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*** 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: https://doi.org/10.17265/2328-2185/2024.04.004.

FINANCIAL MARKETS (FM)

Despite disputes between the US and China, financial markets remain at highs. While "the bull in a china shop" analogy seems apt, the resilience of financial markets cannot be dismissed. 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 47,000 (currently 47,207).
- **BU** : Bust with a correction of 20%+ now possible in the major indices.

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

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	0.032	0.023	0.028	3	3	Base	Base
Mod	Mod/BO	5.00	6.00	0.161	0.140	0.150	15	18	5.36	5.00
BU	BU/Mod	5.00	6.00	0.807	0.837	0.822	82	79	5.48	5.47
				1.000	**1.000**	**1.000**	**100**	**100**		

HE remains skeptical that all will continue to go well for **FM**.

WORLD FINANCIAL STATE (WFS)

The two biggest economies in the world as in USA and China need to normalize relations. Until this happens the world economy is at risk of a major fallout in trade and cooperation generally. China's rare earth maneuvers, BHP iron-ore agreements with China etc. signal a Chinese hard-ball approach to trade that does not bode well for the future. Possible 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 (no change from previous)

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	0.038	0.027	0.033	3	4	Base	Base
WA	WA/MAGA	5.00	6.00	0.192	0.162	0.177	18	22	5.36	6.00
WD	WD/WA	4.00	5.00	0.769	0.811	0.790	79	74	4.46	4.39
				0.999	**1.000**	**1.000**	**100**	**100**		

WD remains almost an 80% chance for **HE**, but the market resilience noted above may be telling us something. Gold and silver prices pulled back recently but some experts believe long-term uptrends remain in place signaling safe haven decisions. The resilience of world financial markets is certainly present currently, but will it last? Geopolitical concerns, looming fiscal problems in major countries related to debt, deficits etc. and digital platforms and apps with little regulation are leveraging speculative trading. The chance of a big mistake in the foregoing could see a major correction in financial markets. The AI hype may be countering any correction tendency and may turn out to be justified. Time will tell.

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 efficiency 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 ⇒ 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**		

The **SW** scenario remains the most likely outcome for now – maybe two bulls in the china shop?

THE WAR IN UKRAINE

Creeping escalation is the norm at the moment. The US is increasing the capability of Ukraine to strike more distant Russian targets.

- **RS:** Russia successfully achieves its aim of reducing Ukraine to a puppet state if not part of Russia itself.
- **RE:** Russia exits Ukraine but possibly with some territorial gains.
- **WW:** Germany, France, UK, and Poland prepare to help Ukraine – a wider war becomes possible.
- **STM:** A stalemate cements itself with Ukraine now engaged in Russia, but only two belligerents confront each other.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (no change from previous)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	P(Low)	P(High)	Average	%	Previous	Average	%
RS	Base ⇒ 1	1.00	1.00	0.041	0.022	0.031	3	6	Base	Base
RE	RE/RS	2.00	3.00	0.082	0.065	0.073	7	6	2.35	2.33
WW	WW/RE	5.00	6.00	0.408	0.389	0.399	40	36	5.47	5.71
STM	STM/WW	1.15	1.35	0.469	0.525	0.497	50	51	1.25	1.25
				1.000	**1.001**	**1.000**	**100**	**99**		

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. Trump could be hinting that the US will step in if Hamas refuses to cooperate.