

WORLD ECONOMIC OUTLOOK

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

Warren R Hughes of HUGHES ECONOMICS (HE) at hugheseconomics.com – July 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>. Adjustments to probability assessment procedures are also outlined on this website.

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 52,000 (currently 52,900).
- **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 ⇒ 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		

The high probability for a major correction remains in place with the geopolitical situation still fragile. The possibility of miscalculation remains high.

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 ⇒ 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		

As the geopolitical remains fragile, **WD** may still be the most likely outcome. Another problem is that major countries around the world as in US, UK, France, Germany, Australia have governments facing fiscal problems requiring tax rises that will have re-election implications. Resolution of these problems await with possible repercussions for the global economy.

CHINA

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 ⇒ 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		

China has lately been active diplomatically. Further developments may be in store for the world.

THE WAR IN UKRAINE

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 changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
CFR	Base ⇒ 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			

Ukraine seems to be holding out and looks increasingly confident of avoiding further losses, so the stalemate continues.

MIDDLE EAST

Outcomes are this month revised to reflect **HE's** current take on the situation:

- **USH:** US achieves hegemony in the Middle East.
- **INS:** Iran survives with diminished power but no regime change.

PROBABILITIES ON THE WAR IN THE MIDDLE EAST

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
USH	Base ⇒ 1	1.00	1.00	0.400	0.286	0.343	34	n/a	Base	Base
INS	INS/USH	1.50	2.50	0.600	0.714	0.657	66	n/a	1.92	1.94
				1.000	1.000	1.000	100	n/a		

Israel seems determined to take its chance of eliminating Hezbollah from Lebanon. Clearly this muddies the water on a ceasefire being implemented.