

# WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & WORLD ECONOMIC ORDER

HUGHES ECONOMICS – September 2021

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. The origins of the Covid-19 virus are examined in the paper on this website *Thinking Probabilistically IV*.

## 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 35,000.

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

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 35,000. As of 28 August, the Dow is at 35,456.

## 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.

These scenarios will play out over the next 10 years. Current probabilities are calculated 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	$1.0 \times 10.00 = 10.00$	$10/61 = 0.164$	16
USA	5.00	$10.0 \times 5.00 = 50.00$	$50/61 = 0.820$	82
<b>TOTALS</b>		<b>61.00</b>	<b>1.000</b>	<b>100</b>

George Magnus, an Associate at the China Centre of Oxford University, sees potential problems developing in China due to the Communist Party of China's (CPC) emerging struggle with the tech giants such as Alibaba etc. Just how this plays out and whether it hamstrings China's increasing tech dominance world-wide is an open question at the moment. At the very least, the CPC's infatuation with complete control versus the global perspective required of a world tech leader seems destined to hamper China's appeal to the rest of the world, despite the attraction of its large domestic market.

## WORLD FINANCIAL STATE

Earlier in July, we added a 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”. Below we assign this scenario a 12% chance. Scenarios in order of increasing likelihood are as follows:

**D** or Depression: High inflation and continued Covid-19 pressures, policy mistakes and global financial collapse.

**MB** or Mild Boom: Low interest rates and 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 ongoing virus problems.

**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

Scenario	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability
D	1.00	1.000	$1.0/8.0 = 0.125$	12
MB	1.00	$1.00 \times 1.00 = 1.000$	$1.0/8.0 = 0.125$	13
MR	2.00	$1.00 \times 2.00 = 2.000$	$2.0/8.0 = 0.250$	25
SQ	2.00	$2.00 \times 2.00 = 4.000$	$4.0/8.0 = 0.500$	50
<b>TOTALS</b>		<b>8.000</b>	<b>1.000</b>	<b>100</b>

Probabilities for the scenarios have changed little from the previous WEO.

Word Count 652, 29<sup>th</sup> August 2021