WORLD ECONOMIC OUTLOOK - FINANCIAL MARKETS TO MARCH 2021
Hughes Economics – December 2020

Much has been resolved in the first half of November. Biden is the new President and a cooperative Senate (if not Democratic as decided early January) will work with Biden on sensible programs. The House remains Democratic. Unfortunately, the US seems to be set for a winter-wave of Covid-19 which will complicate any growth recovery. Internationally, the USA will take more time to reassert itself. US financial markets are the key to signalling a world recovery in the face of a still hostile world virus epidemic. Vaccines now becoming available suggest the virus will be conquered later in 2021. The following analysis focusses on this outlook for the world.

To reiterate previous Outlooks, we concentrate predominately on US markets since these lead the world. In previous WEOs (see website hugheseconomics.com), 3 scenarios were outlined for the future of world financial markets. These scenarios comprised TINA, there is no alternative and stock markets head higher with no significant corrections (gold at $1900 - $2000 an ounce), BB or the bubble bursts with an up to a 30% correction before markets stabilize at lower levels than currently (gold $2000 - $4000) or SQ the status quo with markets moving sideways (gold $1800 - $2000) but no substantive moves in either direction for up to the next 6 months. This includes a pull-back of say up to 10% followed by a slow recovery back to previous levels. BB on the other hand involves a significant correction up to 30% with stabilization at a much lower level than currently. BB could also be triggered by a geopolitical event unforeseen currently. A complete rethink of likelihoods is now required.

China with the RCEP (Regional Comprehensive Economic Partnership), the virus under control and a now resurgent economy seems to be reasserting its growing power. The US may be diverted from world affairs by the necessity to contain the virus back home. Domestically, US antitrust action versus the big-tech names is gaining momentum. Currently, the US markets could be viewed as "frothy" presaging a downturn at some point as in BB or SQ. Or, as TINA intimates, the frothiness could continue. There is a realization both that fiscal measures are urgently required, and monetary policy can do no more. Consistent with this "news", the "more likely" judgments have TINA still at the base level of 1.0, BB is twice as likely as TINA and SQ is 1.15 times "more likely" than BB (15% "more likely"). An equally likely judgment at any point would use 1.0. Also note that a scenario with zero consistency with the "news" would receive a zero likelihood and be eliminated from further consideration. All scenarios (no matter how unlikely currently) should be kept "alive" even with only a small probability.

CONSISTENCY OF SCENARIO WITH THE CURRENT SITUATION POST-ELECTION

Scenario	Pairwise Judgment	Compound Likelihood	"News" Likelihood	Percentage Likelihood
TINA	1.00	1.000	1.0/5.30 = 0.189	19%
BB	2.00	1.0 x 2.00 = 2.000	2.0/5.30 = 0.377	38%
SQ	1.15	2.0 x 1.15 = 2.300	2.3/5.30 = 0.434	43%
TOTALS		**5.300**	**1.000**	**100%**

6 decimals used in calculations corrected to 3 above

Previously we had TINA at 1% (with Trump unpredictable) so +18% this time since the US now has a more stable outlook. Scenario BB previously at 47% (-9%) and SQ previously at 52% (-9%). The Biden Presidency augers a less abrasive atmosphere than a Trump return would have suggested, and this reduces the BB and SQ likelihoods. For example, a smooth transition to the new Presidency now seems likely. However, international developments could still trigger a BB and, on balance, a still sizable 38% likelihood is the final judgment for this scenario.

Even if the Senate does not go Democratic in January, moderate Republicans (and especially those up for re-election in 2022) will not stimy sensible Democratic initiatives designed to help the US economy. An experienced Biden will understand how to progress legislation through Congress in whatever situation he faces.