

# WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & WORLD ECONOMIC ORDER HUGHES ECONOMICS (HE) – April 2022

The current review below restates probabilities for Financial Markets outcomes, the World Economic Order focusing on the US versus China and the possibility of another depression.

## WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood. The Status Quo as defined below continues to be seen as most likely to continue.

1. **TINA:** There is no alternative, and the Dow rises significantly to 40,000+.
2. **BB:** Bubble bursts and Dow corrects to 30,000- or a 10%+ correction.
3. **SQ:** Status Quo with no major moves for the Dow around 35,000 – currently, the Dow is around 34,358.

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* at <https://doi.org/10.17265/1537-1506/2022.01.003>. All papers are available on this website.

Probabilities are now calculated based on pairwise ranges as decided by the DM. For example, BB is now rated as 3 to 4 times more likely than TINA in the table below. And SQ is 25% to 75% more likely than BB. Mean, median and midpoint statistics from the candidate distributions then lead to the final probabilities shown below. These have not changed over the last month.

**PROBABILITIES ON FINANCIAL MARKETS FOR UP TO THE NEXT 6 MONTHS**

Event	Pairwise Values		Calculated Probabilities			Final Probabilities		
	Low	High	Mean	Median	Midpoint	Average	Percent	Previous
TINA	1.00	1.00	0.1051	0.1041	0.1062	0.1051	11	14
BB	3.00	4.00	0.3612	0.3602	0.3622	0.3612	36	25
SQ	1.25	1.75	0.5337	0.5338	0.5336	0.5337	53	61
			<b>1.0000</b>	<b>0.9981</b>	<b>1.0020</b>	<b>1.0000</b>	<b>100</b>	100

The SQ judgment has proved to be correct over the last few months. The Ukraine situation is still not resolved and will continue to weigh on financial markets.

## WORLD ECONOMIC ORDER

To restate all the possibilities, we have, in increasing order of likelihood:

1. **China:** China overtakes the US as world leader or Chinese hegemony.
2. **Cold War 2:** The US and China compete vigorously for world leadership with major ramifications for some countries.
3. **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		Calculated Probabilities			Final Probabilities		
	Low	High	Mean	Median	Midpoint	Average	Percent	Previous
China	1.00	1.00	0.0344	0.0334	0.0354	0.0344	3	3
Cold War 2	8.00	12.00	0.3308	0.3300	0.3315	0.3307	33	32
USA	1.50	2.50	0.6349	0.6352	0.6346	0.6349	64	65
			<b>1.0001</b>	<b>0.9986</b>	<b>1.0015</b>	<b>1.0000</b>	<b>100</b>	<b>100</b>

Again, there seems no reason to change previous probabilities as shown in the table above. Countries are now investigating alternatives to the US dollar given the sanctions now employed against Russia including removal from the SWIFT system.

## 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 steadily 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 remaining 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 above scenarios have been used for the last few months. Latest annual inflation for the UK has just been announced at 6.2%. High but not rampant. Clearly, however, the inflation outlook is not good with the US Fed preparing for drastic action although mindful of the world scene regarding Ukraine. The same order for scenarios still holds but pairwise ranges in the table below clearly reflect the recessionary likelihoods.

**PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS**

Event	Pairwise Values		Calculated Probabilities			Final Probabilities		
	Low	High	Mean	Median	Midpoint	Average	Percent	Previous
MB	1.00	1.00	0.0419	0.0410	0.0434	0.0421	4	4
D	3.00	4.00	0.1438	0.1426	0.1451	0.1438	14	10
MR	2.00	3.00	0.3477	0.3459	0.3490	0.3475	35	29
SQ	1.20	1.50	0.4666	0.4661	0.4665	0.4664	47	57
			<b>1.0000</b>	<b>0.9956</b>	<b>1.0040</b>	<b>0.9998</b>	<b>100</b>	<b>100</b>

The Ukrainian situation has significantly changed the outlook from the **HE** perspective. Some form of recessionary outcome is now almost a 50% chance. Carl Icahn has expressed similar fears. Job creation in the US is heartening, but COVID and Ukraine still cast a shadow over the world economy. Trying times may lie ahead.

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