

# WORLD ECONOMIC OUTLOOK

## WORLD FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - POTUS - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – August 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, the possibility of another depression, the 2024 US Presidential election, and the war in Ukraine. Papers as below are available on this website as are various spreadsheets in **xlsx** format. Calculations below use the **WEOaug23.xlsx** spreadsheet and the **LoHiProbs.xlsx** methodology.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** available at the WEB address <https://doi.org/10.17265/2328-2185/2022.05.006>. A short summary article **Assessing Probabilities With Minimal Calculations** (and accompanying spreadsheet) can be downloaded from this website as can the **Probability Assessment** paper above

### WORLD FINANCIAL MARKETS (WFM)

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+.
- **SQ**: Status Quo, no major moves for the Dow around 35,000 - Dow at 28/7 is 35,459.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction from current levels.

**PROBABILITIES ON WORLD 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	%
TINA	Base = 1	1.00	1.00	0.042	0.029	0.036	3	3	Base	Base
SQ	SQ/TINA	10.00	12.00	0.426	0.353	0.389	39	28	10.81	13.00
BB	BB/SQ	1.25	1.75	0.532	0.618	0.575	58	69	1.48	1.49
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

**WFM** face significant problems in the near future. A soft landing is possible but also possible is a recession, mild or otherwise. The Ukraine war could escalate, the Chinese economy could stall badly, and the US could suffer a Trump rebirth with the rest of the world experiencing fallout from the consequences. On balance, **HE** has **SQ** with an increased chance this month, with **BB** still most likely.

### WORLD FINANCIAL STATE (WFS)

Scenarios in order of increasing likelihood are as follows:

- **MB** or Mild Boom: Revamping of world infrastructure sees markets rise for 10%+ gains.
- **D** or Depression: High inflation and continued COVID pressures, policy mistakes and global financial collapse.
- **SQ** or Status Quo: Stalemate in Ukraine, inflation cools, labour markets remain healthy.
- **MR** or Mild Recession: World activity falls, with problems from inflation, Ukraine, ESG factors & more costly supply chains.

**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	%
MB	Base = 1	1.00	1.00	0.016	0.009	0.013	1	1	Base	Base
D	D/MB	5.00	6.00	0.080	0.057	0.068	7	2	5.23	7.00
SQ	SQ/D	5.00	6.00	0.402	0.340	0.371	37	10	5.46	5.29
MR	MR/SQ	1.25	1.75	0.502	0.594	0.548	55	87	1.48	1.49
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

The outlook for the **WFS** follows the same considerations as for **WFM** above. Again, **SQ** rises significantly in likelihood, but **MR** is still seen as most likely although with a reduced probability this month. CBs have increased interest rates, but inflation is proving “sticky”. The monetary policies introduced to mitigate covid may lead to longer lags before tighter monetary policies take effect. Over time, any soft landing could evolve into a recession, unless CBs prove adept at managing future interactions in credit, bond, and other financial markets. **HE** remains skeptical that this will prove to be the case. ESG, climate change and other factors have outdated previous targets such as a 2% inflation rate. Revised targets are now in order to accommodate objectives in a new economic era.

## TAIWAN

The scenarios for developments involving Taiwan from least to most likely are as follows:

- **TINO**: Taiwan invasion by mainland China with no aid from any country to help repel the invaders.
- **TIUS**: Taiwan invasion by mainland China and the US assists Taiwan in its defense, possibly with other allies.
- **NOTI**: No invasion of Taiwan but Chinese harassment of Taiwan continues.

Probabilities for the scenarios are calculated in the table following.

### PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes again this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINO	Base = 1	1.00	1.00	0.038	0.020	0.029	3	5	Base	Base
TIUS	TIUS/TINO	5.00	7.00	0.192	0.140	0.166	17	21	5.72	5.67
NOTI	NOTI/TIUS	4.00	6.00	0.769	0.840	0.805	80	74	4.85	4.71
				<b>0.999</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

## POTUS 2024

A steady US economy favours the incumbent and Biden's chance edges higher this month. Trump's legal problems may overshadow other considerations in the run-up to the election proper.

- Other: Someone other than Biden and Trump emerges as a credible candidate
- Trump
- Biden

### PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
Other	Base = 1	1.00	1.00	0.027	0.020	0.024	2	3	Base	Base
Trump	Trump/Other	6.00	7.00	0.162	0.140	0.151	15	18	6.29	7.50
Biden	Biden/Trump	5.00	6.00	0.811	0.840	0.825	83	79	5.46	5.53
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

## THE WAR IN UKRAINE

The scenarios following are in line with *The Economist's* appraisals in a recent publication. In order of likelihood these are:

- **CRT**: A ceasefire is negotiated but on terms dictated by Russia.
- **CUT**: As for **CRT** but with Ukraine dictating the terms.
- **STM**: A stalemate cements itself with battlelines little changed from those currently operational.

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

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CRT	Base = 1	1.00	1.00	0.040	0.027	0.034	3	6	Base	Base
CUT	CUT/CRT	3.00	4.00	0.120	0.108	0.114	12	11	3.35	4.00
STM	STM/CUT	7.00	8.00	0.840	0.865	0.852	85	83	7.47	7.08
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

Confusion in Russia could see Putin escalate the conflict to engender more support at home for the war. Hence the harassment of Ukraine grain shipments. Where this will all end is really guesswork. Ukraine now seems destined to join the EU and NATO. If so, Russia will end up economically disadvantaged with lots of adversaries and possibly only China supporting them and then only reluctantly.

## COMMENTS

Estimating probabilities can be compared to measuring blood pressure – measurement continues until we see numbers we like. In both cases, there is a correct measure, but we cannot be certain our estimate is it!