# WORLD ECONOMIC OUTLOOK
## FINANCIAL MARKETS - WORLD FINANCIAL STATE – CHINA - POTUS 2024 – UK ELECTION
### HUGHES ECONOMICS (HE) – July 2024

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 39,000 (currently 39,128).

**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 | 0.109 | 0.085 | 0.097 | 10 | 11 | Base | Base |
| BB | BB/TINA | 4.00 | 5.00 | 0.435 | 0.426 | 0.430 | 43 | 39 | 4.43 | 4.30 |
| SQ | SQ/BB | 1.05 | 1.15 | 0.456 | 0.489 | 0.473 | 47 | 50 | 1.10 | 1.09 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

More commentators are raising their chances that a bubble (fuelled by AI hype) could be about to burst in financial markets. In some cases falls of 80% in major indicies are predicted! So far, the Fed has held firm on rate cuts and there is the possibility it will manage a "soft landing".

## 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 | | |

The US economy continues to perform well. The ECB has cut rates, but the BOE has not. The "soft landing" for the US economy looks feasible currently and financial markets (at least in the US) seem to concur.

## 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 | 4 | Base | Base |
| BU | BU/BO | 1.50 | 2.00 | 0.046 | 0.032 | 0.039 | 4 | 4 | 1.70 | 2.00 |
| RE | RE/BU | 5.00 | 6.00 | 0.231 | 0.190 | 0.211 | 21 | 17 | 5.41 | 5.25 |
| SW | SW/RE | 3.00 | 4.00 | 0.692 | 0.762 | 0.727 | 73 | 75 | 3.45 | 3.48 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

China may be moving to conventional measures to stimulate the economy which continues to move sideways.

## 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 (no changes from previous)**

| 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 | | |

Trump continues to lead in the popular vote. Biden, however, may eventually prevail if the US economy keeps its current good health.

## THE UK ELECTION 4th JULY

**HE** assesses the forthcoming UK election replacing the war in Ukraine analysis for this month. Three outcomes are listed below in order of likelihood:

- **CONS:** Conservatives continue in government.
- **COAL :** A coalition government takes power.
- **LAB    :** A Labour government takes power.

**PROBABILITIES ON POSSIBLE OUTCOMES TO THE UK ELECTION**

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|---|---|---|---|---|---|---|---|---|---|---|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| Cons | Base = 1 | 1.00 | 1.00 | 0.019 | 0.009 | 0.014 | 1 | n/a | Base | Base |
| Coal | Coal/Cons | 1.25 | 1.75 | 0.024 | 0.016 | 0.020 | 2 | n/a | 1.43 | 2.00 |
| Lab | Lab/Coal | 40.00 | 60.00 | 0.957 | 0.975 | 0.966 | 97 | n/a | 48.30 | 48.50 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | n/a | | |

*The Economist* also has the Conservatives as a 1/100 chance. These odds of 99:1 are comparable with current market odds of 80:1. A Conservative – Reform coalition is at 100:1. These odds certainly foreshadow a Labour victory confirming **HE's** 97% probability in the table.

The above calculations also serve to illustrate how an "almost certain" event can be accommodated by the methodology. That is, using "more likely" values such as 40, 60 etc. that may be seen as arbitrary and/or extreme and without foundation in real analysis. They do, however, achieve a high probability for an "almost certain" event with a 90% plus probability.