

WORLD ECONOMIC OUTLOOK

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

HUGHES ECONOMICS (HE) – Early-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 42,353).

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	0.009	0.007	0.008	1	3	Base	Base
BB	BB/TINA	45.00	50.00	0.396	0.361	0.379	38	39	47.38	38.00
SQ	SQ/BB	1.50	1.75	0.595	0.672	0.613	61	58	1.62	1.61
				1.000	1.000	1.000	100	100		

For this review **HE** reduces **TINA** to a 1% chance. Geopolitics will be a major factor in coming months, and much uncertainty remains.

WORLD FINANCIAL STATE

Various "landings" from the previous high inflation state are possible as outlined below in order of increasing likelihood:

- **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	0.015	0.006	0.011	1	5	Base	Base
HL	HL/CL	10.00	15.00	0.152	0.093	0.122	12	12	11.09	12.00
NL	NL/HL	2.00	3.00	0.303	0.277	0.290	29	28	2.38	2.42
SL	SL/NL	1.75	2.25	0.530	0.624	0.579	58	55	1.99	2.00
				1.000	1.000	1.000	100	100		

The US economy added 254 k jobs in September versus the expected 150 k. The unemployment rate dropped 0.1% to 4.1%. The **SL** for the US economy remains on track which is good news for the world economy.

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 China 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	0.014	0.009	0.011	1	2	Base	Base
BU	BU/BO	1.00	1.00	0.014	0.009	0.011	1	3	1.00	1.00
RE	RE/BU	12.00	15.00	0.162	0.140	0.151	15	15	13.73	15.00
SW	SW/RE	5.00	6.00	0.811	0.841	0.826	83	80	5.47	5.53
				1.001	0.999	0.999	100	100		

Chinese policy makers have finally bitten the bullet and moved to rescue the depressed property sector and boost general consumption. Even so, despite 5% GDP growth in the first half of 2024, a Chinese recession may still eventuate. We can now effectively rule out the boom and bust scenarios with 1% probabilities as above. Other assessments show a 15% chance for a recovery with the sideways scenario increasing slightly to 83%. The conventional nature of the policy changes may signal a return to normalcy in China's economic outlook with ideology taking a back seat for the moment. Hopefully for the world economy this is the case. But, even if so, doubts persist it will last.

POTUS 2024

The two candidates in order of election likelihood are:

- **T:** Trump
- **H:** Harris

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	%
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		

The Economist assesses Trump's POTUS chance at "about" 2 out of 5 (40%) with Harris at "about" 60%. Harris must continue her current "Presidential" demeanor with no mistakes but is now on track to become the first woman President of the USA. Trump appears to be preparing legal challenges to the outcome. Perhaps a clear-cut result will eventuate thus sparing us from the desperate machinations of the Trump legal team, and ongoing uncertainty for the world.

THE WAR IN UKRAINE

Outcomes 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 exits 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 confront each other.

Probabilities for the above scenarios are shown in the table below:

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		

WAR IN THE MIDDLE EAST

The war in the Middle East looks to be expanding and there could be flow-ons into energy prices and trade which could affect financial markets and economies world-wide. Conflict in the region could develop into a much wider war or all sides could accept a ceasefire. Possible outcomes in likelihood order are:

- **CF:** Ceasefire for an extended period
- **WW:** A wider war develops with countries like Iran becoming directly involved.
- **LW:** A current local war continues but with spillovers into neighbouring countries such as Lebanon.

PROBABILITIES ON WAR IN THE MIDDLE EAST

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CF	Base = 1	1.00	1.00	0.167	0.118	0.142	14	n/a	Base	Base
WW	WW/CF	1.00	1.25	0.167	0.147	0.157	16	n/a	1.11	1.14
LW	LW/WW	4.00	5.00	0.666	0.735	0.701	70	n/a	4.46	4.38
				1.000	1.000	1.000	100	n/a		

HE's first assessment gives a 70% chance of limited war continuing in Gaza and southern Lebanon, but the situation could deteriorate quickly with war spreading to other countries.