

# WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS, WORLD SCENARIO & COVID ORIGIN

## HUGHES ECONOMICS – Late July 2021

The current review below restates probabilities for Financial Markets outcomes, the World Economic Order focusing on the US versus China, the possibility of another depression and origins of the Covid-19 virus.

### WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 3 months:

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

Probability calculations below for the above scenarios are explained in *Structuring Probability Assessments* available at: doi: <https://doi.org/10.17265/1537-1506/2020.05.003> or on this website.

#### PROBABILITIES ON FINANCIAL MARKETS

Event	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability
TINA	1.00	1.00	1/4 = 0.25	25
BB	1.00	1.00 X 1.00 = 1.00	1/4 = 0.25	25
SQ	2.00	1.00 x 2.00 = 2.00	2/4 = 0.50	50
<b>TOTALS</b>		<b>4.00</b>	<b>1.00</b>	<b>100</b>

Some analysts foresee a bubble bursting and a large correction (**BB**). Others see significant continued growth (**TINA**). The most likely outcome in our view is that we are in uncharted territory with a 50% chance of marginal moves around a Dow of 34,000. As of 23<sup>rd</sup> July, the Dow is at 35,062.

### 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 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 foreseeable future.

Current probabilities are detailed below:

#### PROBABILITIES ON THE WORLD ECONOMIC ORDER

Event	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability
China	1.00	1.00	1/61 = 0.016	2
Cold War 2	10.00	1.0 x 10.00 = 10.00	10/61 = 0.164	16
USA	5.00	10.00 x 5.00 = 50.00	50/61 = 0.820	82
<b>TOTALS</b>		<b>61.00</b>	<b>1.000</b>	<b>100</b>

In the latest *Project Syndicate* newsletter of July 18, Minxin Pei writes “Paranoia, bullying instincts, and contempt for property rights are deeply imbedded in the CPC’s collective psyche, predisposing the Chinese government to self-destructive policies, regardless of well-intentioned advice or even evidence of their harmful consequences. And over-centralization of power under strongman rule in China today has made self-correction almost impossible” (CPC = Communist Party of China). This underlies the 2% probability for the **China** scenario above. But, of course, the CPC could change its spots in the future?

## WORLD FINANCIAL STATE

Scenarios in order of increasing likelihood are as follows:

**D** or Depression: High inflation and continued Covid induce policy mistakes, higher interest rates and a global financial fallout.

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

**MR** or Mild Recession: Unemployment rises with hospitality and other sectors remaining subdued with Covid-19 still a threat.

**SQ** or Status Quo: All markets steady with no major problems apart from continued but containable Covid flare-ups

Probabilities for these scenarios are detailed below:

**PROBABILITIES ON WORLD SCENARIOS FOR THE NEXT 6 MONTHS**

Event	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability
D	1.00	1.00	$1.00/7.7 = 0.130$	13
MB	1.00	$1.00 \times 1.00 = 1.00$	$1.00/7.7 = 0.130$	13
MR	1.90	$1.00 \times 1.90 = 1.90$	$1.90/7.7 = 0.247$	25
SQ	2.00	$1.90 \times 2.00 = 3.80$	$3.80/7.7 = 0.493$	49
<b>TOTALS</b>		<b>7.70</b>	<b>1.000</b>	<b>100</b>

Earlier in July, we added the fourth category of **Depression** to possible world scenarios. *The Economist* of 10<sup>th</sup> July writes “Such apocalyptic outcomes are possible, but not likely”. Success or failure with the virus vaccination programs and other developments such as “long covid” are factors that must be taken into account. Above, we assign the **D** scenario a 13% chance, which is still significant in our view with the same likelihood as **Mild Boom**. The **SQ** scenario is, however, seen as almost a 50% chance to continue.

## ORIGIN OF THE COVID-19 VIRUS

The origin of the Covid-19 virus is still undetermined. Possible origin hypotheses in order of increasing likelihood are:

1. The virus originated outside of China (Non-Chinese).
2. The virus emerged naturally from a Wuhan wet-market (Wuhan Market).
3. The virus escaped from a Chinese laboratory in Wuhan (Wuhan Lab Escape).

If the virus originated in China, 2 and 3 above are the only possibilities we consider although other Chinese origins are possible with the Wuhan Market an “amplifying phenomenon”. The Wuhan Market is commonly understood as being the most likely origin of the virus, but recent investigations have increased the likelihood of a Wuhan Lab Escape.

**PROBABILITIES OF COVID-19 VIRUS ORIGIN**

Virus Origin	Pairwise Value	Compound Likelihood	Probability	Percent Probability
Non-Chinese	1.00	1.00	$1/12.25 = 0.082$	8
Wuhan Market	5.00	$1.00 \times 5.00 = 5.00$	$5/12.25 = 0.408$	41
Wuhan Lab Escape	1.25	$5.00 \times 1.25 = 6.25$	$6.25/12.25 = 0.510$	51
		<b>12.25</b>	<b>1.000</b>	<b>100</b>

The Wuhan Market origin is now seen as 5 times more likely than an origin outside of China and a laboratory escape is considered more likely than the wet-market hypothesis, but not markedly so. A Chinese origin is considered to be a 92% chance. A good review of the lab-leak controversy is given in a *Nature* article (*Nature* 594, 313-315, 2021) by Amy Maxmen and Smriti Mallapaty titled *The COVID lab-leak hypothesis: what scientists do and don't know*, (available at: <https://doi.org/10.1038/d41586-021-01529-3>).

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