

WORLD ECONOMIC OUTLOOK

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

HUGHES ECONOMICS (HE) – Christmas 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. These spreadsheets are easily adaptable by users for other situations and/or 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 downloadable here. A short summary article **Assessing Probabilities With Minimal Calculations** (and accompanying spreadsheet) can also be downloaded from this website.

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+.
- **SQ**: Status Quo, no major moves for the Dow around 36,000.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction.

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	0.032	0.020	0.026	3	3	Base	Base
SQ	SQ/TINA	10.00	12.00	0.323	0.245	0.284	28	34	10.92	9.33
BB	BB/SQ	2.00	3.00	0.645	0.735	0.690	69	63	2.43	2.46
				1.000	1.000	1.000	100	100		

For this posting, the **BB/SQ** pairwise range goes from 1.75 – 2 times “more likely” previously to 2 – 3 now. This increases the chance of **BB** to just under 70% from 63% previously, with the High End probability at 74%.

WORLD FINANCIAL STATE

Various “landings” from the previous high inflation state are possible as outlined below:

- **CL** or Crash Landing: Geopolitical events deteriorate and disrupt world trade leading to an economic collapse.
- **HL** or Hard Landing: Policy mistakes make for a world recessionary outcome.
- **NL** or No Landing: World economy drifts on with low growth, high interest rates and possibly a higher inflation rate.
- **SL** or Soft Landing: Inflation is tamed, and world growth recovers eventually with a favourable outlook.

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	%
CL	Base = 1	1.00	1.00	0.097	0.043	0.070	7	9	Base	Base
HL	HL/CL	1.10	1.50	0.106	0.064	0.085	9	11	1.21	1.29
NL	NL/HL	2.50	3.50	0.266	0.223	0.244	24	32	2.87	2.67
SL	SL/NL	2.00	3.00	0.531	0.670	0.601	60	48	2.46	2.50
				1.000	1.000	1.000	100	100		

Although **HE** now has **SL** at 60%, the world seems in a fragile state, and everything will have to go smoothly in the near future to ensure this scenario holds up. Or in Nouriel Roubini’s words, “ Our first priority will be to survive the next few decades of instability and chaos.” A major worry for Roubini is that central banks will eventually settle for a higher target inflation rate than the current 2%. And from Mohamed A. El-Erian, “.... the global economy exceeded expectations in 2023. But while it is tempting to extrapolate from this experience and forecast a strong performance in 2024, such predictions must be approached with a healthy dose of caution.” Commentators are clearly circumspect about the immediate future.

Recent jobs, consumer sentiment and CPI data in the US support the **SL** scenario. November’s US Credit Managers Index survey, however, reported that orders were slowing and payments slowing even more, perhaps hinting at a looming recession there.

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 ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes from previous)

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
				0.999	1.000	1.000	100	100		

Two of Taiwan's three major political parties are not averse to closer relations with the Chinese mainland. This raises hopes that arrangements short of invasion and war may evolve preserving peace in the region. The 80% probability for **NOTI** above may not just be wishful thinking.

POTUS 2024

HE adjusted the analysis previously to allow for alternative candidates (apart from Biden and Trump) for both parties.

- Other Republican: Someone other than Trump if legal or other developments disqualify him as a viable candidate.
- Other Democrat: Someone other than Biden if his age/competence develops into an electoral liability.
- Trump
- Biden

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES (No changes from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
Other Rep	Base = 1	1.00	1.00	0.021	0.010	0.015	1	2	Base	Base
Other Dem	O Dem/O Rep	2.00	3.00	0.041	0.029	0.035	4	2	2.32	4.00
Trump	Trump/O Dem	10.00	12.00	0.417	0.350	0.383	38	22	10.82	9.50
Biden	Biden/Trump	1.25	1.75	0.521	0.611	0.566	57	74	1.48	1.50
				1.000	1.000	0.999	100	100		

Republicans are already dragging their feet on aid to Ukraine and Israel for political advantage in the run-up to the 2024 elections.

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 (No changes from previous)

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	0.032	0.022	0.027	3	3	Base	Base
CUT	CUT/CRT	3.00	4.00	0.097	0.089	0.093	9	12	3.44	3.00
STM	STM/CUT	9.00	10.00	0.871	0.889	0.880	88	85	9.46	9.78
				1.000	1.000	1.000	100	100		

The conflict drags on with no end foreseeable. Quite possibly NATO/EU pressure on Russia will be necessary to force negotiations.