

WORLD ECONOMIC OUTLOOK

WORLD FINANCIAL MARKETS & WORLD ECONOMIC ORDER & WAR IN UKRAINE

HUGHES ECONOMICS (HE) – August 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 war in Ukraine.

Probability calculations below for the scenarios outlined 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 as are various spreadsheets (xlsx format) used in the calculations below.

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+.
- **BB:** Bubble bursts and Dow corrects to below 30,000 or a 10%+ correction
- **SQ:** Status Quo, no major moves for the Dow in the range 30,000 – 35,000. At 29.7.22 the Dow was 32,845.

Markets lately have shown some volatility but appear to be awaiting direction on how the fight against inflation will pan out. COVID outbreaks also weigh on investor attitudes. On balance, **HE** favours an increased chance for **SQ** over **BB** at this point.

PROBABILITIES ON WORLD FINANCIAL MARKETS FOR THE NEXT 6 MONTH

Scenarios		Pairwise Range		Probabilities						More Likely Value
Events	Ratios	Low	High	Low	High	Average	Final	%	Previous	
TINA	Base = 1	1.00	1.00	0.052632	0.038462	0.045547	0.045	5	6	1.00
BB	BB/TINA	8.00	10.00	0.421053	0.384615	0.402834	0.403	40	47	8.84
SQ	SQ/BB	1.25	1.50	0.526316	0.576923	0.551619	0.552	55	47	1.37
				1.000001	1.000000	1.000000	1.000	100	100	

Changes from previous: **BB/TINA** goes from 7 - 8 to 8 - 10 and **SQ/BB** goes from 1 to 1.25 - 1.5 currently. Note that the **More Likely Value** is derived as 0.402834/0.045547 or 8.84. All probabilities in this note have been calculated using the spreadsheet **LoHiProbs.xlsx** available on this website. Alternative methods of calculating probabilities available on this website lead to differences in probabilities up to ±0.002 but the same percentage probabilities.

WORLD ECONOMIC ORDER

To restate all the possibilities over the next 10 years, 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.

Some commentators consider the second cold war (with China) has already started. Others say WW III is also underway with Ukraine the flash point. No changes from previous calculations have been made.

PROBABILITIES ON THE WORLD ECONOMIC ORDER EVOLVING OVER THE NEXT DECADE – NO CHANGES FROM PREVIOUS

Scenarios		Pairwise Range		Probabilities						More Likely Value
Events	Ratios	Low	High	Low	High	Average	Final	%	Previous	
China	Base = 1	1.00	1.00	0.045455	0.032258	0.038856	0.039	4	3	1.00
Cold War 2	CW2/China	10.00	12.00	0.454545	0.387097	0.420821	0.421	42	33	10.83
USA	USA/CW2	1.10	1.50	0.500000	0.580645	0.540323	0.540	54	64	1.28
				1.000000	1.000000	1.000000	1.000	100	100	

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 probabilities below show **MB** only a 1% chance – almost certainly a zero chance in the immediate future. However unlikely **MB** may be currently, it is good practice to keep it as an option. At some point, it must be hoped, **MB** will become a more likely outcome than currently. Ukraine gaining the upper hand in its current struggle would be a bonus for the world economy.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

Scenarios		Pairwise Range		Probabilities						More
Events	Ratios	Low	High	Low	High	Average	Final	%	Previous	Likely Value
MB	Base = 1	1.00	1.00	0.016434	0.008865	0.012650	0.013	1	1	1.00
D	D/MB	15.00	20.00	0.246508	0.177305	0.211906	0.212	21	33	16.75
MR	MR/D	1.30	1.70	0.320460	0.301418	0.310939	0.311	31	33	1.47
SQ	SQ/MR	1.30	1.70	0.416598	0.512411	0.464505	0.464	47	33	1.49
				1.000000	0.999999	1.000000	1.000	100	100	

D is now seen as less likely than **MR** or **SQ** but is still a significant chance at 21%.

THE WAR IN UKRAINE

HE has reworked the options for the war's outcome as shown below. As previously, the order reflects **HE's** appreciation of relative likelihood – least to most likely.

- **RV** : Russian Victory or Russia effectively controls Ukraine.
- **UV** : Ukraine drives Russia out of Ukraine but loses Crimea to Russia.
- **NC** : Negotiated ceasefire with Ukraine possibly yielding some territory to Russia including Crimea.
- **OS** : Ongoing struggle on Ukraine territory.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE

Scenarios		Pairwise Range		Probabilities						More
Events	Ratios	Low	High	Low	High	Average	Final	%	Previous	Likely Value
RV	Base = 1	1.00	1.00	0.026316	0.017241	0.021779	0.022	2	2	1.00
UV	UV/RV	1.00	1.00	0.026316	0.017241	0.021779	0.022	2	2	1.00
NC	NC/UV	12.00	14.00	0.315789	0.241379	0.278584	0.278	28	22	12.79
OS	OS/NC	2.00	3.00	0.631579	0.724138	0.677858	0.678	68	74	2.43
				1.000000	0.999999	1.000000	1.000	100	100	

Assuming a **NC** outcome, any territory loss by Ukraine (apart from Crimea) should see a reduced Ukraine free to join NATO, which would rule out any further Ukrainian encroachment by Russia.

Russia has done the world a favour. It has shown that authoritarian communist governments cannot be trusted. Previously neutral countries like Finland and Sweden have seen the light. There can be no going back to the inclusive policies once favoured by Germany until Russia and China give up on world/regional domination. Earlier China played the "one country, three systems" strategy brilliantly, but Hong Kong proved to be a system too far for Chinese ideology. And quite possibly this strategy may be incompatible with a complete national identity. In any case, this option no longer remains compatible with a democratic world order. Hopefully, alliances such as the QUAD and AUKUS will be a counter to over-reaching ambition.

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