

WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS, THE BIG PICTURE & COVID ORIGIN

HUGHES ECONOMICS – Late June 2021

The current review below restates probabilities for Financial Markets outcomes, the World Economic Order (WEO) focusing on the emergence of China in coming years as a growing rival to current USA hegemony, and origins of the Covid-19 virus

WORLD FINANCIAL MARKETS

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.

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	$1.00 \times 1.00 = 1.00$	$1/4 = 0.25$	25
SQ	2.00	$1.00 \times 2.00 = 2.00$	$2/4 = 0.50$	50
TOTALS		4.00	1.00	100

Some analysts foresee a bubble bursting and a large correction. Others see significant continued growth. Our view is that we are in uncharted territory with a 50% chance of marginal moves around a Dow of 34,000. As of 24 June, the Dow is at 34,197.

WORLD ECONOMIC ORDER

To restate all the possibilities, we have:

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.

Probabilities have not changed markedly in recent months, but current calculations are shown below.

PROBABILITIES ON THE WORLD ECONOMIC ORDER

Event	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability
China	1.00	1.00	$1/89 = 0.011$	1
Cold War 2	8.00	$1.00 \times 8.00 = 8.00$	$8/89 = 0.090$	9
USA	10.00	$8.00 \times 10.00 = 80.00$	$80/89 = 0.899$	90
TOTALS		89.00	1.00	100

A continuation of US hegemony is seen as a 90% chance at this point in late June 2021. China has almost a negligible chance of assuming world leadership in the prospective future, although China itself continues to grow strongly. Politics in the USA have returned to a more stable state. The low probability for Chinese hegemony will be reinforced by any evidence that the Covid-19 virus originated in China and, in particular, escaped from a Chinese Lab (see below).

ORIGIN OF THE COVID-19 VIRUS

The origin of the Covid-19 virus is still undetermined. Three possible hypotheses concerning its origin are considered here:

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

Note that hypothesis 1 covers everything apart from 2 and 3 above. 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 wet-market is commonly understood as being the most likely origin of the virus, but recent investigations have increased the likelihood of a lab escape. Pairwise judgments and probabilities are shown in the following table.

PROBABILITIES OF COVID-19 VIRUS ORIGIN

VIRUS ORIGIN	PAIRWISE VALUE	COMPOUND VALUE	PROBABILITY	PERCENT PROB
Non-Chinese	1.00	1.00	$1/31 = 0.032258$	3
Wuhan Market	10.00	$1.00 \times 10 = 10.00$	$10/31 = 0.322581$	32
Wuhan Lab Escape	2.00	$10.00 \times 2.0 = 20.00$	$20/31 = 0.645161$	65
		31.00	1.000000	100

Previously, it was suggested rounding probabilities to avoid charges of “spurious accuracy”. But perhaps we need to accustom ourselves to “it is what it is” and adjust to probabilities of 3% or 32% rather than 5% or 30%. Different methodologies are now available and potentially accuracy of calculation has been enhanced. Of course, decision makers should adjust probabilities to reflect their ultimate considered “degree of belief” no matter how the initial probabilities were arrived at. There seems no reason to change the probabilities in the above table.

The Wuhan Market origin is seen as 10 times more likely than an origin outside of China and, in this review, a laboratory escape is now seen as twice as likely as the wet-market hypothesis. The reasons for the recently increased support of a lab escape origin over the wet-market alternative can be listed as follows:

1. The proximity of labs to the Wuhan wet-market – within 12 km for the Wuhan Institute of Virology (WIV) and within 0.5 km for the Wuhan Centre for Disease Control & Prevention.
2. A previously documented lab outbreak of the H1N1 influenza virus from either Russia or China in 1977.
3. A possibly non-animal (human-engineered) genome sequence in the Covid virus.
4. Three WIV workers were early Covid-like cases in November 2019.

Points 3 and 4 above are conjectures at this stage, but Chinese reluctance to furnish evidence for or against these speculations enhances their likelihood of being true. If an infected lab worker unknowingly visited the wet-market in Wuhan, this could have amplified the outbreak into the world-wide phenomenon it became. If subsequent investigation proves this to be correct, the 1% chance of Chinese hegemony as above will reduce to zero.