

# Peripheral Europe Update

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- **Greece finally out of its bailout programme**
- **Moody's postponed its rating decision on Italy**

## Main market events

Over the past week, peripheral spreads have tightened somewhat. The absence of major disruptive news has allowed a modest rally especially in Greece. After exiting its 8-year EU bailout program on 21 August, Greece announced that it will sell EUR 825m millions next week. Italian bonds have returned -5.3% year-to-date, Spanish bonds 2.7%, Portuguese bonds 2.1% and Irish bonds 0.7%.

## Europe

Both the minutes of the July Governing Council published this week and the speeches by Jens Weidmann did not add any meaningful new information. The more neutral tone of the Bundesbank president may be understood in the context of the race to the ECB presidency. But an article in the Handelsblatt revealed that Angela Merkel would rather prefer to have the presidency of the European Commission than the ECB, pointing to the more important role of trade and competitiveness policies in the period ahead. This suggests a dovish ECB president such as Olli Rehn or Erkki Liikanen is becoming more likely, would be positive for the periphery. At the same time, if Peter Altmeier, current Economic Minister, were to preside the EC, it remains to be seen whether the recent flexibility of the Commission would be maintained.

## Italy

Capital outflows over May-June (EUR 76bn) have been massive and even larger than those recorded during the peak of the Eurozone crisis. Italian banks have bought the bulk of the BTPs sold by foreign investors, increasing thereby the risk of pervasive dynamics between sovereign bonds and bank instruments. This week, Moody's decided to postpone its rating decision that was initially scheduled for 27 September to the end of October. The rationale was to obtain better visibility on the 2019 budget, which will be presented to the European Commission by 15 September. In particular, the rating agency wanted to get more information regarding potential structural reforms, which could impact potential growth in the medium term. The recent "Dignity Decree" which aims at reducing the number of short-term contracts was assessed as having a moderate effect only. But the reversal of the pension age or the increase in pension benefits could well trigger a downgrade.

## Robeco Euro Government Bonds

We reduced further our exposure to Italian bonds this week, given the uncertainties related to the 2019 Italian budget and the risk of a rating downgrade by Moody's in October. We now have a neutral position on BTPs and Irish bonds. Overall we have repositioned our portfolio to be able to better cope with potential further deteriorating market conditions. Currently the fund is 30% invested in peripheral bonds, less than the index level as expressed in market value. Year-to-date the fund's absolute return is -0.35%\*.

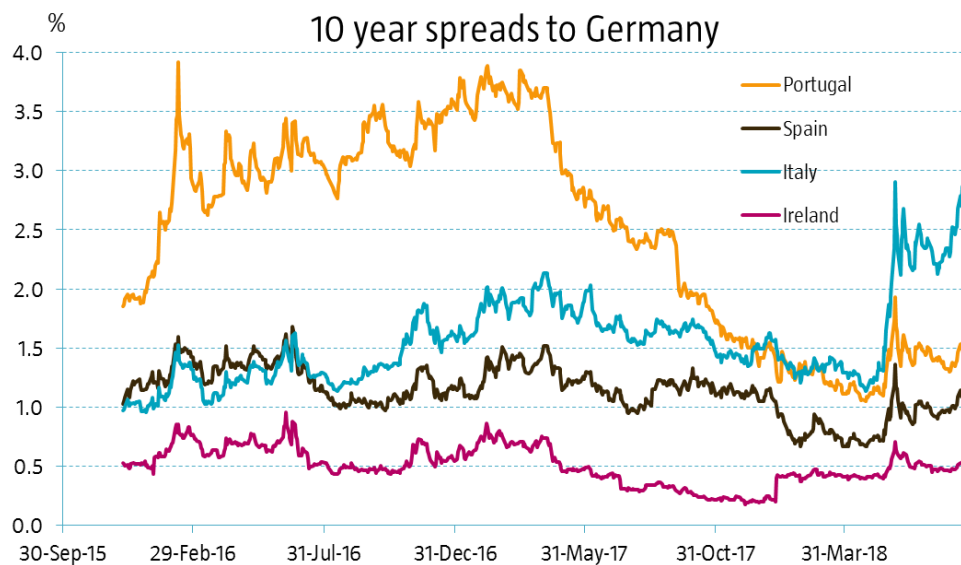
\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 23 August, 2018. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0.62	0.08										
2	-0.59	0.17	1.80	0.25	-0.01	0.10	0.09	2.00	0.13	0.07	0.40	
3	-0.50	0.22	2.18	0.36	0.00	0.11	0.10		0.05	0.04	0.40	
4	-0.37	0.23	2.47	0.39	0.00	0.11	0.07		0.19	0.11	0.63	
5	-0.23	0.25	2.60	0.57	0.01	0.20	0.13	3.39	0.15	0.15	0.82	
6	-0.14	0.23	2.83	0.75	0.08	0.22	0.19		0.29	0.13	0.94	
7	-0.02	0.26	2.85	0.89	0.11	0.27	0.25		0.38	0.22	1.32	
8	0.10	0.30	2.81	0.97	0.10	0.31	0.12			0.20	1.40	
9	0.22	0.27	2.86	1.03	0.12	0.35	0.24				1.43	
10	0.34	0.34	2.80	1.05	0.11	0.36	0.21	3.86	0.52	0.14	1.48	
15	0.62	0.46	2.76	1.25		0.49	0.36	4.20	0.73	0.31	1.74	
20	0.78	0.42	2.82			0.61	0.28	4.37			1.82	
30	1.01	0.57	2.68	1.51	0.00	0.64	0.35			0.18	1.88	

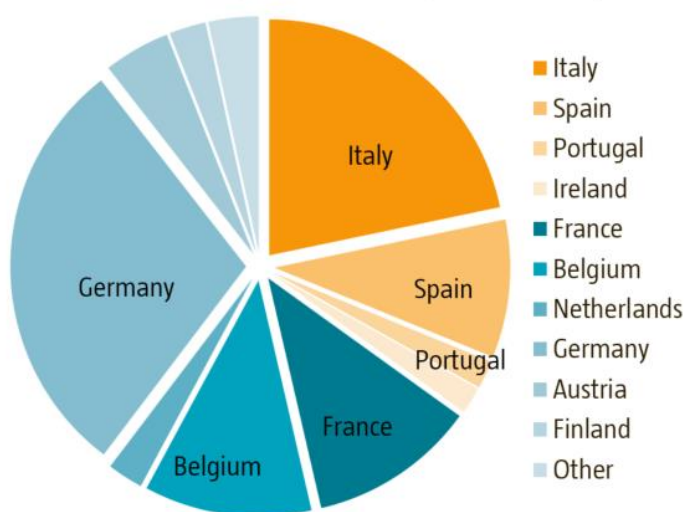
Source: Bloomberg

Movement over time



Source: Bloomberg.

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



Source: Robeco

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