

Peripheral Europe Update

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- **ECB: Draghi delivers dovish taper**
- **Italian finance minister gives very conventional interview**

Main market events

Peripheral spreads tightened this week as the Italian finance minister gave a very conventional interview during the weekend. Next to that, the market felt supported by the ECB, which despite announcing the end to QE in December, also announced not to raise rates for at least 12 months. Italian bonds have returned -3.5% year-to-date, Spanish bonds 2.2%, Portuguese bonds 1.2% and Irish bonds 0.1%.

ECB

On Thursday Mario Draghi announced that “after September 2018, subject to incoming data, the monthly pace of the net asset purchases will be reduced to EUR15 billion until the end of December 2018 and net purchases will then end.” He also announced key interest rates will remain at their present levels “at least through the summer of 2019 and in any case for as long as necessary”. Especially this last sentence was taken very positively by markets.

Italy

Italian finance minister Tria confirmed that “there is no discussion about leaving the euro” within the new M5S-Lega government. He also confirmed Italy’s commitment to reduce the public debt and deficit and stressed that the new government will “dialogue with”, not “threaten”, its European partners in the upcoming discussions on the fiscal targets.

Sunday’s local elections, which involved around 14% of the Italian electorate, saw broad-based gains by the centre-right coalition, primarily led by Lega. The local elections were the first electoral test after Lega and M5S joined forces in the new national government.

Spain

The Socialist party PSOE is leading in most recent polls for voting intentions, ahead of the conservative Partido Popular and Ciudadanos. Leftwing Podemos retains the fourth position. PSOE support rose after the party came into power after overthrowing the PP government with a no-confidence motion.

Robeco Euro Government Bonds

This week we bought France versus Spain on a risk weighted basis as French spreads lagged the relief rally witnessed in other European country spreads. We tactically stepped in and out of Italy during the week. We prefer a tactical approach towards Italy for now as spreads remain volatile and very dependent on announcements by the fresh government. Overall, our risk position in peripheral bonds is broadly in line with that of the index. Currently the fund is 32.4% invested in peripheral bonds, less than the index level as expressed in market value. Year-to-date the fund’s absolute return is -0.3%*.

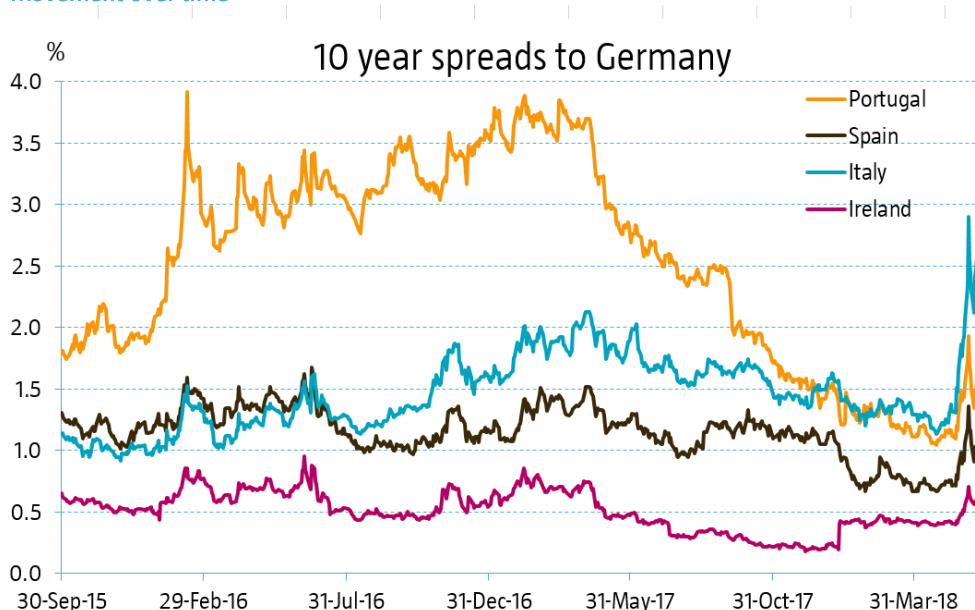
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 14 June, 2018.
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Current 10-yr spreads versus Germany

Maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0.67	0.10										
2	-0.63	0.10	1.20	0.40	-0.01	0.10	0.10	2.03	0.12	0.02	0.52	
3	-0.55	0.14	1.41	0.42	0.04	0.01	0.13		0.10	0.02	0.60	
4	-0.41	0.16	1.65	0.45	0.07	0.00	0.12		0.24	-0.03	0.80	
5	-0.24	0.13	1.77	0.55	0.08	0.26	0.19	4.02	0.17	-0.01	0.92	
6	-0.12	0.28	2.04	0.63	0.15	0.27	0.26		0.31	0.08	0.96	
7	0.02	0.30	2.14	0.68	0.18	0.30	0.31		0.41	0.04	1.27	
8	0.14	0.33	2.15	0.81	0.18	0.34	0.14			0.14	1.35	
9	0.28	0.29	2.22	0.86	0.17	0.36	0.28			0.06	1.40	
10	0.40	0.34	2.17	0.88	0.16	0.37	0.27	4.13	0.51	0.17	1.44	
15	0.56	0.58	2.43	1.28		0.65	0.54	4.42	0.85	0.30	1.81	
20	0.86	0.40	2.36			0.58	0.32	4.27			1.75	
30	1.15	0.51	2.33	1.31	-0.02	0.57	0.35			0.15	1.76	

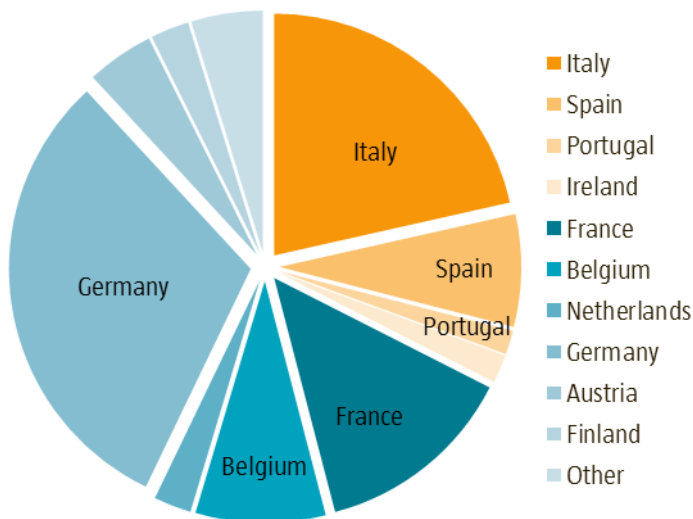
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (14 June, 2018)



Source: Robeco

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