

WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & THE BIG PICTURE

HUGHES ECONOMICS – March 2021

The current review below restates probabilities for Financial Markets outcomes and the World Economic Order focusing on the emergence of China in coming years as a growing rival to current USA hegemony.

WORLD FINANCIAL MARKETS

Three possible scenarios are proposed for the next 6 months:

1. **TINA:** There is no alternative and the Dow rises significantly to 34,000 – 40,000.
2. **BB:** Bubble bursts and Dow corrects to 25,000 – 30,000 or 10%+ correction.
3. **SQ:** Status Quo with no major moves for the Dow in the range of 30,000 – 34,000.

Probabilities were derived in a previous WEO briefing (see website hugheseconomics.com). There appears to be no reasons to change these probabilities from last time and we reproduce the final February calculations below.

CURRENT PROBABILITIES FOR POSSIBLE SCENARIOS ON WORLD FINANCIAL MARKETS

Scenario	Percent Probability
TINA	8
BB	36
SQ	56
	100

In early March, stock markets appear to have stalled (Dow at 31,496) awaiting “news” of the stimulus or other developments. The possibility of rising inflation and worries of higher interest rates may have given buyers pause for thought at current levels. Both the BB and SQ scenarios remain very likely.

WORLD ECONOMIC ORDER

To quote from the 3 March 2021 newsletter from the Foreign & Commonwealth Office Association (FCOA) of the UK:

The Trump precedency (presidency?) with its ‘America First’ offered China strategic space it never dreamed of having so quickly. It now looks to many observers like a viable alternative to an America vexed by internal troubles and full of a new sense of geopolitical self-doubt.

Although our judgments below show any Chinese gains from this towards world hegemony to be very unlikely, it is a possibility that probabilistic thinking takes into account. Another possibility is foreseen by Nouriel Roubini, Professor of Economics at NYU’s Stern School of Business:

The new cold war between the US and China will continue to escalate potentially leading to a military clash over Taiwan or control of the South China Seas.....Over time, the world will be firmly divided between two competing systems – one controlled by the US, Europe and a few democratic emerging markets; the other controlled by China which by then will dominate its strategic allies (Russia, Iran and North Korea) and a wide range of dependent emerging markets and developing economies. (*A Fragile Recovery in 2021*, Project Syndicate: The Year Ahead 2021.)

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 final February calculations are restated below.

CURRENT PROBABILITIES FOR POSSIBLE SCENARIOS ON THE WORLD ECONOMIC ORDER

Scenario	Percent Probability
China	1
Cold War 2	8
USA	91
	100

A continuation of US hegemony is seen as a 91% chance at this point in March 2021. China has almost a negligible chance of assuming world leadership in the prospective future according to our judgments, despite the FCOA pronouncement above. The probability of Cold War 2 is also low but is still 8 times more likely than Chinese hegemony.

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