

# WORLD ECONOMIC OUTLOOK

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

### HUGHES ECONOMICS (HE) – July 2025

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** available at <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** available at: <https://doi.org/10.17265/2328-2185/2024.04.004> or from this website.

## FINANCIAL MARKETS

The success of the US and Israel in the war against Iran have resulted in stable financial markets in the aftermath. This allows **HE** to tentatively reduce the chance of **BU** below, although some indices are nearing all-time highs. Scenarios in likelihood order remain as previously.

- **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 44,000 (currently 43,819).
- **BU** : Bust with a correction of 20%+ now possible in the major indices.

**PROBABILITIES ON FINANCIAL MARKETS FOR THE NEXT 6 MONTHS**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
BO	Base ⇒ 1	1.00	1.00	0.062	0.040	0.051	5	4	Base	Base
Mod	Mod/BO	5.00	6.00	0.312	0.240	0.276	28	22	5.41	5.60
BU	BU/Mod	2.00	3.00	0.625	0.720	0.673	67	74	2.44	2.39
				<b>0.999</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

The pairwise range for **BU** over **Mod** reduces from 3 – 4 previously to 2 – 3 as above, but **BU** remains the most likely outcome at a high 67% chance. The growth of private equity markets gives cause for concern. These markets are not regulated to the same extent as traditional equity and bond markets and anomalies may surface with dramatic results.

## WORLD FINANCIAL STATE

Financial markets in volatile times sometimes over-react and go to extremes, as in a 20% plus or minus move. With Europeans now more proactive, the world economy may not show the same volatility as financial markets, hence the slightly lower probability for **WD** below (62%) compared to **BU** above (67%).

- **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**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
MAGA	Base ⇒ 1	1.00	1.00	0.074	0.045	0.060	6	5	Base	Base
WA	WA/MAGA	5.00	6.00	0.370	0.273	0.321	32	28	5.35	5.33
WD	WD/WA	1.50	2.50	0.556	0.682	0.619	62	67	1.93	1.94
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

The pairwise range for **WD** over **WA** reduces from 2 – 3 previously to 1.5 – 2.5 above – a smaller reduction than for **BU** in Financial Markets. If scenario **WD** eventuates, this may be followed by significant falls in financial markets world-wide.

## CHINA'S ECONOMY

Possible scenarios for China in order of likelihood remain as previously listed:

- **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	Low End	High End	Average	%	Previous	Average	%
BU	Base ⇒ 1	1.00	1.00	0.025	0.016	0.020	2	2	Base	Base
BO	BO/BU	1.25	1.50	0.031	0.024	0.028	3	2	1.40	1.50
RE	RE/BO	15.00	20.00	0.472	0.480	0.476	48	41	17.00	16.00
SW	SW/RE	1.00	1.00	0.472	0.480	0.476	48	55	1.00	1.00
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>101</b>	<b>100</b>		

No significant developments have occurred over the past month.

## THE WAR IN UKRAINE

Diplomacy moves forward but Putin's intransigence remains. Scenarios in likelihood order remain as follows:

- **RS:** Russia successfully achieves its aim of reducing Ukraine to a puppet state, if not part of Russia itself.
- **RE:** Russia exits Ukraine but possibly with some territorial gains.
- **WW:** Germany, France, UK, and Poland prepare to help Ukraine – a wider war becomes possible.
- **STM:** A stalemate cements itself with Ukraine now engaged in Russia, but only two belligerents confront each other.

### PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (no changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
RS	Base ⇒ 1	1.00	1.00	0.083	0.050	0.067	6	4	Base	Base
RE	RE/RS	1.00	1.00	0.083	0.050	0.067	6	4	1.00	1.00
WW	WW/RE	5.00	6.00	0.417	0.300	0.358	36	17	5.34	6.00
STM	STM/WW	1.00	2.00	0.417	0.600	0.508	51	75	1.42	1.42
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>99</b>	<b>100</b>		

Operations continue in the region with no dramatic developments.

## THE WAR IN THE MIDDLE EAST

The success of recent US and Israeli operations has apparently removed the immediate threat of Iran's nuclear plans – at least for now. This has been a relief for world financial markets and order generally.