

Peripheral Europe Update

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- **Periphery spreads widen as Brexit worries take hold**
- **Minor adjustments in Italian budget plans likely not enough to avoid an excessive deficit procedure**

Main market events

Peripheral spreads widened and risk sentiment deteriorated as the political drama which unfolded in the UK on Thursday makes it highly uncertain whether the withdrawal agreement between the EU and the UK can pass in its current form. There seemingly is no parliamentary majority for the deal and Mrs. May is possibly facing a vote of no confidence. At the same time there is a limited timeline to re-negotiate the current agreement. It seems that Mrs. May is determined to see the deal through and attempts to weather the political storm.

Italy

The Italian government stuck to its 2019 deficit target but did pledge privatization revenues of up to 1% of GDP. But as key targets of the fiscal budget remained unchanged, the budget plans are very likely not enough to avoid an excessive deficit procedure. The EC will reply with a first recommendation on November 21. In Spring the EC publishes country specific recommendations and possibly also the first report that lays down the basis for the opening of an EDP for Italy. However, in the particular case of Italy, the council recommendation could come as soon as 21 November, given the EC's own projections indicate a fiscal deficit for Italy of over 3% for 2020. The opening of an EDP seems likely but would not imply sanctions yet. Indeed sanctions before the European elections in May next year are not expected. The document could possibly also include a new time-frame within which the government is asked to adjust its public finances.

ECB

President Draghi this week reiterated that he doesn't see economic growth in the Eurozone to come to an abrupt end, despite the recent slowdown. Weaker Euro figures have been affected by one off factors such as strikes and a disruption in cars production as a result of new emission tests. Mr. Draghi highlighted though that the ECB monetary policy stance is data dependent and that the staff projections will be an important input in the decision-making process. So, while the ECB seems to stay on course to phase out its bond purchases at the end of this year, the above comments surely give a dovish twist to the ECB policy outlook.

Robeco Euro Government Bonds

After reducing exposure to Italy last week, periphery positions in the fund have stayed unchanged. There is an overweight in 5 year Italian bonds expressing a slight bias towards spread tightening as most of the negative Italian news seems digested for now. Also any action by the EC aiming to enforce an excessive deficit procedure remains unlikely before the European elections. We maintained an overweight in Spain and Ireland and a slight underweight in Portugal. Overall the fund remained 38% invested in peripheral bonds, slightly below the index level as expressed in market value. Year-to-date the fund's absolute return is -1.31%*.

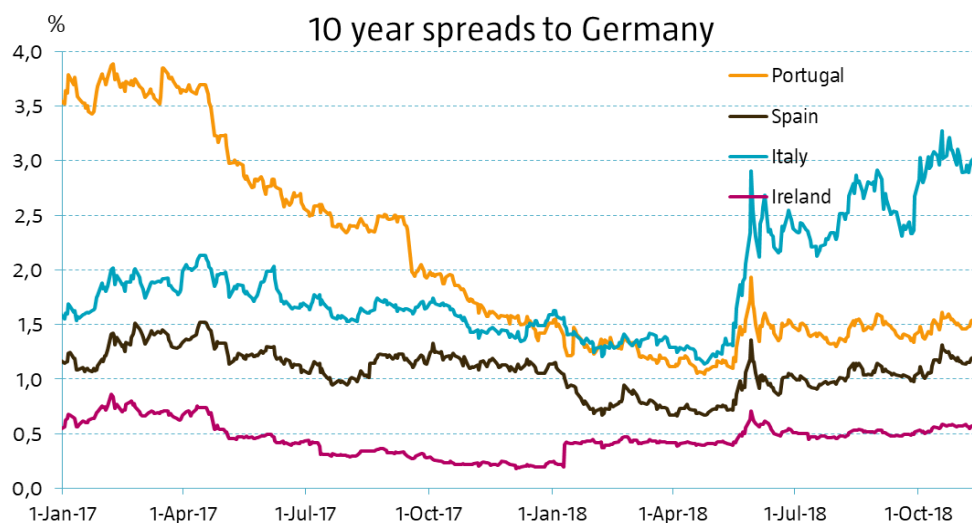
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 16 November, 2018.
The value of your investments may fluctuate. Past results are no guarantee of future performance

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,66	0,10									
2	-0,59	0,15	1,89	0,46	-0,08	0,04	0,03	1,99	0,07	0,05	0,43
3	-0,53	0,26	2,58	0,67	-0,01	0,12	0,08		0,08	0,07	0,53
4	-0,39	0,28	2,60	0,74	0,03	0,15	0,15		0,27	0,15	0,80
5	-0,23	0,31	2,78	0,83	0,04	0,24	0,13	3,70	0,22	0,16	1,00
6	-0,13	0,27	3,09	1,02	0,11	0,26	0,20		0,40	0,14	1,06
7	-0,01	0,32	3,16	1,13	0,13	0,34	0,25		0,52	0,25	1,43
8	0,12	0,35	2,98	1,20	0,13	0,39	0,29			0,22	1,51
9	0,24	0,33	3,06	1,26	0,16	0,43	0,26				1,56
10	0,36	0,39	3,09	1,27	0,14	0,44	0,23	4,22	0,63	0,28	1,60
15	0,65	0,53	2,99	1,49		0,58	0,41	4,38	0,83	0,35	1,87
20	0,82	0,48	3,08			0,71	0,33	4,49			1,94
30	1,03	0,65	2,98	1,75	0,05	0,76	0,41			0,25	2,05

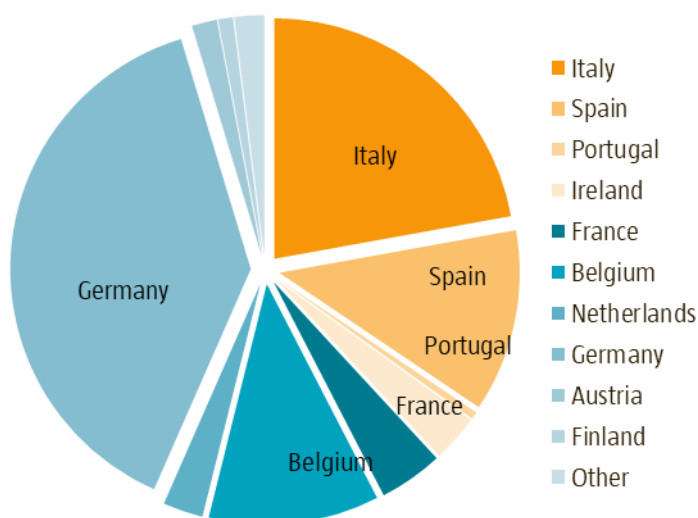
Source: Bloomberg

Movement over time



Source: Bloomberg.

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



Source: Robeco

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