

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 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 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 41,250).

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	0.042	0.032	0.037	4	4	Base	Base
BB	BB/TINA	10.00	12.00	0.426	0.387	0.406	41	46	10.97	10.25
SQ	SQ/BB	1.25	1.50	0.532	0.581	0.557	55	50	1.37	1.34
				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 remains unclear. Geopolitics could still be cataclysmic for markets and therefore **BB** is still a likely possibility although reduced slightly in probability this month. The Fed news supports the **SQ** and possibly a modest gain for the Dow from here. The **SQ** probability gains a little as a consequence.

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 (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	0.132	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		

Mohamed El-Erian also assigns a 50% chance to a soft landing. As for Markets above, geopolitics is a factor for the **WFS**. The US does not appear to be heading for a recession. Question marks, however, surround China and Europe. No changes in probabilities are made this month.

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		

The current recession in the property sector has led to lower commodity prices for iron ore etc. A recovery in this sector may be needed to revive commodity prices worldwide. Meanwhile, lower commodity prices are good news for inflation and the world.

POTUS 2024

Kennedy has dropped out and supports Trump. It is now Trump versus Harris. **HE** still believes Harris will pip Trump in November, but it is now game-on with likelihoods ordered as follows:

- **T:** Trump – old testament.
- **H:** Harris – new testament, but yet to be enunciated.

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	0.488	0.465	0.476	48	n/a	Base	Base
H	H/T	1.05	1.15	0.512	0.535	0.524	52	n/a	1.10	1.08
				1.000	1.000	1.000	100	n/a		

The 3-horse race is now a 2-horse race so Previous probabilities (as above) do not apply this month although last probabilities were 47%, 52%. **HE** believes the best options favour Harris, but as the saying goes “the proof of the pudding is in the eating”. The campaigns will be vital, as will any mistakes made by either candidate. Any mistakes by Harris will be more costly as Trump is a known quantity.

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.