to escape a recessionary period. China may finally escape the **SW** scenario with its latest fiscal and monetary policy moves which are conventional but may not be in time to avoid a recession. GDP growth of 5% in the first half of 2024 (possibly overstated) may not extend to the second half of the year.

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	0.455	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		

Harris again edges further ahead this month. **The Economist** website (19.9.24) has the race at 43%/57% for Harris which, for her supporters, is even better than **HE's** 45%/55% above. Absent vagaries of the Electoral College system, **HE** sees virtually no chance for Trump at this stage. J.D. Vance could be a different story.

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 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.

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 Weimar triangle could spell the end of Putin. If this does eventuate, a new force will arise in NATO and the current dominance of the US in the alliance will be eroded. Perhaps a small, if unintended, victory for Trump. A more engaged Europe is a good outcome for the world as it helps to balance the rivalry between China and the US. If only Draghi's ideas for the EU could be implemented. An additional large, sophisticated capital market would be a boon to the world economy.