

# Peripheral Europe Update

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- **Less Euroscepticism among Italian voters**
- **Greece program exit still surrounded by uncertainties**

## Main market events

Peripheral bond spreads tightened last week, amid a broader tightening of credit spreads in the euro area. News out of Italy was mixed, with Savona expressing continued anti-euro views, while Tria was sending a more comforting message. Italian bonds have returned -2.9% year-to-date, Spanish bonds 2.7%, Portuguese bonds 2.3% and Irish bonds 0.9%.

## ECB

The minutes of the June Governing Council were published this week. They highlighted the unanimity of the decision about enhancing forward guidance on policy interest rates. Guidance will be based on a specific timeframe and depend on the state of the economy. That said, over the past days some GC members discussed the meaning of “throughout the summer” for the next rate hike.

## Italy

According to a new poll, only 22.5% of Italian voters are in favor of leaving the euro area, with about two third of the respondents against the idea of holding a referendum on the subject. Interestingly, some support was even found among M5S and Lega parties. The percentage of Eurosceptic voters is clearly declining in Italy. But on Tuesday, EU affairs minister Savona stated loud and clear that Italy should be prepared to any eventuality including the exit of the euro. Damage control followed quickly on Wednesday by prominent members of the government. Deputy PM Di Maio reaffirmed that there was no Plan B for euro-exit. Another reassuring message was sent by finance Minister Tria in Brussels, stressing that Italy’s 2019 budget will focus on higher investment spending. To the extent that such investment could foster potential growth, this could be viewed as a positive development, especially as Italy is set to post the slowest growth pace among the 19-members of the euro area this year and the next.

## Greece

This week, Draghi has played down both the upholding of the waiver on Greek bonds’ eligibility as collateral for liquidity operations after August and the possibility that Greece could benefit from ECB QE bond purchases. If the waiver is not extended, the cost of funding of local banks would be significantly increased as they will have to rely on ELA funding from the Bank of Greece.

## Robeco Euro Government Bonds

The positioning of the fund in periphery markets has remained unchanged in the past week. Overall, our risk position in peripheral bonds is slightly higher than that of the index, mainly located in Spain and Ireland. We remain cautious towards Italy as long as markets are vulnerable to headline-risk. Currently the fund is 35% invested in peripheral bonds, less than the index level as expressed in market value. Year-to-date the fund’s absolute return is 0.46%\*.

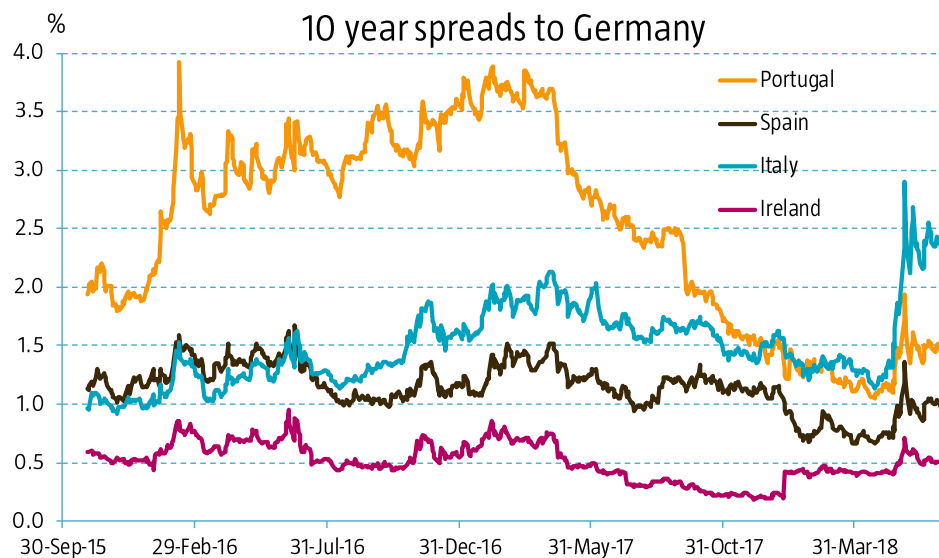
\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 12 July, 2018. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.65	0.10									
2	-0.64	0.19	1.30	0.33	-0.01	0.11	0.14	2.04	0.13	0.04	0.52
3	-0.58	0.27	1.61	0.44	0.05	0.06	0.12		0.14	0.02	0.53
4	-0.47	0.29	1.86	0.48	0.07	0.03	0.12		0.24	-0.02	0.70
5	-0.31	0.32	1.99	0.63	0.08	0.25	0.18	3.22	0.19	0.02	0.85
6	-0.15	0.20	2.16	0.66	0.08	0.17	0.17		0.25	0.04	0.85
7	-0.03	0.23	2.23	0.72	0.10	0.22	0.24		0.34	-0.01	1.23
8	0.10	0.25	2.20	0.84	0.10	0.25	0.08			0.07	1.32
9	0.21	0.22	2.26	0.92	0.11	0.29	0.21			0.12	1.36
10	0.34	0.28	2.21	0.93	0.10	0.29	0.19	3.51	0.47	0.08	1.39
15	0.61	0.40	2.35	1.21		0.48	0.31	3.85	0.68	0.09	1.65
20	0.78	0.35	2.45			0.55	0.22	3.88			1.71
30	1.00	0.50	2.43	1.45	-0.03	0.56	0.31			0.12	1.78

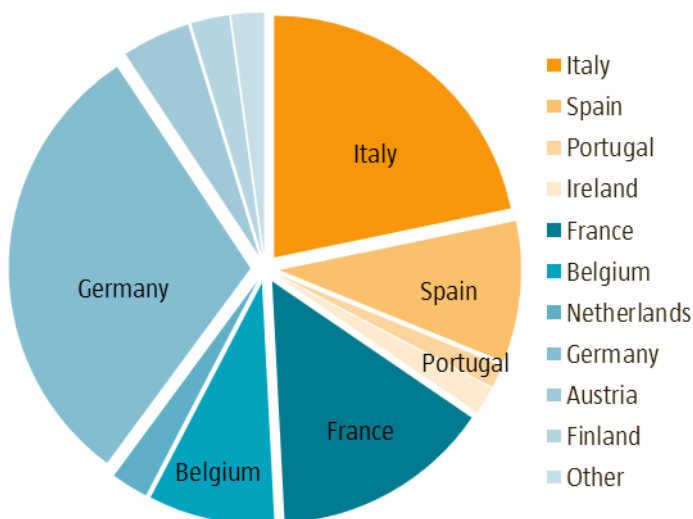
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (12 July, 2018)



Source: Robeco

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