

Peripheral Europe Update

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- **Lega and Five Star talking in Italy**
- **Busy credit rating calendar**

Main market events

Peripheral spreads widened modestly last week as the market responded to the news of talks between Lega and Five Star leaders in Italy. Apart from that, the news was limited and the market gained some support from dovish comments by ECB officials. Italian bonds have returned 1.26% year-to-date, Spanish bonds 2.05%, Portuguese bonds 1.57% and Irish bonds -0.15%.

Italy

Lega leader Matteo Salvini discussed with Five Star leader Luigi Di Maio a deal on the election of house speakers (due for 23 March). Such a deal would give them additional power in the design of a new electoral law and therefore an advantage in a scenario where new elections will be organized later this year. Apparently, Salvini and Di Maio also discussed common objectives in case of a coalition between Lega – Five Star. While the two may find a compromise on the appointments, finding common ground to form a coalition government looks difficult for any combination of parties at this point. The PD has ruled out forming an alliance with Lega or Five Star. Lengthy negotiations and possibly new elections are the main scenario.

Spain

The recovery of the Spanish housing market has continued into 2018. Housing sales jumped 23% y-o-y in January, up from an average increase of 18% during Q4 last year.

Busy credit rating agenda

Today (Friday 16 March) Fitch and Moody's will update their ratings on Italy. Any change in the ratings or outlook would surprise the market. The positive argument of improved economic conditions is counterbalanced by ongoing political uncertainty and continued lack of fiscal discipline. Also today S&P will publish its first update on Portugal since the upgrade last September, again no change is expected. An update of the S&P rating for Spain is on the agenda for next Friday (23 March). The market anticipates an upgrade to A- for Spain.

ECB buying jumps in April due to redemptions

April will bring sizeable redemptions of bonds held by the ECB. A total of EUR 100bn in Euro Government Bond redemptions is expected for this month, which suggests circa EUR 22bn in redemptions for the ECB's PSPP portfolio. This will lift ECB buying to above EUR 50bn in April.

Robeco Euro Government Bonds

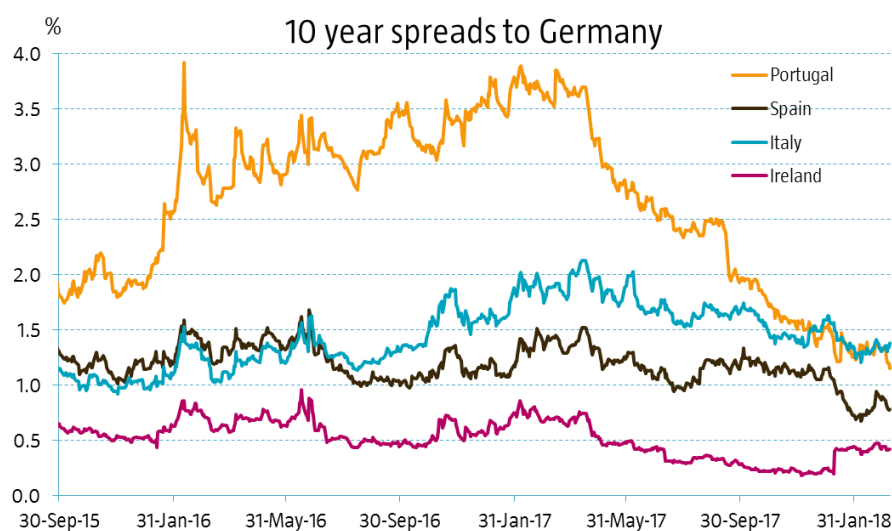
We have kept the positioning in euro peripheral bonds unchanged. The fund is now overweight Italian 5- and 10-year bonds and 10-year and longer-dated Spanish bonds. The fund still holds no Irish bonds as their spreads over France do not compensate for the potential risks stemming from Brexit and the volatility inherent to Ireland's size. Currently the fund is 47% invested in peripheral bonds, well above index level. Year-to-date the fund's absolute return is 0.61%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 15 March, 2018.
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Current spreads and the movement over time

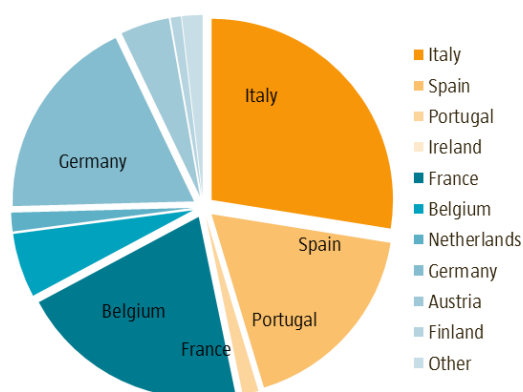
maturity	Germany	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.66	0.08									
2	-0.59	0.11	0.34	0.33	-0.07	0.05	0.17	1.99	0.13	0.00	0.47
3	-0.41	0.15	0.46	0.34	-0.11	0.00	0.18		-0.04	0.02	0.47
4	-0.23	0.14	0.56	0.22	-0.11	-0.02	0.12				0.33
5	-0.03	0.12	0.68	0.34	-0.17	0.21	0.17	3.52	0.13	-0.01	0.46
6	0.09	0.15		0.56	0.14	0.19	0.23			0.08	0.80
7	0.22	0.18	1.12	0.60	0.16	0.23	0.22	3.65		0.04	1.07
8	0.34	0.20	1.24	0.72	0.15	0.25	0.08		0.39		1.09
9	0.46	0.23	1.28	0.76	0.16	0.27	0.22				1.11
10	0.57	0.25	1.39	0.79	0.16	0.29	0.20	3.62	0.44	0.12	1.17
15	0.72	0.49				0.50	0.41	3.88			
20	0.98	0.33				0.42					
30	1.22	0.44	1.77	1.16	-0.01	0.40	0.25				

Source: Bloomberg



Source: Bloomberg. Note: the recent jump in Irish yields is due to the issuance of a new 10-year bond.

Country allocation Robeco Euro Government Bonds (16 March, 2018)



Source: Robeco

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