WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & WORLD ECONOMIC ORDER

HUGHES ECONOMICS (HE) – March 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.

WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood. This month BB overtakes TINA due to the Ukraine situation. The Status Quo as defined below continues to be seen as most likely to continue.

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 a 10%+ correction.
3. **SQ**: Status Quo with no major moves for the Dow around 35,000 – currently, the Dow is around 34,000.

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, *Thinking Probabilistically Revisited* available at https://doi.org/10.17265/1537-1506/2022.01.001 and *A New Approach to Probability Assessment*. No doi yet. All papers are available on this website.

This month probabilities are calculated using a Low/High dichotomy for the pairwise values. This makes the initial pairwise judgments for the decision-maker (DM) easier. Average probabilities are then calculated, and these may be altered as the DM decides, or taken as final with no other input by the DM required. Given the situation in Ukraine, much of the world will minimize contacts and business with Russia. The outlook for the Russian economy is bleak but rosy for other resource supplying countries. Some countries will be prepared to pay higher prices for commodities in order to penalize Russia.

PROBABILITIES ON FINANCIAL MARKETS FOR UP TO THE NEXT 6 MONTHS

	Pairwise Values		Calculated Probabilities			Final Probabilities		
Event	Low	High	Mean	Median	Midpoint	Average	Percent	Previous
TINA	1.00	1.00	0.1051	0.1041	0.1062	0.1051	11	14
BB	3.00	4.00	0.3612	0.3602	0.3622	0.3612	36	25
SQ	1.25	1.75	0.5337	0.5338	0.5336	0.5337	53	61
			1.0000	**0.9981**	**1.0020**	**1.0000**	**100**	100

Pairwise values for BB/Tina and SQ/BB are now inserted as a range giving the DM more leeway in his/her judgments. Combinations of distributions are calculated ($2^2 = 4$ distributions) with resulting mean etc., statistics calculated for each event across all 4 distributions automatically. Midpoint is an average of the min and max probabilities for that event. Average in the above table is a simple average of the 3 measures preceding it and Percent is the rounded Average. This month BB has increased its likelihood at the expense of the other 2 possibilities. Note that the SQ/BB likelihood ratio is now seen as between 25% and 75% "more likely" for SQ.

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 proximate future.

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

PROBABILITIES ON THE WORLD ECONONOMIC ORDER EVOLVING OVER THE NEXT DECADE

	Pairwise Values		Calculated Probabilities			Final Probabilities		
Event	**Low**	**High**	**Mean**	**Median**	**Midpoint**	**Average**	**Percent**	**Previous**
China	1.00	1.00	0.0344	0.0334	0.0354	0.0344	3	3
Cold War 2	8.00	12.00	0.3308	0.3300	0.3315	0.3307	33	32
USA	1.50	2.50	0.6349	0.6352	0.6346	0.6349	64	65
			1.0001	**0.9986**	**1.0015**	**1.0000**	**100**	**100**

Although probability assessment now uses pairwise ranges for the various events, little change is seen in the probabilities of the possible outcomes. **USA** still rates as a high 64% chance.

WORLD FINANCIAL STATE

Scenarios in order of increasing likelihood are as follows:

MB or Mild Boom: Low interest rates and no major upsets allow markets to rise steadily for the next 6 months for 10%+ gains.
D or Depression: High inflation and continued COVID-19 pressures, policy mistakes and global financial collapse.
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 rampart inflation, continued but containable COVID flare-ups.

The new approach to probability assessment (use of pairwise ranges) is employed below. **D** is now seen as being between 2 and 3 times "more likely" than **MB**. The **SQ** scenario is between 1.5 and 2.5 times "more likely" than **MR**. Resulting calculations show the **SQ** scenario dropping 6% in likelihood from last time, although it is still a high chance at 57%.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

	Pairwise Values		Calculated Probabilities			Final Probabilities		
Event	**Low**	**High**	**Mean**	**Median**	**Midpoint**	**Average**	**Percent**	**Previous**
MB	1.00	1.00	0.0416	0.0402	0.0445	0.0421	4	12
D	2.00	3.00	0.1001	0.0984	0.1023	0.1003	10	4
MR	2.50	3.50	0.2931	0.2901	0.2955	0.2929	29	21
SQ	1.50	2.50	0.5652	0.5652	0.5640	0.5648	57	63
			1.0000	**0.9939**	**1.0063**	**1.0001**	**100**	**100**

The Ukraine excursions by Russia have changed the outlook for the world financial state significantly. The probability of some form of recession has risen from a 25% chance to 39% currently – a significant jump. COVID-19 impacts are still being felt although the current strategy seems to be to try and live with any outbreaks and avoid locking down economies too much.

Probability assessment for the above situations uses conventional statistics only. Distributions are calculated from the pairwise ranges and measures of central tendency used to generate an average probability for each event. These averages are then rounded to percentage probabilities. In practice, after average probabilities have been calculated, the DM could then use other information to determine probabilities for decision purposes. This last step has not been demonstrated above.

Word Count 966, 4th March 2022.