

WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS, THE BIG PICTURE & COVID ORIGIN

HUGHES ECONOMICS – June 2021

The current review below restates probabilities for Financial Markets outcomes, the World Economic Order (WEO) focusing on the emergence of China in coming years as a growing rival to current USA hegemony, and origins of the Covid-19 virus

WORLD FINANCIAL MARKETS

Three possible scenarios are proposed for the next 3 months:

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 10%+ correction.
3. **SQ:** Status Quo with no major moves for the Dow around 34,000 (currently 34,577).

PROBABILITIES ON FINANCIAL MARKETS

Event	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability
TINA	1.00	1.00	$1/4 = 0.25$	25
BB	1.00	$1.00 \times 1.00 = 1.00$	$1/4 = 0.25$	25
SQ	2.00	$1.00 \times 2.00 = 2.00$	$2/4 = 0.50$	50
TOTALS		4.00	1.00	100

Some analysts foresee a bubble bursting and a large correction. Others see significant continued growth. Our view is that we are in uncharted territory with a 50% chance of marginal moves around a Dow of 34,000.

WORLD ECONOMIC ORDER

To restate all the possibilities, we have:

1. **China:** China overtakes the US as world leader or Chinese hegemony.
2. **Cold War 2:** The US and China compete 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 foreseeable future.

Probabilities have been calculated in previous WEOs (see website hugheseconomics.com) and likelihoods derived earlier do not need updating at this juncture. The February calculations are restated below.

CURRENT PROBABILITIES FOR POSSIBLE SCENARIOS ON THE WORLD ECONOMIC ORDER

Scenario	Probability	Percent Probability
China	0.008	1
Cold War 2	0.076	8
USA	0.916	91
	1.000	100

A continuation of US hegemony is seen as a 91% chance at this point in June 2021. China has almost a negligible chance of assuming world leadership in the prospective future, although China itself continues to grow strongly. This conclusion will be reinforced by any evidence that the Covid-19 virus originated in China and, in particular, escaped from a Chinese Lab (see below).

ORIGIN OF THE COVID-19 VIRUS

The origin of the Covid-19 virus is still undetermined. Three possible hypotheses concerning its origin are considered here:

1. The virus originated outside of China (Non-Chinese).
2. The virus escaped from a Chinese laboratory in Wuhan (Wuhan Lab Escape).
3. The virus emerged from a Wuhan wet-market (Wuhan Market).

Note that hypothesis 1 covers everything apart from 2 and 3 above. If the virus originated in China, 2 and 3 above are the only possibilities we consider although other Chinese origins are possible with the Wuhan Market an “amplifying phenomenon”. The Wuhan wet-market is currently understood as being the most likely origin of the virus, but recent investigations have increased the likelihood of a lab escape. Pairwise judgments and probabilities are shown in the following table.

PROBABILITIES OF COVID-19 VIRUS ORIGIN

VIRUS ORIGIN	PAIRWISE VALUE	COMPOUND VALUE	PROBABILITY	PERCENT PROB
Non-Chinese	1.00	1.00	$1/26 = 0.038462$	4
Wuhan Market	10.00	$1.00 \times 10 = 10.00$	$10/26 = 0.384615$	38
Wuhan Lab Escape	1.50	$10.00 \times 1.5 = 15.00$	$15/26 = 0.576923$	58
		26.00	1.000000	100

To avoid any charge of “spurious accuracy”, the probabilities could be stated respectively as 5%, 35% and 60% or otherwise marginally altered to reflect the considered “degree of belief” of the appraiser. The Wuhan Market origin is seen as 10 times more likely than an origin outside of China and, in this review, a laboratory escape is seen as 50% more likely than the wet-market hypothesis. The reasons for the recently increased support of a lab escape origin over the wet-market alternative can be listed as follows:

1. The proximity of labs to the Wuhan wet-market – 12 km for the Wuhan Institute of Virology (WIV) and 0.5 km for the Wuhan Centre for Disease Control & Prevention.
2. A previously documented lab outbreak of the H1N1 influenza virus from either Russia or China in 1977.
3. A possibly non-animal (human-engineered) genome sequence in the Covid virus.
4. Three WIV workers were early Covid-like cases in November 2019.

Note that 3 and 4 are conjectures at this stage but Chinese reluctance to furnish evidence for or against these speculations enhances their likelihood of being true. If an infected lab worker visited the wet-market in Wuhan, this could have amplified the outbreak into the world-wide phenomenon it became. If subsequent investigation proves this to be correct, the 1% chance of Chinese hegemony as above will reduce to zero.