

# WORLD ECONOMIC OUTLOOK

## WORLD FINANCIAL MARKETS & WORLD ECONOMIC ORDER & WAR IN UKRAINE

### HUGHES ECONOMICS (HE) – Late July 2022

The current review below restates probabilities for Financial Markets outcomes, the World Economic Order focusing on the US versus China, the possibility of another depression and the war in Ukraine.

Probability calculations below for the scenarios outlined 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* available at <https://doi.org/10.17265/1537-1506/2022.01.003>. All papers are also available on this website as are various spreadsheets (xlsx format) used in the calculations below.

### WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood.

- **TINA:** There is no alternative, and the Dow rises significantly to 40,000+.
- **BB:** Bubble bursts and Dow corrects to 30,000 or a 10%+ correction.
- **SQ:** Status Quo, no major moves for the Dow in the range 30,000 – 35,000.

Central banks have developed a more hawkish stance of late and large rate rises are on the agenda in attempting to tame inflation. This runs the risk of tipping economies into recession, mild or otherwise. The probabilities below are unchanged from last time.

#### PROBABILITIES ON FINANCIAL MARKETS FOR UP TO THE NEXT 6 MONTHS – NO CHANGES FROM PREVIOUS

| SCENARIO | Pairwise Values |      | Final Probabilities |            |            | Current More Likely Value |
|----------|-----------------|------|---------------------|------------|------------|---------------------------|
|          | Low             | High | Average             | Percent    | Previous   |                           |
| TINA     | 1.00            | 1.00 | 0.06275             | 6          | 9          | Base = 1.00               |
| BB       | 7.00            | 8.00 | 0.46863             | 47         | 41         | 0.46863/0.06275 = 7.47    |
| SQ       | 1.00            | 1.00 | 0.46863             | 47         | 50         | 0.46863/0.46863 = 1.00    |
|          |                 |      | <b>1.00001</b>      | <b>100</b> | <b>100</b> |                           |

### WORLD ECONOMIC ORDER

To restate all the possibilities over the next 10 years, we have, in increasing order of likelihood:

- **China:** China overtakes the US as world leader or Chinese hegemony.
- **Cold War 2:** The US and China compete vigorously for world hegemony with ramifications for some countries.
- **USA:** The US continues as world leader with China relegated to second place for the proximate future.

Some commentators consider the second cold war (with China) has already started. Others say WW III is also underway with Ukraine the flash point. No changes from previous calculations have been made.

#### PROBABILITIES ON THE WORLD ECONOMIC ORDER EVOLVING OVER THE NEXT DECADE – NO CHANGES FROM PREVIOUS

| SCENARIO   | Pairwise Values |       | Final Probabilities |            |            | Current More Likely Value |
|------------|-----------------|-------|---------------------|------------|------------|---------------------------|
|            | Low             | High  | Average             | Percent    | Previous   |                           |
| China      | 1.00            | 1.00  | 0.0386              | 4          | 3          | Base = 1.00               |
| Cold War 2 | 10.00           | 12.00 | 0.4211              | 42         | 33         | 0.4211/0.0386 = 10.91     |
| USA        | 1.10            | 1.50  | 0.5403              | 54         | 64         | 0.5403/0.4211 = 1.28      |
|            |                 |       | <b>1.0000</b>       | <b>100</b> | <b>100</b> |                           |

A favourable outcome in Ukraine (even with some territory reverting to Russia in addition to Crimea) would enhance the West's dominance and with it the USA. Sweden and Finland joining NATO also enhances US hegemony. Conversely, even a qualified Russian "victory" would see China's chances rise above the 4% above.

## 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 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 subdued with a developing Omicron virus.
- **SQ** or Status Quo: All markets steady, significant but not rampant inflation, continued but containable COVID flare-ups.

The probabilities below show **MB** only a 1% chance – almost certainly a zero chance in the short term. However unlikely **MB** may be currently, it is good practice to keep it as an option. At some point, it must be hoped, **MB** will become a more likely outcome than currently. Ukraine gaining the upper hand in its current struggle would be a bonus for the world economy.

### PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

| SCENARIO | Pairwise Values |       | Final Probabilities |            |            | Current More Likely Value |
|----------|-----------------|-------|---------------------|------------|------------|---------------------------|
|          | Low             | High  | Average             | Percent    | Previous   |                           |
| MB       | 1.00            | 1.00  | 0.01907             | 1          | 2          | Base = 1.00               |
| D        | 15.00           | 20.00 | 0.32700             | 33         | 10         | 0.327/0.01907 = 17.15     |
| MR       | 1.00            | 1.00  | 0.32700             | 33         | 44         | 0.327/0.327 = 1.00        |
| SQ       | 1.00            | 1.00  | 0.32700             | 33         | 44         | 0.327/0.327 = 1.00        |
|          |                 |       | <b>1.00007</b>      | <b>100</b> | <b>100</b> |                           |

Changes from previous: the **D/MB** pairwise range increases from 6 – 7 before to 15 – 20 now. This illustrates the effect of high pairwise values. The remaining outcomes are now seen as equally likely with **D** a major gainer over the previous analysis.

## THE WAR IN UKRAINE

**HE** has reworked the options for the war's outcome as shown below. As previously, the order reflects **HE's** appreciation of relative likelihood – least to most likely.

- **RV** : Russian Victory or Russia effectively controls Ukraine.
- **UV** : Ukraine drives Russia out of Ukraine but loses Crimea to Russia.
- **NC** : Negotiated ceasefire with Ukraine possibly yielding some territory to Russia including Crimea.
- **OS** : Ongoing struggle on Ukraine territory.

### PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE

| Scenarios |          | Pairwise Range |       | Probabilities  |                |                |              |            | More Likely Value |
|-----------|----------|----------------|-------|----------------|----------------|----------------|--------------|------------|-------------------|
| Events    | Ratios   | Low            | High  | Low            | High           | Average        | Final        | Percent    |                   |
| RV        | Base 1.0 | 1.00           | 1.00  | 0.02381        | 0.01613        | 0.01997        | 0.020        | 2          | 1.00              |
| UV        | UV/RV    | 1.00           | 1.00  | 0.02381        | 0.01613        | 0.01997        | 0.020        | 2          | 1.00              |
| NC        | NC/UV    | 10.00          | 12.00 | 0.23810        | 0.19355        | 0.21583        | 0.216        | 22         | 10.81             |
| OS        | OS/NC    | 3.00           | 4.00  | 0.71429        | 0.77419        | 0.74424        | 0.744        | 74         | 3.45              |
|           |          |                |       | <b>1.00001</b> | <b>1.00000</b> | <b>1.00001</b> | <b>1.000</b> | <b>100</b> |                   |

Qualified observers conclude that neither side is showing signs of gaining a decisive advantage. Henry Kissinger (*Der Spiegel* interview of 15.7.22) believes that a **NC** should be the outcome with territory determination part of the negotiations. Ukraine joining or not joining NATO could also be part of the negotiations. This outcome would be a victory for the West even if Ukraine had to concede some territory to Russia in addition to Crimea and did not join NATO immediately.

Word Count 963: Late July 2022.