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**The fragile upswing of the stock markets**

by Michael Heise

The financial markets are by no means lacking in confidence at the moment. Despite the many economic and political risks we face, prices are rising across the board, for equities, corporate bonds and commodities. The bull market since the beginning of this year has probably hit some cautious investors cold. Who would have expected such an upswing on the stock markets, when the economy deteriorated significantly into 2019: a weakening economy in the United States, severe growth losses in China, a significant decline in industrial production in Germany and a recession in Italy. Nonetheless, financial markets are not looking back but forward, at least for the next few months. Obviously, the economy is expected to improve and there will be no pronounced recession.

This assessment may well prove correct. After all, there are some signs that consumption and residential construction are picking up again in America, the huge economic stimulus package in China is gradually having an effect and German economy grew in the winter despite the weakness in exports. The resulting boost for the stock markets is being reinforced by a worldwide expansive monetary policy. In America, the central bank has made an astonishing turnaround and suspended further interest rate hikes for the time being. At the same time, the European Central Bank has also postponed normalization, and the Chinese central bank is likely to implement further expansionary measures following massive injections of liquidity in January.

The question is how sustainable the upswing on the stock markets will be. The foreseeable conflicts over budget policy and the debt ceiling in the United States are likely to create new uncertainty. In Europe, which is already holding the red lantern in the global economic cycle, there are also political and economic risks that need to be overcome with the help of the newly elected EU Parliament and the new EU Commission, such as Italy's debt policy and Britain's withdrawal from the EU.

If the latter is not achieved by the adoption of Theresa May's resignation agreement, the signs are that the resignation period will be further extended. For the financial markets, this would be associated with uncertainties, but it would also hold the chance of a new referendum or remaining in the customs union. While an extension of the exit period is likely to have a neutral or positive effect on the financial markets, a so-called "no-deal Brexit" would almost certainly trigger strong price declines. The reintroduction of tariffs would not only restrict trade and make long-standing value chains between Great Britain and other EU countries obsolete, but would also fuel doubts about the long-term willingness of Great Britain and the EU to cooperate. The confidence of the markets would soon be over.