

Peripheral Europe Update

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- **Last Peripheral Europe update of 2018, we will be back on January 11th 2019**
- **We thank you for following us and wish you a Merry Christmas and a happy and healthy New Year!**

Main market events

Italian bonds continued to outperform the broader market as a deal between the European Commission and the Italian government on deficit reduction was agreed. The speed of developments surprised market participants. In this constructive environment 10 year Italian yields declined to 2.75%, a level not seen since mid-September. In general, market sentiment remained troubled as concerns over a deteriorating global economic outlook mounted.

Italy

As we anticipated in last week's peripheral update, steps made by the Italian government were enough to satisfy the EC to stave off an excessive deficit procedure. Details of the deal imply some significant row backs from the government's initial plan of expanding fiscal policy. Most noticeable was the reduction in spending on two of the governments flagship measures: basic income and early retirement. Comments from the commission indicate some continuing discomfort with Italy's fiscal framework. However, the Italian 2019 fiscal stance now seems neutral versus a deterioration of circa 0.8% in the initial plans. As a result especially the belly of the Italian yield curve rallied relative to shorter and longer maturities. Indeed, over the past months 5-year Italian bonds yields declined with circa 1.10%, versus a circa 0.85% decline in 10-year bonds, this yield curve normalization is an indication of fading market stress.

ECB

ECB governing council member Ewald Nowotny in a Handelsblatt interview mentioned that within the ECB Governing Council there's the overwhelming impression that the significant slowdown in Germany is due to special factors such as the emissions test in the auto industry. His remarks were in line with the basic message from the 13 December ECB meeting. The Belgium National Bank vice-governor Wunsch and Slovak central bank governor Makuch expressed more data dependence in their policy view.

Robeco Euro Government Bonds

We used the impressive rally in Italy to further reduce our overweight, taking profit on this position. We also reduced overweights in Spain. In semi-core we reduced the overweight in Belgium. We took a somewhat more cautious stance towards country risk as market sentiment remains fragile. In addition we expect government bond issuance to pick up again in early January, providing opportunities to add to positions again should this be warranted. Overall the fund's investments in peripheral bonds declined to circa 38% which is below the index level as expressed in market value. Year-to-date the fund's absolute return is +0.53%*.

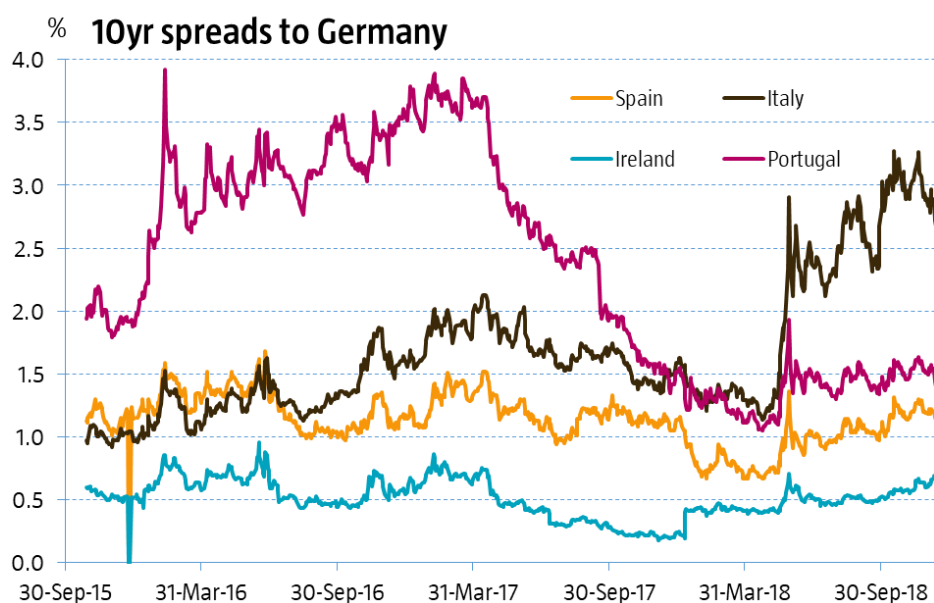
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 21 December, 2018. The value of your investments may fluctuate. Past results are no guarantee of future performance

Current 10-yr spreads versus Germany

maturity	Germany	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.62	-0.02									
2	-0.61	0.15	1.12	0.38	-0.05	0.08	0.08	2.01	0.14	0.10	0.25
3	-0.56	0.25	1.66	0.50	0.00	0.15	0.06		0.12	0.08	0.33
4	-0.44	0.29	1.87	0.52	0.02	0.16	0.16				0.52
5	-0.30	0.33	2.13	0.61	0.03	0.27	0.15	3.60	0.21	0.16	0.70
6	-0.21	0.31		0.83	0.11	0.31	0.21			0.15	0.78
7	-0.10	0.36	2.43	0.95	0.14	0.39	0.26	4.11		0.25	1.18
8	0.01	0.41	2.34	1.05	0.15	0.46	0.31		0.56		1.29
9	0.12	0.39	2.47	1.13	0.18	0.52	0.29				1.36
10	0.25	0.45	2.55	1.14	0.15	0.52	0.25	4.11	0.64	0.30	1.43
15	0.51	0.60				0.69	0.45	4.28			
20	0.67	0.57				0.83					
30	0.86	0.75	2.68	1.72	0.04	0.88	0.47				

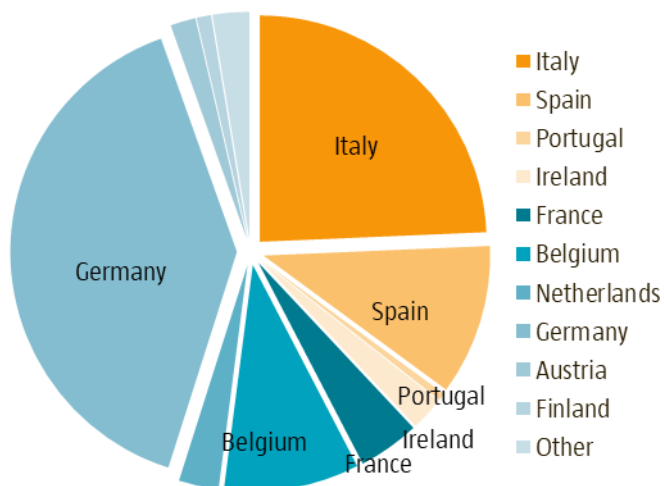
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (21 December, 2018)



Source: Robeco

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