

# WORLD ECONOMIC OUTLOOK

## WORLD FINANCIAL MARKETS & WORLD ECONOMIC ORDER & WAR IN UKRAINE

### HUGHES ECONOMICS (HE) – July 2022

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

Probability calculations below for the scenarios outlined 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* available at <https://doi.org/10.17265/1537-1506/2022.01.003>. All papers are also available on this website as are various spreadsheets (xlsx format) used in the calculations below.

## WORLD FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood.

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

Recent moves by central banks to combat inflation have burst the bubble of financial markets. Significant corrections have occurred, and HE now sees the SQ at around a Dow of 30,000. Further corrections are possible until stability in price levels in the US, UK, Europe, and other countries is achieved. TINA initially reflected the scenario that stock markets would continue to head higher despite the headwinds of COVID etc. Currently, the TINA scenario is now expanded to include a “good” outcome to the Ukraine war which would see a return to the status quo before the invasion, possibly with some territory revisions between Russia and Ukraine.

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

| SCENARIO | Pairwise Values |      | Final Probabilities |            |            | Current More Likely Value |
|----------|-----------------|------|---------------------|------------|------------|---------------------------|
|          | Low             | High | Average             | Percent    | Previous   |                           |
| TINA     | 1.00            | 1.00 | 0.06275             | 6          | 9          | Base = 1.00               |
| BB       | 7.00            | 8.00 | 0.46863             | 47         | 41         | 0.46863/0.06275 = 7.47    |
| SQ       | 1.00            | 1.00 | 0.46863             | 47         | 50         | 0.46863/0.46863 = 1.00    |
|          |                 |      | <b>1.00001</b>      | <b>100</b> | <b>100</b> |                           |

Changes from previous: **BB/TINA** goes from a 4 – 5 range to a 7 – 8 range now, reducing the likelihood of TINA. Currently, **SQ** and **BB** are seen as equally likely. Previously the ratio **SQ/BB** was 1.1 – 1.3 with **SQ** slightly more likely at that point.

## WORLD ECONOMIC ORDER

To restate all the possibilities over the next 10 years, we have, in increasing order of likelihood:

- **China:** China overtakes the US as world leader or Chinese hegemony.
- **Cold War 2:** The US and China compete vigorously for world hegemony with ramifications for some countries.
- **USA:** The US continues as world leader with China relegated to second place for the proximate future.

**PROBABILITIES ON THE WORLD ECONOMIC ORDER EVOLVING OVER THE NEXT DECADE – NO CHANGES FROM PREVIOUS**

| SCENARIO   | Pairwise Values |       | Final Probabilities |            |            | Current More Likely Value |
|------------|-----------------|-------|---------------------|------------|------------|---------------------------|
|            | Low             | High  | Average             | Percent    | Previous   |                           |
| China      | 1.00            | 1.00  | 0.0386              | 4          | 3          | Base = 1.00               |
| Cold War 2 | 10.00           | 12.00 | 0.4211              | 42         | 33         | 0.4211/0.0386 = 10.91     |
| USA        | 1.10            | 1.50  | 0.5403              | 54         | 64         | 0.5403/0.4211 = 1.28      |
|            |                 |       | <b>1.0000</b>       | <b>100</b> | <b>100</b> |                           |

Recent harassment of planes in international airspace by Chinese fighters may herald an uptick in **Cold War 2**.

## 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 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 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 war in Ukraine continues and overhangs the world's future. Omicron still looms large in China with world growth impacted. Recent moves by central banks have made **MB** almost impossible, but this scenario is still a chance if the war in Ukraine ends in a "good" fashion.

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

| SCENARIO | Pairwise Values |      | Final Probabilities |            |            | Current More Likely Value |
|----------|-----------------|------|---------------------|------------|------------|---------------------------|
|          | Low             | High | Average             | Percent    | Previous   |                           |
| MB       | 1.00            | 1.00 | 0.01539             | 2          | 1          | Base = 1.00               |
| D        | 6.00            | 7.00 | 0.09944             | 10         | 9          | 0.09944/0.01539 = 6.46    |
| MR       | 4.00            | 5.00 | 0.44259             | 44         | 41         | 0.44259/0.09944 = 4.45    |
| SQ       | 1.00            | 1.00 | 0.44259             | 44         | 49         | 0.44259/0.44259 = 1.00    |
|          |                 |      | <b>1.0001</b>       | <b>100</b> | <b>100</b> |                           |

Changes from previous: the **D/MB** pairwise range increases from 5 – 6 to 6 – 7 now, but the probabilities of the 2 lowest chance scenarios rise due to the fact that **SQ** is now equally likely with **MR** (previously 1.1 – 1.3 more likely than **MR**).

## THE WAR IN UKRAINE

The conflict is ongoing with no resolution in sight. **HE's** ranking of likelihoods from least to most likely follows:

- **RWC** : Complete Russian withdrawal to pre-invasion borders.
- **ROUA** : Russian occupation of Ukraine with token Ukrainian acquiescence.
- **RWP** : Partial Russian withdrawal but Russia controls some present Ukrainian territory.
- **OS** : Ongoing struggle with Ukrainian resistance.

### PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE – NO CHANGES FROM PREVIOUS

| SCENARIO | Pairwise Values |       | Final Probabilities |            |            | Current More Likely Value |
|----------|-----------------|-------|---------------------|------------|------------|---------------------------|
|          | Low             | High  | Average             | Percent    | Previous   |                           |
| RWC      | 1.00            | 1.00  | 0.0108              | 1          | 6          | Base = 1.00               |
| ROUA     | 2.00            | 3.00  | 0.0257              | 3          | 28         | 0.0257/0.0108 = 2.38      |
| RWP      | 10.00           | 12.00 | 0.2808              | 28         | 28         | 0.2808/0.0257 = 10.93     |
| OS       | 2.00            | 3.00  | 0.6826              | 68         | 38         | 0.6826/0.2808 = 2.43      |
|          |                 |       | <b>0.9999</b>       | <b>100</b> | <b>100</b> |                           |

Ukrainian resistance appears to be stiffening with the West (plus NATO) determined that Putin does not succeed. A negotiated end to the invasion appears more probable now. This could see some territory ceded by Ukraine to Russia as envisaged in the **RWP** outcome above. The **BBC** analysis of last time is repeated below as it still seems pertinent to the situation.

Writing for **BBC News** 3.6.22, James Landale outlined five potential scenarios for how the war in Ukraine may end:

1. War of attrition – corresponds to **OS** above
2. Putin announces ceasefire – corresponds to **RWP** above.
3. Battlefield stalemate – corresponds to **OS** above.
4. A 'victory' for Ukraine – corresponds to **RWC** above.
5. A 'victory' for Russia – corresponds to **ROUA** above.

Furthermore, Mick Ryan, a retired Australian general and military scholar, says: "There is little prospect of a crushing operational or strategic victory by either side in the short term. Neither belligerent has demonstrated the capacity to land a strategically decisive blow."

Word count 1,050, 1<sup>st</sup> July 2022.