

WORLD ECONOMIC OUTLOOK

FINANCIAL MARKETS & WORLD ECONOMIC ORDER & UKRAINIAN WAR

HUGHES ECONOMICS (HE) – Mid-April 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 Ukraine war.

WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood. This month, Fed action appears more hawkish giving markets cause for concern

- **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 with no major moves for the Dow around 35,000 – currently, the Dow is just over 34,000.

Probability calculations below for the above scenarios 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.

This month **BB** is seen as 4 to 5 times more likely than **TINA** with a more hawkish Fed. **SQ** is still seen as most likely but with reduced likelihood over **BB** to the slightly more likely range of 1.1 – 1.3.

PROBABILITIES ON FINANCIAL MARKETS FOR UP TO THE NEXT 6 MONTHS

Event	Pairwise Values		Final Probabilities			Current More
	Low	High	Average	Percent	Previous	Likely Value
TINA	1.00	1.00	0.0928	9	11	Base = 1.00
BB	4.00	5.00	0.4131	41	36	41/9 = 4.56
SQ	1.10	1.30	0.4940	50	53	53/36 = 1.22
			0.9999	100	100	

The **SQ** scenario has held sway for the last few months. Some commentators see a crash coming and the Ukraine war continues to cloud the outlook for the world. **TINA** looks very unlikely at this point. *ANAPA3.xlsx* was used to calculate the above probabilities and is available on this website.

WORLD ECONOMIC ORDER

To restate all the possibilities, 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.

These scenarios will play out over the next 10 years. Current probabilities are calculated below:

PROBABILITIES ON THE WORLD ECONOMIC ORDER EVOLVING OVER THE NEXT DECADE

Event	Pairwise Values		Final Probabilities			Current More
	Low	High	Average	Percent	Previous	Likely Value
China	1.00	1.00	0.0304	3	3	Base = 1.00
Cold War 2	10.00	12.00	0.3321	33	33	33/3 = 11.00
USA	1.50	2.50	0.6374	64	64	64/33 = 1.94
			0.9999	100	100	

The pairwise values for the **Cold War 2/China** ratio give **China** little chance. **USA** still rates as a high 64% chance to continue its hegemony. Again, the Ukraine war could change this outlook, depending on just what outcome eventuates. A strengthened NATO would enhance a **USA** outcome. **ANAPA3.xlsx** was used to calculate the above probabilities.

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 Ukraine war has heightened the likelihood of *global financial collapse* which is part of the **D** scenario above. Furthermore, the **SQ/MR** ratio now falls slightly narrowing the gap between the **SQ** and **MR** probabilities.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

Event	Pairwise Values		Final Probabilities			Current More Likely Value
	Low	High	Average	Percent	Previous	
MB	1.00	1.00	0.0303	3	4	Base = 1.00
D	3.00	5.00	0.1135	11	14	11/3 = 3.67
MR	3.00	4.00	0.3898	39	35	39/11 = 3.55
SQ	1.10	1.30	0.4662	47	47	47/39 = 1.21
			0.9998	100	100	

Job growth in the US is heartening but logistic short-comings world-wide may hamper world growth. A strong US economy enhances the reserve currency status of the US dollar. **ANAPA4.xlsx** available on this website was used to calculate the above probabilities.

THE UKRAINE WAR

The conflict is ongoing with no resolution in sight. **HE's** ranking of likelihoods from least to most likely follows:

- **RWC** : Complete Russian withdrawal to pre-invasion borders.
- **ROUA** : Russian occupation of Ukraine with token Ukrainian acquiescence.
- **RWP** : Partial Russian withdrawal but Russia controls some present Ukrainian territory.
- **OS** : Ongoing struggle with Ukrainian resistance.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE UKRAINIAN INVASION

SCENARIO	Pairwise Values		Probabilities			Current More Likely Value
	Low	High	Average	Percent	Previous	
RWC	1.00	1.00	0.0275	3	10	Base = 1.00
ROUA	3.00	4.00	0.0937	9	10	9/3 = 3.00
RWP	3.00	4.00	0.3219	32	46	32/9 = 3.56
OS	1.50	2.00	0.5569	56	34	56/32 = 1.75
			1.0000	100	100	

Probabilities have been calculated using the spreadsheet **ANAPA4.xlsx** available on this website. At this point, the **OS** scenario looks most likely. If a deadlock under **OS** manifests itself, then negotiations will hopefully decide on an outcome the world can accept.

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