

WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & WORLD ECONOMIC ORDER

HUGHES ECONOMICS – January 2022

The current review below restates probabilities for Financial Markets outcomes, the World Economic Order focusing on the US versus China and the possibility of another depression. As another demonstration of the methodology favoured here, the origins of the COVID-19 virus are examined in the paper on this website *Thinking Probabilistically IV*.

WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood. The Status Quo as defined below is seen as most likely to continue.

1. **BB**: Bubble bursts and Dow corrects to 30,000- or a 10%+ correction.
2. **TINA**: There is no alternative, and the Dow rises significantly to 40,000+.
3. **SQ**: Status Quo with no major moves for the Dow around 35,000 – as of 21/1, the Dow is at 34,265.

Probability calculations below for the above scenarios are explained in *Structuring Probability Assessments* available at <https://doi.org/10.17265/1537-1506/2020.05.003>. Also *Thinking Probabilistically* available at <https://doi.org/10.17265/1537-1506/2021.05.002> and *Thinking Probabilistically Revisited* available at <https://doi.org/10.17265/1537-1506/2022.01.001>. All papers are available on this website.

PROBABILITIES ON FINANCIAL MARKETS FOR UP TO THE NEXT 6 MONTHS

Scenario	Pairwise Judgment	Compound Likelihood	Probabilities	Percent Probabilities	
				Current	Previous
BB	1.00	1.00	$1/7 = 0.143$	14	12
TINA	1.50	$1.50 \times 1.00 = 1.50$	$1.50/7 = 0.214$	21	25
SQ	3.00	$1.50 \times 3.00 = 4.50$	$4.50 / 7 = 0.643$	64	63
TOTALS		7.00	1.000	100	100

Currently, only marginal changes in the probabilities from last time are projected with BB slightly more probable at the expense of TINA. Jeremy Grantham, founder of investment firm GMO, considers the “superbubble” to be bursting currently. Any escalation of activity related to Ukraine, Taiwan or Iran would see a marked change in favour of BB. A literary analogy may be appropriate here. A gifted, old-school author Evelyn Waugh (*Brideshead Revisited*) could not understand the public infatuation Ian Fleming enjoyed with 007 in the 1950s. Yet today, James Bond is one of the most valuable franchises in the world of entertainment. Are the grey markets and illegal international transactions playing a similar role today underlying the value of new innovations like crypto currencies and other possible “bubbles”? Only time will tell.

WORLD ECONOMIC ORDER

To restate all the possibilities, we have, in increasing order of likelihood:

1. **China**: China overtakes the US as world leader or Chinese hegemony.
2. **Cold War 2**: The US and China compete vigorously for world leadership with major ramifications for some countries.
3. **USA**: The US continues as world leader with China relegated to second place for the near future.

These scenarios will play out over the next 10 years. Current probabilities are calculated below:

PROBABILITIES ON THE WORLD ECONOMIC ORDER EVOLVING OVER THE NEXT DECADE

Scenario	Pairwise #	Compound Likelihood	Probabilities	Percent Probabilities	
				Current	Previous
China	1.00	1.00	$1/31 = 0.032$	3	2
Cold War 2	10.00	$1.0 \times 10.00 = 10.00$	$10/31 = 0.323$	32	16
USA	2.00	$10.0 \times 2.00 = 20.00$	$20/31 = 0.645$	65	82
TOTALS		31.00	1.000	100	100

No change is proposed in the probabilities for possible World Economic Orders. In the November calculations, Cold War 2 gained in likelihood at the expense of USA hegemony, but this is still seen as a very likely 65% chance in January 2022.

WORLD FINANCIAL STATE

Scenarios in order of increasing likelihood are as follows:

D or Depression: High inflation and continued COVID-19 pressures, policy mistakes and global financial collapse.

MB or Mild Boom: Low interest rates and no major upsets allow markets to rise steadily for the next 6 months for 10%+ gains.

MR or Mild Recession: Unemployment rises with hospitality etc. sectors remaining subdued with a developing Omicron virus.

SQ or Status Quo: All markets steady, significant but not rampant inflation, continued but containable COVID flare-ups.

MR is now seen as 50% more likely than MB as below with the Omicron virus variant poised to test world health systems at the expense of activity in other sectors, especially hospitality and tourism. The SQ scenario is still seen as most likely, and with a slightly increased likelihood. Probabilities for all scenarios are detailed below:

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

Scenario	Pairwise Judgment	Consistent Reciprocal Matrix				Eigenvalues	Probabilities	Percent Probabilities	
		D	MB	MR	SQ			Current	Previous
D	1.00	1	1/3	2/9	2/27	0.068599	0.045454	5	6
MB	3.00	3	1	2/3	2/9	0.205798	0.136364	14	19
MR	1.50	9/2	3/2	1	1/3	0.308697	0.204545	20	19
SQ	3.00	27/2	9/2	3	1	0.926092	0.613637	61	56
TOTALS						1.509186	1.000000	100	100

In the above table we first calculate a perfectly consistent reciprocal matrix using the pairwise values in column 2. These are the values in the lower triangle in column 3 in the above table. The principal eigenvector for this matrix is shown in column 4. The normalized probabilities are then shown in column 5. These probabilities are the same as would be calculated using the minimal three pairwise judgments but serve to demonstrate the more complicated method of probability derivation. Note that the decision-maker could replace the consistent lower triangle values in the matrix above (i.e., 9/2, 27/2 and 9/2) with pairwise values he/she considers more accurate (with corresponding changes in the upper triangle values) and derive different probabilities from those shown. As calculated above, the main change from the previous analysis is that SQ has increased in likelihood at the expense of MB.

Word Count 918, 23rd January 2022.