

# Peripheral Europe Update

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- **Periphery bonds rally as Italian government rhetoric softens**
- **ECB regards growth slowdown as normal**

## Main market events

Periphery markets had a good week as headlines from Italy supported markets. Comments from both deputy pm's Matteo Salvini and Luigi di Maio indicated the government could lower the deficit target to a 2.0 - 2.2% range. Although probably not enough to satisfy the EC's push for more fiscal consolidation, it does signal the Italian government seems willing to negotiate.

### Italy

The Italian government's change to a more conciliatory tone towards Brussels is remarkable. It could open the door to more constructive negotiations and possibly soften Brussels' approach to consolidation targets somewhat. Steps by the Italian government to improve budget dynamics could be seen as positive by markets as it reduces debt concerns. Also its more likely that rating agencies will take a back seat approach for now, before deciding on taking any further action. As the Italian debt agency announced the cancelation of its mid-December auction, Italy's issuance for the rest of the year seems to be completed. With a large redemption flow at the start of December supply dynamics for Italy are favorable into year end. At the same time Italian bonds still trade at very elevated spread levels versus Germany and versus peer peripheral markets. So there could be some scope for Italian bonds to rally further.

### Spain

Spain's deficit reduction appears to be on track this year, as up to August, the cumulative deficit was recorded at 1.95% of GDP, below the 2.38% of GDP recorded in the same period in 2017.

### ECB

ECB president Mario Draghi in a speech before the European parliament this week acknowledged that growth in the Euro area was somewhat weaker than expected. He observed that 'a gradual slowdown is normal as expansions mature and growth converges towards its long-run potential'. In this light it seems unlikely that the ECB will extend its QE purchases at the end of the year. But we expect the ECB to maintain or even enforce a dovish bias to its monetary policy and announce a new round of cheap funding through TLTRO early next year.

## Robeco Euro Government Bonds

As the backdrop for Italian bonds seems to be stabilizing and valuations are still at the cheaper end of the range, we slightly added to Italy positions. We switched some of our Ireland, Spain and Germany exposure into Italian bonds, On the Italian curve we remain overweight in 5 year bonds. We are maintaining a slight underweight in Portugal. Investments in peripheral bonds rose slightly to 40% which roughly equals the index level as expressed in market value. Year-to-date the fund's absolute return is -0.88%\*.

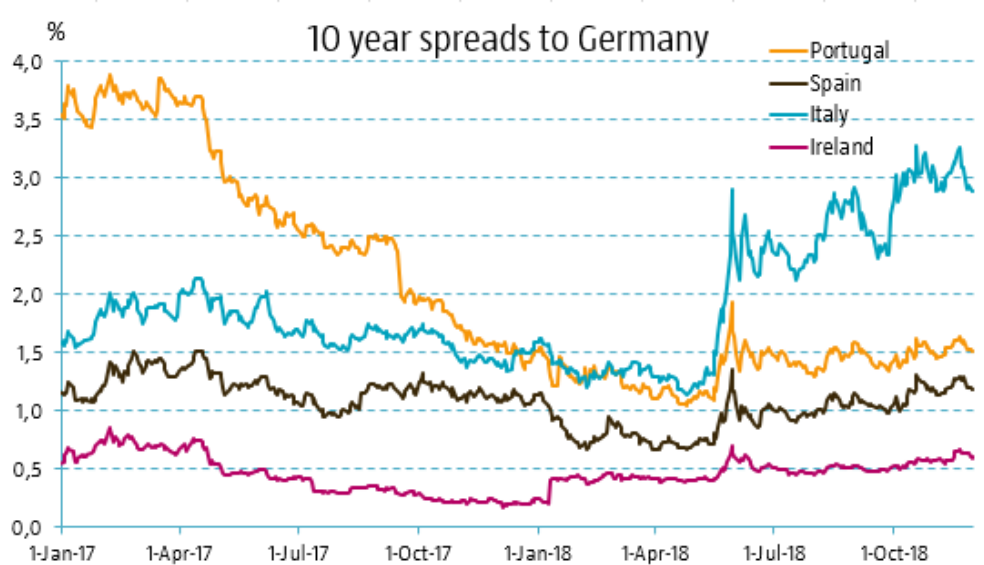
\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 29 November, 2018.  
The value of your investments may fluctuate. Past results are no guarantee of future performance

## Current 10-yr spreads versus Germany

		Spreads									
Maturity	German yields	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,65	0,09									
2	-0,60	0,14	1,44	0,43	-0,05	0,04	0,04	2,00	0,11	0,06	0,38
3	-0,53	0,24	2,15	0,58	0,00	0,10	0,07		0,09	0,07	0,45
4	-0,41	0,27	2,39	0,62	0,02	0,14	0,15	3,50	0,26	0,16	0,68
5	-0,26	0,29	2,59	0,71	0,03	0,25	0,14		0,21	0,18	0,87
6	-0,17	0,26	2,78	0,93	0,12	0,28	0,22		0,38	0,17	0,95
7	-0,05	0,31	2,88	1,04	0,14	0,34	0,27		0,46	0,25	1,33
8	0,08	0,33	2,73	1,11	0,13	0,39	0,31		0,22	1,42	
9	0,20	0,31	2,84	1,18	0,16	0,43	0,28			1,46	
10	0,32	0,37	2,89	1,19	0,14	0,44	0,25	3,95	0,60	0,29	1,51
15	0,62	0,52	2,85	1,43		0,60	0,41	4,20	0,81	0,35	1,75
20	0,79	0,48	2,92			0,73	0,33	4,33			1,88
30	1,00	0,66	2,83	1,71	0,05	0,80	0,42			0,25	2,00

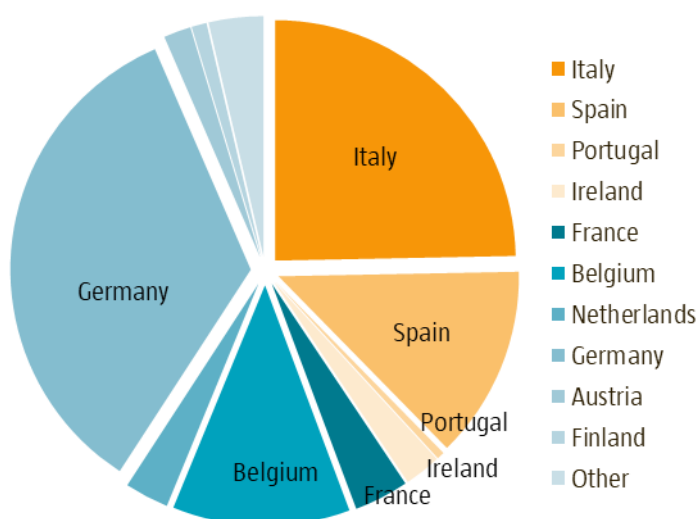
Source: Bloomberg

## Movement over time



Source: Bloomberg.

## Country allocation Robeco Euro Government Bonds (30 November, 2018)



Source: Robeco

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