

# WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & WORLD ECONOMIC ORDER

HUGHES ECONOMICS – October 2021

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. The origins of the Covid-19 virus are examined in the paper on this website *Thinking Probabilistically IV*.

## WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 3 - 6 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 a 10%+ correction.
3. **SQ**: Status Quo with no major moves for the Dow around 35,000.

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>. See also *Thinking Probabilistically* available at <https://doi.org/10.17265/1537-1506/2021.05.002>. Both papers are also available on this website.

PROBABILITIES ON FINANCIAL MARKETS FOR UP TO THE NEXT 6 MONTHS

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
<b>TOTALS</b>		<b>4.00</b>	<b>1.00</b>	<b>100</b>

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 35,000. As of late September, the Dow is just under 35,000.

## 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 foreseeable 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 Judgment	Compound Likelihood	Probability	Percent Probability
China	1.00	1.00	$1/61 = 0.016$	2
Cold War 2	10.00	$1.0 \times 10.00 = 10.00$	$10/61 = 0.164$	16
USA	5.00	$10.0 \times 5.00 = 50.00$	$50/61 = 0.820$	82
<b>TOTALS</b>		<b>61.00</b>	<b>1.000</b>	<b>100</b>

George Magnus, an Associate at the China Centre of Oxford University, sees potential problems developing in China due to the Communist Party of China's (CPC) emerging struggle with the tech giants such as Alibaba etc. Recently China has banned the use and mining of cryptocurrencies. The CPC's infatuation with complete control versus the global perspective required of a world tech leader seems destined to hamper China's appeal to the rest of the world, despite the attraction of its large domestic market. Of course, the CPC can afford to remain irrational (by western standards) for long periods. Currently no change is seen in the above probabilities as determined over recent months.

Yuen Yuen Ang in a 21.9.21 **Project Syndicate** article *Can Xi End China's Gilded Age?* outlines the problems China faces as it attempts to implement a “common prosperity” property into China’s future. Ang points out that such a transition in a “control and command” economy may not work out as well as it did in the American democracy of the late 20<sup>th</sup> century.

## WORLD FINANCIAL STATE

Earlier in July, we added a fourth category of **Depression** to possible world scenarios. **The Economist** of 10<sup>th</sup> July writes “Such apocalyptic outcomes are possible , but not likely”. Below we assign this scenario a 7% chance. Scenarios in order of increasing likelihood are as follows:

**D** or Depression: High inflation and continued Covid-19 pressures, policy mistakes and global financial collapse.

**MR** or Mild Recession: Unemployment rises with hospitality and other sectors remaining subdued with ongoing virus problems.

**MB** or Mild Boom: Low interest rates and no major upsets allow markets to rise steadily for the next 6 months for 10%+ gains.

**SQ** or Status Quo: All markets steady, significant but not rampart inflation, continued but containable Covid flare-ups.

A mild boom (MB) is now seen as more likely than MR since authorities may be slow to raise interest rates quickly enough to contain an over-fast recovery. Probabilities for these scenarios are detailed below:

**PROBABILITIES ON WORLD SCENARIOS FOR THE NEXT 6 MONTHS**

Scenario	Pairwise Judgment	Compound Likelihood	Probability	Percent Probability	More Likely % P(·)
D	1.00	1.000	1.0/13.5 = 0.074	7	1.00 (Base)
MR	2.00	1.00 x 2.00 = 2.000	2.0/13.5 = 0.148	15	2.14
MB	1.50	2.00 x 1.50 = 3.000	3.0/13.5 = 0.222	22	1.47
SQ	2.50	3.00 x 2.50 = 7.500	7.5/13.5 = 0.556	56	2.55
<b>TOTALS</b>		<b>13.500</b>	<b>1.000</b>	<b>100</b>	

Probabilities for the scenarios have increased for the favourable outlooks with the recessionary alternatives reducing slightly from 25% to 22% in total currently. Note too that the “more likely” values for the percentage probabilities approximate the primary pairwise judgments which are only tentative or rudimentary – exact equivalence is not expected.

In a recent **Project Syndicate** article *Goldilocks is Dying* (21.9.21), Nouriel Roubini outlines four possible scenarios for the world economy. His scenarios are more nuanced than those above but can be roughly equated to the foregoing as follows: Goldilocks or MB, Overheating or MR, Deglobalization with Sino-American decoupling and a 20%+ bear-market correction or D, and finally a Growth Slowdown or SQ. Roubini favours the Overheating or MR scenario whereas the probabilities above favour the SQ scenario.

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