

Peripheral Europe Update

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- **Periphery bonds consolidate as Brexit fears subside, G20 optimism**
- **The European Commission concludes Italian budget is non-compliant**

Main market events

Initially peripheral spreads rose again this week as risk off mood prevailed. Later in the week spreads recovered again as a Brexit agreement seemed to be in reach coming weekend. Also reports that U.S. president Trump and the Chinese leader Xi are preparing a constructive meeting at next Thursday G20 meeting supported markets.

Italy

Wednesday as expected, the European Commission's recommendation on Italy's Draft Budgetary Plan mentioned that it's non-compliant with the fiscal rules and also has the intention to reverse growth enhancing structural reforms. Thus an excessive deficit procedure is very likely to kick in. An EDP would require the Italian government to make budgetary adjustments within the next 3 to 6 month. Should the budget remain non-compliant eventually fines could be imposed. We remain of the view that sanctions are unlikely, in anyway not before the European elections in May. So, a stalemate of the current situation seems warranted; indeed press reports indicating that Italy's Eurosceptic deputy prime minister Matteo Salvini was open to some changes such as reduce spending on citizen's income were later denied.

Also this week the much awaited BTP Italia was issued. This Italian inflation linked government bond is specifically targeted at Italian retail investors, who historically have participated in large numbers. However this time around demand was disappointing at around Eur. 900 million, indicating that also Italian investors are concerned with the populist government continued budgetary clash with the EC.

ECB

Minutes from the latest policy meeting indicated that the ECB is aware of uncertainties and fragilities whilst agreeing that they weren't enough to weaken the economies overall momentum. In an interview with the Handelsblatt, ECB's chief economist Peter Praet observed that he doesn't see any real contagion effects from the Italian spread fall out so far and that its premature to already decide on a new round of cheap funding plans. Reinvestment of maturing debt will be discussed in December. We believe that its possible that some form of duration extension to support long term Eurozone government bond curves will be discussed.

Robeco Euro Government Bonds

Periphery positions in the fund have stayed unchanged. There is an overweight in 5 year Italian bonds expressing a slight bias towards spread tightening. 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 -1.27%*.

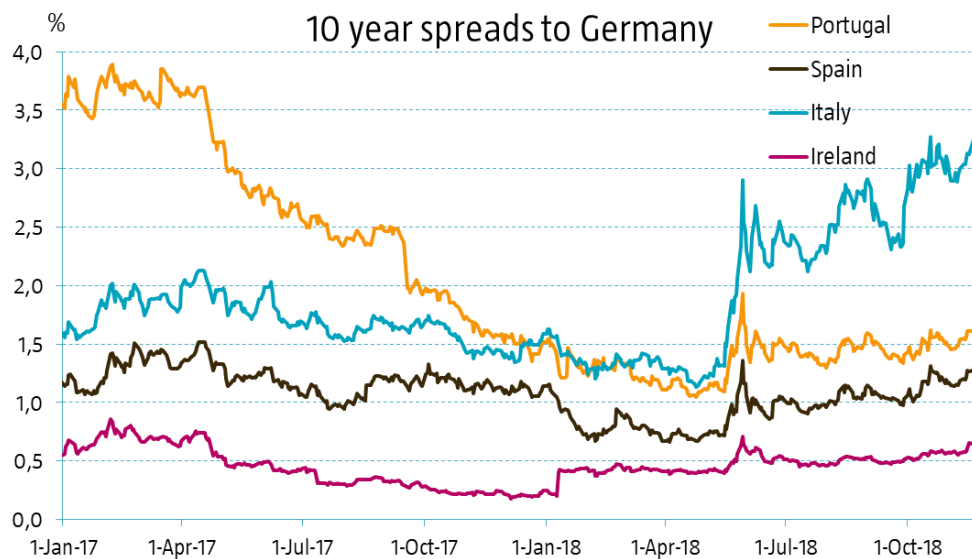
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 23 November, 2018.
The value of your investments may fluctuate. Past results are no guarantee of future performance

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0,65	0,09										
2	-0,58	0,13	1,47	0,43	-0,06	0,03	0,03	1,98	0,10	0,06	0,40	
3	-0,51	0,24	2,18	0,62	0,00	0,11	0,08		0,07	0,08	0,48	
4	-0,38	0,26	2,43	0,69	0,03	0,14	0,15		0,28	0,16	0,75	
5	-0,22	0,29	2,65	0,78	0,04	0,24	0,14	3,70	0,23	0,18	0,94	
6	-0,12	0,26	2,83	0,98	0,12	0,27	0,22		0,41	0,16	1,01	
7	0,00	0,30	2,96	1,11	0,15	0,34	0,27		0,51	0,25	1,39	
8	0,13	0,33	2,82	1,18	0,14	0,39	0,31			0,23	1,47	
9	0,24	0,31	2,95	1,25	0,17	0,44	0,28				1,52	
10	0,37	0,37	3,01	1,26	0,15	0,45	0,25	4,18	0,63	0,30	1,57	
15	0,65	0,51	2,97	1,49		0,60	0,43	4,41	0,82	0,37	1,82	
20	0,82	0,47	3,07			0,72	0,34	4,47			1,92	
30	1,03	0,63	2,97	1,75	0,07	0,77	0,43			0,27	2,02	

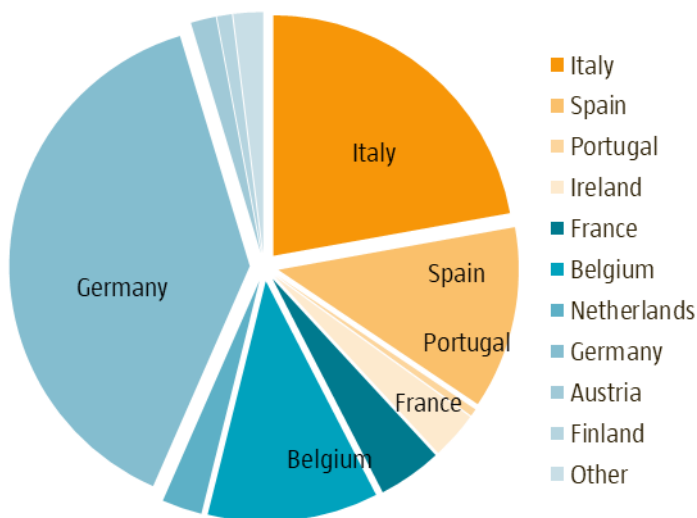
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (23 November, 2018)



Source: Robeco

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