

WORLD ECONOMIC OUTLOOK

FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - POTUS 2024 - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – January 2024

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 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.

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 38,000.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction.

PROBABILITIES ON FINANCIAL MARKETS FOR THE NEXT 6 MONTHS (no changes from previous)

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		

Despite the high probability for **BB** above, the US market seems to have been in **SQ** mode over the last half of 2023. Some commentators are still very bullish, but others are more skeptical. Geopolitical concerns still fester.

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 maybe a higher target inflation rate.
- **SL** or Soft Landing: Inflation tamed, world growth recovers with a favourable outlook, geopolitical concerns managed.

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	0.083	0.038	0.060	6	7	Base	Base
HL	HL/CL	1.10	1.50	0.092	0.057	0.074	7	9	1.23	1.17
NL	NL/HL	3.00	4.00	0.275	0.226	0.251	25	24	3.39	3.57
SL	SL/NL	2.00	3.00	0.550	0.679	0.615	62	60	2.45	2.48
				1.000	1.000	1.000	100	100		

Job growth in the US remains strong and **SL** remains the most likely outcome. The US economy grew at a 3.3% annualized rate in the last quarter of 2023 with annualized inflation at 1.7% down from 2.6% in the previous quarter. These results are good news for Democrats and incumbents in the US 2024 elections. The outlook for China and Germany is not so bright, but a strong US economy continues to support a steady world state financially.

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		

The Taiwan elections of Jan 13th reaffirmed the status quo. The DPP retained the presidency but lost some seats in the legislature. China voiced displeasure at the outcome, but no changes in China's policy towards Taiwan seem imminent. The US confirmed its policy of no independence for Taiwan together with its "one China, peaceful unification" future.

POTUS 2024

Given recent developments, **HE** now allows for candidates other than Trump and Biden. In order of likelihood, these are:

- 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

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	0.020	0.012	0.016	2	1	Base	Base
Other Dem	O Dem/O Rep	4.00	5.00	0.080	0.062	0.071	7	4	4.44	3.50
Trump	Trump/O Dem	5.00	6.00	0.400	0.370	0.385	38	38	5.42	5.43
Biden	Biden/Trump	1.25	1.50	0.500	0.556	0.528	53	57	1.37	1.39
				1.000	1.000	1.000	100	100		

The numbers in the above table can be used to illustrate a point on pairwise comparisons. Suppose the DM finds it easier to compare Other Republican versus Trump and assigns a range of 20 – 30 times more likely for this ratio reflecting the near certainty that Trump will be the Republican nominee. The preceding 4 – 5 judgment for Other Democrat/Other Republican then necessitates the 5 – 6 following comparison for Trump/Other Democrat as in $4 \times 5 = 20$ and $5 \times 6 = 30$. Marginal changes in these range pairwise numbers would not materially affect the final probabilities. Accordingly, pairwise judgments that are out-of-order by likelihood but easier to make for the DM can be accommodated in the methodology. Final likelihood ratios are 24.06 or 19 in percentage terms

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.