

WORLD ECONOMIC OUTLOOK

FINANCIAL MARKETS - WORLD FINANCIAL STATE - CHINA - UKRAINE WAR - MIDDLE EAST WAR

Warren R Hughes of HUGHES ECONOMICS (HE) at hughesconomics.com - January 2026

Papers on the above topics are available on this website as are various spreadsheets in **xlsx** format. These spreadsheets can be downloaded from here and are easily adaptable using different inputs for other scenarios.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** which is available at doi address <https://doi.org/10.17265/2328-2185/2022.05.006> and also downloadable here. Some variations for atypical scenarios are outlined in the paper **Variations in Probability Assessment for Atypical Scenarios** downloadable from this website and also available at the doi address <https://doi.org/10.17265/2328-2185/2024.04.004>.

FINANCIAL MARKETS (FM)

Possible scenarios for **FM** in likelihood order remain as follows:

- **BO** : Boom, new perspectives, AI continues to spark gains, sky's the limit expectations, MAGA rules.
- **Mod** : Moderate outcomes and adjustments, no major moves for the Dow around 48,000 (currently 48,489).
- **BU** : Bust with a correction of 20%+ now possible in the major indices.

PROBABILITIES ON FINANCIAL MARKETS FOR THE NEXT 6 MONTHS (no changes from previous)

Scenarios		Pairwise Range		Probabilities				More Likely Values		
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
BO	Base \Rightarrow 1	1.00	1.00	0.024	0.018	0.021	2	3	Base	Base
Mod	Mod/BO	5.00	6.00	0.122	0.109	0.115	12	15	5.48	6.00
BU	BU/Mod	7.00	8.00	0.854	0.873	0.864	86	82	7.51	7.17
				1.000	1.000	1.000	100	100		

On the 21st January, markets dropped significantly ostensibly due to the Greenland issue (see below).

WORLD FINANCIAL STATE (WFS)

Possible **WFS** scenarios in likelihood order remain as previous:

- **MAGA** or US hegemony : MAGA policies accommodated with no major retributions by other countries.
- **WA** or World adjusts : World economy adjusts to higher tariffs and some destabilizing actions but no great disorder.
- **WD** or world disorder : Trade wars and similar actions, geopolitical events become problematic for the world.

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	P(Low)	P(High)	Average	%	Previous	Average	%
MAGA	Base \Rightarrow 1	1.00	1.00	0.020	0.014	0.017	2	3	Base	Base
WA	WA/MAGA	10.00	12.00	0.196	0.164	0.180	18	18	10.59	9.00
WD	WD/WA	4.00	5.00	0.784	0.822	0.803	80	79	4.46	4.44
				1.000	1.000	1.000	100	100		

Further ructions between the Trump administration and the Fed seem destined to keep the **WMS** on edge.

CHINA

China's GDP grew at a 5% rate for calendar year 2025. The IMF has predicted a 4.5% rate for 2026. Domestic concerns are still a problem, however, and possible scenarios remain as previously in likelihood order:

- **BU:** The economy depresses even further or bust.
- **BO:** The economy booms with 10% plus GDP growth.
- **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 (no changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
BU	Base \Rightarrow 1	1.00	1.00	0.015	0.007	0.011	1	1	Base	Base
BO	BO/BU	2.00	3.00	0.030	0.021	0.026	3	2	2.36	3.00
RE	RE/BO	15.00	20.00	0.455	0.432	0.443	44	34	17.04	14.67
SW	SW/RE	1.10	1.25	0.500	0.540	0.520	52	63	1.17	1.18
				1.000	1.000	1.000	100	100		

In line with the above analysis, **HE** reduces the “more likely” range for SW over RE from 1.75 – 2 previously to 1.1 – 1.25 now although domestic issues are still problematic. The country's share of global goods exports is forecast to rise to 16.5% by the end of the decade, from roughly 15% currently. If this proves correct, and the world economy avoids recession, China's growth rate may well return to its previous highs. Accordingly, the recovery scenario RE goes from a 34% chance previously to 44% currently.

THE WAR IN UKRAINE

There is much talk but a ceasefire still seems a long way away. Possible outcomes remain as previous and in likelihood order are as follows:

- **CFR:** Ceasefire favouring Russia but just how is unknown.
- **CFU:** Ceasefire with Ukraine still independent but Russia gains some previously Ukrainian territory.
- **STM:** The current situation continues.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (no change from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
CFR	Base \Rightarrow 1	1.00	1.00	0.059	0.046	0.052	5	n/a	Base	Base
CFU	CFU/CFR	1.00	1.00	0.059	0.046	0.052	5	n/a	1.00	1.00
STM	STM/CFU	15.00	20.00	0.882	0.909	0.896	90	n/a	17.23	18.00
				1.000	1.001	1.000	100			

HE is very pessimistic in the outlook for the Ukraine war with only a 10% chance for a ceasefire.

THE GREENLAND QUANDARY

The issue of Greenland's future now seems set to be yet another divisive issue for the West to contend with. **HE** sees three possible outcomes:

- **GUSA:** Greenland becomes a US territory/state rather than a Danish one.
- **GSQ:** Greenland's status quo remains with the island continuing as currently.
- **NewG:** Some new political arrangement evolves but with the US in effective control of the island.

PROBABILITIES ON THE FUTURE OF GREENLAND

Scenarios		Pairwise Range		Probabilities				More Likely Values		
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
GUSA	Base \Rightarrow 1	1.00	1.00	0.182	0.154	0.168	17	n/a	Base	Base
GSQ	GSQ/GUSA	1.00	1.00	0.182	0.154	0.168	17	n/a	1.00	1.00
NewG	NewG/GSQ	3.50	4.50	0.636	0.692	0.664	66	n/a	3.95	3.88
				1.000	1.001	1.000	100			

The first two outcomes are seen as equally unlikely but the probability for **NewG** could be higher using a higher pairwise range than 3.5 – 4.5 as above. For example, a 5 – 6 pairwise range results in a probability of 73% for **NewG**.

In answer to the question "Will the USA annex Greenland," **HE**'s new Predictor Pro (PP) produced three possible outcomes of Status Quo 63%, Expanded US military rights/lease 24%, and Full US Annexation/Purchase 13%. This seems compatible with the above analysis, which has slightly different defined outcomes. Note that PP uses the latest AI tools that are publicly available but the probabilities and outcomes could change as new information reaches the worldwide Web.