WORLD ECONOMIC OUTLOOK

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

HUGHES ECONOMICS (HE) – August 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 doi address 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*** downloadable from this website and also available at: https://doi.org/10.17265/2328-2185/2024.04.004.

FINANCIAL MARKETS

Financial markets seem to be stalling in the face of continuing inflation and repeated Trump proclamations. No clear direction for markets is obvious to **HE**. The Trump agenda has yet to fully play out. The possible scenarios in likelihood order remain as follows:

- **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	0.048	0.032	0.040	4	5	Base	Base
Mod	Mod/BO	5.00	6.00	0.238	0.194	0.216	22	28	5.40	5.50
BU	BU/Mod	3.00	4.00	0.714	0.774	0.744	74	67	3.44	2.36
				1.000	**1.000**	**1.000**	**100**	**100**		

In the face of growing uncertainty, financial markets are showing resilience but not confidence in what the future holds. US credit markets are showing apprehension which could foreshadow a collapse in world stockmarkets. **HE** has raised the pairwise range for BU/Mod from 2 - 3 to 3 - 4 raising the chance for **BU** to 74% from 67% previously.

WORLD FINANCIAL STATE

Job growth in the US was down sharply in July. This may herald the onset of World Disorder (WD) – new investment in the US by Europeans and others will take time to materialize whereas construction cancellations of new plants outside the US are already evident. This is not good news for the **WFS**.

- **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	0.054	0.036	0.045	5	6	Base	Base
WA	WA/MAGA	5.00	6.00	0.270	0.214	0.242	24	32	5.38	4.80
WD	WD/WA	2.50	3.50	0.676	0.750	0.713	71	62	2.95	2.96
				1.000	**1.000**	**1.000**	**100**	**100**		

Reflecting the unease currently, the pairwise range for WD/WA rises from 1.5 – 2.5 previously to 2.5 – 3.5 above. The chance for WD rises as a result from 62% previously to 71% now. World development may result in a period of inertia with shocks required to restart progress. The Trump initiatives may be that shock currently. And the end point may not be envisaged at the start of the process which could be the case this time. **HE** sees Asia as the ultimate big winner from the Trump initiatives as this region is home to a desire for progress with higher per-capita incomes, most efficient manufacturing with lower labour costs and robots and generally large domestic markets. Political immaturity and lack of institutional guidance and governance could be their biggest handicaps.

CHINA'S ECONOMY

China seems to be holding up with solid, if not spectacular growth, of 5.2% real GDP growth in the year to June. Deflationary pressures on the Chinese economy remain. Possible scenarios for China in order of likelihood as previously listed follow:

- **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
				1.000	**1.000**	**1.000**	**101**	**100**		

Again the Trump initiatives vis-a-vis China have yet to fully play out. Although Chinese manufacturing may suffer, this is yet to materialize.

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
				1.000	**1.000**	**1.000**	**99**	**100**		

Operations continue in the region with Ukrainian defense bolstered by increased US anti-missile supplies and now European aid.

THE WAR IN THE MIDDLE EAST

Calls for establishment of a Palestinian State by major countries may alter the situation but not immediately. Pressure on Israeli operations in Gaza has not resulted in any lessening of civilian deaths. And if Hamas remains a political force in Gaza, lasting peace becomes problematic. This seems a likely outcome currently.