WORLD ECONOMIC OUTLOOK

FINANCIAL MARKETS - WORLD FINANCIAL STATE - CHINA - UKRAINE 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*** which is 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 the doi address https://doi.org/10.17265/2328-2185/2024.04.004.

FINANCIAL MARKETS (FM)

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 49,000 (currently 49,501).
- **BU** : Bust with a correction of 20%+ now possible in the major indices.

PROBABILITIES ON FINANCIAL MARKETS FOR THE NEXT 6 MONTHS (no changes 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	0.024	0.018	0.021	2	3	Base	Base
Mod	Mod/BO	5.00	6.00	0.122	0.109	0.115	12	15	5.48	6.00
BU	BU/Mod	7.00	8.00	0.854	0.873	0.864	86	82	7.51	7.17
				1.000	**1.000**	**1.000**	**100**	**100**		

Markets do not like uncertainty but that is what current US election results are signaling. Elected appointments that for decades have been Republican have become Democratic in recent elections. If this continues in the 2026 mid-terms with Democrats ending up in charge of the House and Senate, US economic direction becomes uncertain. The MAGA movement was certainly a direction change for the US and now its confirmation, repudiation or indetermination depending on the mid-terms will be crucial. The US Constitution is about to experience an unprecedented stress test. Whether there is evolutionary or revolutionary change remains the question. A given direction change can be good or bad (depending on your viewpoint) but does not really matter as long as there is certainty for future developments. Asset prices and markets adjust to the direction charted and we all have to live with the outcome. Of course, people can be better or worse off with future election outcomes reflecting the numbers of such and possible direction changes come the next election.

WORLD FINANCIAL STATE (WFS)

Possible **WFS** 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 changes 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	0.020	0.014	0.017	2	3	Base	Base
WA	WA/MAGA	10.00	12.00	0.196	0.164	0.180	18	18	10.59	9.00
WD	WD/WA	4.00	5.00	0.784	0.822	0.803	80	79	4.46	4.44
				1.000	**1.000**	**1.000**	**100**	**100**		

HE's view is that eventually a Trump initiative (as in the Greenland maneuver since TACO'd) will spark an unforeseen reaction that could shock the world financial system into a major correction. Add to this prospect some result from AI developments (or lack of) that also roil markets together with geopolitical machinations that eventuate and cause ructions with world trade etc. In short, something bad or unexpected could happen in the near future justifying the 80% chance for world disorder (**WD**) as above.

CHINA

China's GDP grew at a 5% rate for calendar year 2025. The IMF has predicted a 4.5% rate for 2026. Domestic concerns are still a problem, however, and possible scenarios remain as previously in likelihood order:

- **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 changes 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	0.015	0.007	0.011	1	1	Base	Base
BO	BO/BU	2.00	3.00	0.030	0.021	0.026	3	2	2.36	3.00
RE	RE/BO	15.00	20.00	0.455	0.432	0.443	44	34	17.04	14.67
SW	SW/RE	1.10	1.25	0.500	0.540	0.520	52	63	1.17	1.18
				1.000	**1.000**	**1.000**	**100**	**100**		

China seems to be stalled domestically but internationally continues to expand with agreements and the like.

THE WAR IN UKRAINE

There is much talk but a ceasefire still seems a long way away. Possible outcomes remain as previous and in likelihood order are as follows:

- **CFR:** Ceasefire favouring Russia but just how is unknown.
- **CFU:** Ceasefire with Ukraine still independent but Russia gains some previously Ukrainian territory.
- **STM:** The current situation continues.

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**	**%**
CFR	Base ⇒ 1	1.00	1.00	0.059	0.046	0.052	5	n/a	Base	Base
CFU	CFU/CFR	1.00	1.00	0.059	0.046	0.052	5	n/a	1.00	1.00
STM	STM/CFU	15.00	20.00	0.882	0.909	0.896	90	n/a	17.23	18.00
				1.000	**1.001**	**1.000**	**100**			

HE is very pessimistic in the outlook for the Ukraine war with only a 10% chance for a ceasefire.