

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 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 39,070).

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 | 0.109 | 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 | | |

The Fed raised the possibility that future rates could be higher if inflation did not fall. As Chairperson Powell explained, current rates may not curtail inflation to the same extent as previously.

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.

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

| 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's "common prosperity" drive is attempting to level up incomes in the interior regions with those of the richer coastal regions.

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 | | |

The Trump/Biden popular vote is almost tied but Trump remains slightly ahead currently.

THE WAR IN UKRAINE

Options in order of likelihood, are as follows:

- **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.
- **WU:** A "Weimar Triangle" of France, Germany and Poland prepares to help Ukraine – a wider war becomes possible.
- **STM:** A stalemate cements itself with battlelines little changed from those current, but all territories remain intact.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE

| 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 | 0.059 | 0.038 | 0.049 | 5 | 5 | Base | Base |
| RE | RE/RS | 1.00 | 1.00 | 0.059 | 0.038 | 0.049 | 5 | 6 | 1.00 | 1.00 |
| WU | WU/RE | 3.00 | 4.00 | 0.176 | 0.154 | 0.165 | 16 | 14 | 3.37 | 3.20 |
| STM | STM/WU | 4.00 | 5.00 | 0.706 | 0.769 | 0.737 | 74 | 75 | 4.47 | 4.63 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

The idea of a "Weimar Triangle" comprising France, Germany and Poland is developing. Regardless of opposition in some NATO countries, this triangle will act if necessary to help Ukraine in its struggle with Russia and underlies Olaf Scholz's comment in *The Economist* interview of 24.5.24 that "Mr. Putin's brutal imperialism will not succeed". Heartening news for Ukraine, 450 m Europeans and the free world generally.