

WORLD ECONOMIC OUTLOOK

WORLD FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - POTUS - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – November 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, the possibility of another depression, the 2024 US Presidential election, and the war in Ukraine. Papers as below are available on this website as are various spreadsheets in **xlsx** format. Calculations are from the **WEO nov23.xlsx** spreadsheet using the **LoHiProbs.xlsx** methodology.

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 downloadable here. A short summary article **Assessing Probabilities With Minimal Calculations** (and accompanying spreadsheet) can also be downloaded from this website.

WORLD FINANCIAL MARKETS (WFM)

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 to 40,000+.
- **SQ**: Status Quo, no major moves for the Dow in the range 33,000 to 35,000.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction from current levels.

PROBABILITIES ON WORLD FINANCIAL MARKETS FOR THE NEXT 6 MONTHS (no changes this month)

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	0.048	0.040	0.044	4	4	Base	Base
SQ	SQ/TINA	10.00	12.00	0.476	0.480	0.478	48	41	10.86	12.00
BB	BB/SQ	1.00	1.00	0.476	0.480	0.478	48	55	1.00	1.00
				1.000	1.000	1.000	100	100		

HE now makes **SQ** and **BB** equally likely but developments in Israel will obviously affect markets. Markets seem to be drifting down currently.

WORLD FINANCIAL STATE

Scenarios in order of increasing likelihood are as follows:

- **MB** or Mild Boom: Revamping of world infrastructure sees markets rise for 10%+ gains.
- **D** or Depression: High inflation, major Central Bank policy mistakes and global financial collapse.
- **SQ** or Status Quo: Stalemate in Ukraine, inflation cools, labour markets remain healthy.
- **MR** or Mild Recession: World activity falls due to inflation, Ukraine, a China slowdown and now the Middle East.

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	%
MB	Base = 1	1.00	1.00	0.014	0.009	0.012	1	1	Base	Base
D	D/MB	4.00	5.00	0.058	0.047	0.053	5	7	4.39	5.00
SQ	SQ/D	8.00	10.00	0.464	0.472	0.468	47	46	8.90	9.40
MR	MR/SQ	1.00	1.00	0.464	0.472	0.468	47	46	1.00	1.00
				1.000	1.000	1.000	100	100		

As for **WFM** the Middle East will yet again be a big factor in the future. The stalemate in Ukraine drags on with no end in sight. Oil prices and energy prices generally do not seem to be spiking, testimony to the adaptability of the world economy in turbulent times.

TAIWAN

The scenarios for developments involving Taiwan from least to most likely are as follows:

- **TINO**: Taiwan invasion by mainland China with no aid from any country to help repel the invaders.
- **TIUS**: Taiwan invasion by mainland China and the US assists Taiwan in its defense, possibly with other allies.
- **NOTI**: No invasion of Taiwan but Chinese harassment of Taiwan continues.

PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes again this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINO	Base = 1	1.00	1.00	0.038	0.020	0.029	3	5	Base	Base
TIUS	TIUS/TINO	5.00	7.00	0.192	0.140	0.166	17	21	5.72	5.67
NOTI	NOTI/TIUS	4.00	6.00	0.769	0.840	0.805	80	74	4.85	4.71
				0.999	1.000	1.000	100	100		

POTUS 2024

HE adjusts the analysis this month to allow for alternative candidates (apart from Biden and Trump) for both parties.

- Other Republican: Someone other than Trump if legal developments disqualify him as a viable candidate.
- Other Democrat: Someone other than Biden if his age/competence develops into an electoral liability.
- Trump
- Biden

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
Other Rep	Base = 1	1.00	1.00	0.021	0.010	0.015	1	2	Base	Base
Other Dem	O Dem/O Rep	2.00	3.00	0.041	0.029	0.035	4	2	2.32	4.00
Trump	Trump/O Dem	10.00	12.00	0.417	0.350	0.383	38	22	10.82	9.50
Biden	Biden/Trump	1.25	1.75	0.521	0.611	0.566	57	74	1.48	1.50
				1.000	1.000	0.999	100	100		

If the US gets deeply involved militarily in the Middle East as well as Ukraine, there will develop a constituency in the US electorate that does not see any gain for the USA from these military commitments. Trump will exploit this if he is the Republican candidate. Conversely, if developments work in favour of the US, Biden (or the Democratic candidate) could gain electoral support.

THE WAR IN UKRAINE

The scenarios following are in line with *The Economist's* appraisals in a recent publication. In order of likelihood these are:

- **CRT**: A ceasefire is negotiated but on terms dictated by Russia.
- **CUT**: As for CRT but with Ukraine dictating the terms.
- **STM**: A stalemate cements itself with battlelines little changed from those currently operational.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (No changes this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CRT	Base = 1	1.00	1.00	0.032	0.022	0.027	3	3	Base	Base
CUT	CUT/CRT	3.00	4.00	0.097	0.089	0.093	9	12	3.44	3.00
STM	STM/CUT	9.00	10.00	0.871	0.889	0.880	88	85	9.46	9.78
				1.000	1.000	1.000	100	100		

Ukraine continues to make slow progress reclaiming territory, but the conflict seems destined to drag on. It may be that only Ukraine joining NATO will stabilize the region. Some current Ukrainian territory may revert to Russia as a result of negotiations, but Ukraine's integrity would be guaranteed henceforth by NATO, and the region stabilized.