

# Peripheral Europe Update

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- **Italy: no support from the ECB**
- **Strong pro-EU message sent by Spain**

## Main market events

Peripheral spreads tightened somewhat this week, with the notable exception of Italian bonds, which were hit by populist rhetoric of the new PM Conte. Italian bonds have returned -5.05% year-to-date, Spanish bonds 1.74%, Portuguese bonds 0.79% and Irish bonds -0.67%.

## ECB

The May data on the PSPP program were released this week. A striking element was the lower amount of Italian bonds bought in May compared to what would have been possible under the capital keys. On the communication side, no attempt was made to curb down rising short-dated Italian yields, which were pricing in some redenomination risk. By contrast, several speeches from Governing Council members on Wednesday called for announcing the end of QE on short notice.

## Italy

The new 5 Star-Lega government led by prime minister Giuseppe Conte won confidence votes both in the Senate and in the Lower House this week. The first speech of Conte shook the market as he called for radical changes, stressing the populist dimension of the new coalition. In particular he highlighted the introduction of the universal citizen income to support low income households and the need to lower taxes via a flat tax, while also requiring a fairer redistribution of immigrants within Europe. On the European front, he called for a reform of the monetary union. In short, his policy agenda mirrored the coalition agreements, with the key exception being the pension reform that was promised during the election campaign. A new poll released this week showed that only 29% of Italians would vote to leave the euro. Article 75 in the Constitution prevents a referendum to be called on European matters, unless the Italian Constitution itself is modified.

## Spain

On the political scene, the new prime minister Pedro Sanchez sent a strong pro-European message and reaffirmed its commitment to fiscal orthodoxy. He appointed as Finance Minister Nadia Calvino, Director General of the Budget at the European Commission. Meanwhile, he nominated Joseph Barrell a former President of the EU parliament as Foreign Minister.

## Robeco Euro Government Bonds

This week, we reduced our exposure to Spain, selling short-dated bonds, while we bought long-dated Irish bonds. We remain neutral on Italy given the uncertainty surrounding the policy measures that could be taken by the new populist government. Overall, our overweight risk position in peripheral bonds has been slightly increased. Currently the fund is 34.6% invested in peripheral bonds, less than the index level as expressed in market value. Year-to-date the fund's absolute return is -1.03%\*.

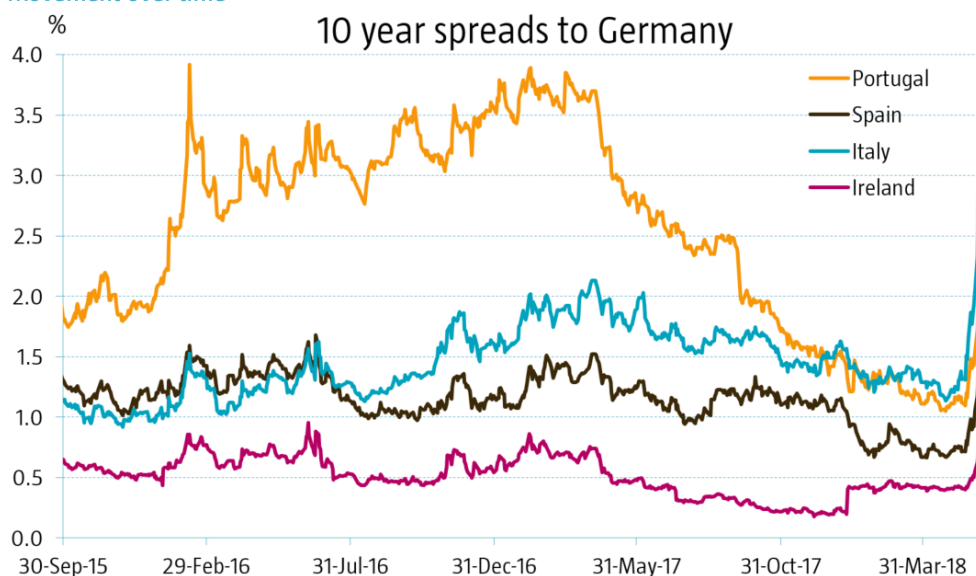
\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 7 June, 2018.  
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Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.68	0.10									
2	-0.65	0.12	2.28	0.42	0.04	0.13	0.15	2.05	0.15	0.06	0.67
3	-0.56	0.18	2.48	0.60	0.09	0.06	0.19		0.12	0.08	0.74
4	-0.40	0.21	2.58	0.47	0.12	0.04	0.18		0.31	0.01	0.96
5	-0.21	0.19	2.60	0.53	0.12	0.30	0.22	4.44	0.23	0.05	1.05
6	-0.09	0.26	2.74	0.77	0.19	0.31	0.29		0.38	0.15	1.09
7	0.04	0.30	2.76	0.82	0.21	0.38	0.35		0.49	0.10	1.43
8	0.17	0.33	2.73	0.96	0.21	0.42	0.18			0.19	1.50
9	0.29	0.37	2.69	1.02	0.22	0.45	0.32			0.04	1.57
10	0.42	0.38	2.64	1.02	0.20	0.45	0.33	4.38	0.61	0.21	1.61
15	0.57	0.66	2.71	1.39		0.74	0.52	4.60	0.93	0.34	1.97
20	0.84	0.50	2.63			0.69	0.33	4.53			1.92
30	1.11	0.59	2.47	1.45	0.01	0.64	0.37			0.18	1.90

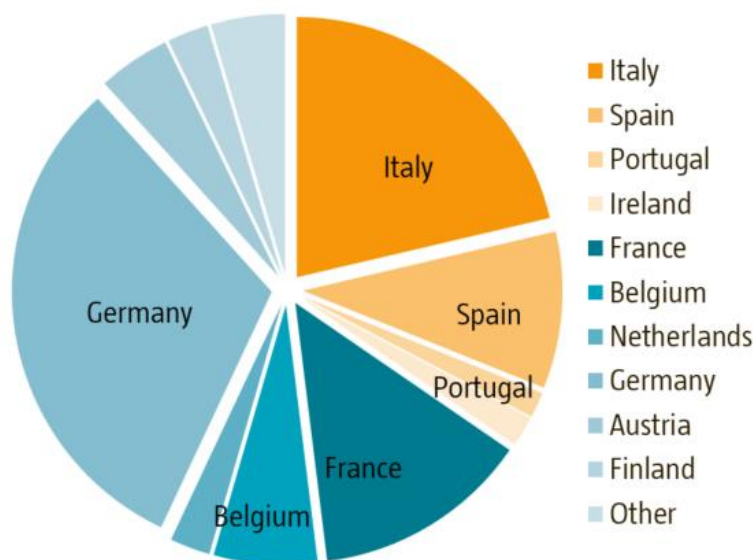
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (7 June, 2018)



Source: Robeco

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