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PHILEQUITY CORNER

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Grim and bear it

The “scenario” (sometimes called a storyboard) is a device that movie directors use to shoot a movie with different scenes, characters, endings, script, costumes, and props. The various approaches allow the director to re-imagine the story and how much the budget will cost.

Scenarios are now also applied to business planning, economic projections and even political events. In real life scenarios, the story never ends. Scenario-building is a planning tool to explore various actions and reactions to come up with economic strategies to suit different developments.

The situation in the Middle East conflict that has disrupted the world economy, principally the distribution and shipping of oil, has dampened market sentiment on the economy. The impact is felt even in GDP projections on growth and inflation.

So “worst-case scenarios” are meant to prepare a company or an economy for bad times ahead. It’s not easy being grim. It takes effort to conjure up what can possibly go wrong and then plan accordingly. Even when a situation like the present conflict may be time-bound and changing by the minute, the headlines are just too frequent and discouraging to ignore. Still, the declaration of an ending will be abrupt, even if lingering in its impact.

“Worst-case scenario”, also called prophets of doom, include Thomas Malthus (1766-1834) who predicted that population was growing too fast for it to be adequately supported by the planet. He predicted in his “Essay on Principles of Population” that human beings will all die of mass starvation at some point. This historical worst-case scenario is dubbed the “Malthusian Catastrophe”. Clearly, this dire prophecy hasn’t happened, with the world population as of October 2025 already at 8.25 billion. The unforeseen development of agricultural productivity, food production and the discovery of new territories have averted this doomsday prophecy. Even the high volume of food wastage has become an unforeseen Malthusian twist.

The prophet of doom has gained a global platform with the availability of social media and round-the-clock posting of news and opinion.

Is the promoter of worst cases a pessimist? Not necessarily. He is merely preparing the economy or even a company for different possibilities, without necessarily giving up hope. Such scenario forecasts need to be constantly updated with global developments that come up every hour.

With the interconnectedness of the global economy, the local analyst picks his news from around the world, with emphasis on factors directly affecting the local scene. The occurrence of an unexpected, and many say unnecessary war accompanied by a mixed brew of mission statements, the economy is dominated by worst-case scenarios.

Still, the problem with worst-case scenarios, especially those with an end-of-the-world flavor, is that there is little a company or an economy can do except to cope and survive.

Scenario-building must be given a time frame. The assumptions on the scenarios need to be clearly stated. A range of forecasts can also be provided. There is also the need to present the “best case” scenario, where conflict resolution and the return to normalcy are possible.

Planners need to talk of “best case” and “worst case” scenarios as convenient labels to cover a string of possible events that can improve or worsen a situation. One country’s best case may be another one’s worst one. Scenarios differ according to the desired outcome for different entities.

Because they deal with the uncharted future, scenarios cannot fully anticipate sudden twists in the plot, much like a serial soap opera. As in movies, the main characters don’t always determine the ending. There are the supporting cast and the mob of extras that can change the development of a story.

Scenarios need to be periodically revised along with actual events. They determine the behavior of the market.

Market sentiment drives prices as well as the direction and volume of trade, or even the option of staying in the sidelines. It’s best to take a longer view when the fundamentals are still sound and capable of handling different scenarios.

Scenarios change along with the latest news. Still, even the worst-case scenarios being planned for can turn out to be too pessimistic. Real life can provide unexpected endings which even the best-case scenario has not factored in.