WORLD ECONOMIC OUTLOOK – FINANCIAL MARKETS & WORLD ECONOMIC ORDER

HUGHES ECONOMICS – November 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 month as listed below in order of increasing likelihood. The Status Quo as defined below is seen as most likely to continue.

1. **BB**: Bubble bursts and Dow corrects to 30,000- or a 10%+ correction.
2. **TINA**: There is no alternative, and the Dow rises significantly to 40,000+.
3. **SQ**: Status Quo with no major moves for the Dow around 35,000 – as of 29/10, the Dow is at 35,820.

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 Probabilities	
				Current	Previous
BB	1.00	1.00	1/6.25 = 0.16	16	25
TINA	1.50	1.00 X 1.50 = 1.50	1.50/6.25 = 0.24	24	25
SQ	2.50	1.50 x 2.50 = 3.75	3.75/6.25 = 0.60	60	50
TOTALS		**6.25**	**1.00**	**100**	**100**

October saw good news for the FANGS and techs generally but overall, the indices did not spike higher, which is not a good omen. Tesla also spiked higher on the 100,000 car-order from Hertz. News that a lot of cash is "sitting on the sidelines" seems to support the market at this point. Central Banks are now muting the "transitory inflation" scenario and seem prepared to taper bond buying early. COVID-19 is still a threat, but increasing vaccination rates signal a return to normality may be achieved in 2022.

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 near future.

These scenarios will play out over the next 10 years. Current probabilities are calculated below:

PROBABILITIES ON THE WORLD ECONONOMIC 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 x 10.00 = 10.00	10/61 = 0.164	16
USA	5.00	10.0 x 5.00 = 50.00	50/61 = 0.820	82
TOTALS		**61.00**	**1.000**	**100**

The CPC continues its regulation of the Chinese economy in line with communist rather than capitalist principles. The US with the AUKUS agreement signals to China that the West will not sit back and allow Chinese hegemony to go unchecked in the Indo-Pacific region. There seems no reason to change the probabilities as outlined in previous WEOs.

WORLD FINANCIAL STATE

Earlier in 2021, we added a fourth category of **Depression** to possible world scenarios. 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 #	Reciprocal Matrix				Eigenvalues	Probability	% Prob	More Likely % P(·)
		D	MR	MB	SQ				
D	1.00	1	1/2	1/3	2/15	0.119310	0.074074	7	1.00 (Base)
MR	2.00	2	1	2/3	4/15	0.238620	0.148148	15	2.14
MB	1.50	3	3/2	1	2/5	0.357930	0.222222	22	1.47
SQ	2.50	15/2	15/4	5/2	1	0.894825	0.555556	56	2.55
							1.000000	**100**	

In the above table we first calculate a perfectly consistent reciprocal matrix using the pairwise values in column 2. These are the values just below the main diagonal in column 3. The principal eigenvector for this matrix is shown in column 4. The normalized probabilities are then shown in column 5. These probabilities are the same as would be calculated using the minimal three pairwise judgments. Note that if the SQ/D pairwise value was raised to 10 (currently 7.5) with 2/15 reducing to 1/10, the percentage distribution would become respectively 7%, 14%, 21% and 58%. Experience suggests that major changes in the non-adjacent pairwise values does not result in major changes in the distribution derived using the minimal number of judgments. Information unrelated to that used in deriving the adjacent pairwise judgments may, however, be more useful in determining a final distribution.

Recent growth statistics for reporting countries do not seem alarming although the hospitality sectors world-wide continue to suffer losses estimated at 85% globally. Clearly this cannot continue for much longer without catastrophic losses to economic activity for sectors in the tourist related areas. Some governments are using vouchers to stimulate business in the hospitality sectors. Airlines also need to at least approach previous activity levels. Vaccination levels may reach high enough percentages to allow some respite in the near future. Previously calculated probabilities as above still hold. Note that final likelihood ratios as in the above table (col. 6) need not exactly match the initial pairwise values used (col. 2), which are only a rough means to the end of a "ballpark" distribution. Further information and judgment then determine the final distribution with possibly quite different pairwise values.

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