

WORLD ECONOMIC OUTLOOK

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

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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** which is 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 the doi address <https://doi.org/10.17265/2328-2185/2024.04.004>.

FINANCIAL MARKETS (FM)

Possible scenarios for **FM** 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 48,000 (currently 48,255).
- **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	P(Low)	P(High)	Average	%	Previous	Average	%
BO	Base ⇒ 1	1.00	1.00	0.024	0.018	0.021	2	3	Base	Base
Mod	Mod/BO	5.00	6.00	0.122	0.109	0.115	12	15	5.48	6.00
BU	BU/Mod	7.00	8.00	0.854	0.873	0.864	86	82	7.51	7.17
				1.000	1.000	1.000	100	100		

This update raises the BU/Mod likelihood ratio from 5 – 6 times “more likely” previously to 7 – 8 now. This increases the probability of BU to 86% which compares with the UBS 93% probability of a US recession in 2025 (see below).

WORLD FINANCIAL STATE (WFS)

The UBS bank recently posted a 93% probability for a US recession in 2025. The US government shutdown has just been lifted until the end of January 2026. The US economy is still the most important for the world economy. Possible **WFS** scenarios in likelihood order remain as previous:

- **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	P(Low)	P(High)	Average	%	Previous	Average	%
MAGA	Base ⇒ 1	1.00	1.00	0.020	0.014	0.017	2	3	Base	Base
WA	WA/MAGA	10.00	12.00	0.196	0.164	0.180	18	18	10.59	9.00
WD	WD/WA	4.00	5.00	0.784	0.822	0.803	80	79	4.46	4.44
				1.000	1.000	1.000	100	100		

This month, the WA/MAGA pairwise range doubles from 5 – 6 times “more likely” previously to 10 – 12 as above. This reflects **HE**'s assessment of a decreasing chance for MAGA. This is the only change in the pairwise ranges. The results show that the probability for MAGA (the least likely event) reduces by one third to 2%. The probability of WA stays the same and that for WD increases by 1%. If the probability of the less likely event in the likelihood ratio is already low, doubling the associated pairwise range may not change resulting probabilities by that much.

CHINA

HE believes China's treatment of business managers via the Central Commission for Discipline Inspection (CCDI – think “Big Brother” in Orwell's 1984) is not conducive to Chinese economic growth. Whenever economic rationality and communist ideology collide, the economy suffers. And more problems for the Chinese economy are not needed right now.

- **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 change from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
BU	Base \Rightarrow 1	1.00	1.00	0.012	0.005	0.009	1	1	Base	Base
BO	BO/BU	2.00	3.00	0.023	0.016	0.020	2	2	2.22	2.00
RE	RE/BO	15.00	20.00	0.351	0.326	0.338	34	39	16.90	17.00
SW	SW/RE	1.75	2.00	0.614	0.652	0.633	63	58	1.87	1.85
				1.000	1.000	1.000	100	100		

China appears to be developing an alternative to the US dollar dominated world trade regime. This could prove to be very much an uphill battle but some diminution in the role of the US dollar could be expected.

THE WAR IN UKRAINE

Negotiations now seem to be gathering momentum, but will they lead anywhere? **HE** is very pessimistic but never say never.

Possible outcomes in likelihood order are as follows:

- **CFR:** Ceasefire favouring Russia but just how is unknown.
- **CFU:** Ceasefire with Ukraine still independent but Russia gains some previously Ukrainian territory.
- **STM:** The current situation continues.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
CFR	Base \Rightarrow 1	1.00	1.00	0.059	0.046	0.052	5	n/a	Base	Base
CFU	CFU/CFR	1.00	1.00	0.059	0.046	0.052	5	n/a	1.00	1.00
STM	STM/CFU	15.00	20.00	0.882	0.909	0.896	90	n/a	17.23	18.00
				1.000	1.001	1.000	100			

HE is very pessimistic in the outlook for the Ukraine war with a 90% chance of no change in the situation.

THE WAR IN THE MIDDLE EAST

Conditions in Gaza seem problematic even though actual war has ceased for the moment. Something akin to the UN peace-keeping force of old is needed but this is clearly no longer an option currently. Hamas seems likely to remain an important factor in Gaza which means only a fragile peace is possible for as long as that remains the case.