

Peripheral Europe Update

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- **Weak Italian PMI shows risk of further growth slippage into Q1**
- **Spain's Q4 2018 growth surprises to the upside**

Main market events

Periphery spreads initially consolidated, but widened towards the end of the week as the focus zoomed in on Italy's weak PMI reading. Italian manufactures' confidence slipped again, to the lowest level since 2016. Italian bonds have returned 1.2% year-to-date, Spanish bonds 1.5%, Portuguese bonds 1.4% and Irish bonds 1.05%.

Italy

The expectation of a technical recession in Italy in H2 of 2018 was confirmed by the data. Q4 GDP data showed a decline of -0.2% q-o-q. More negative news on growth was released on Friday, as the Italian January PMI came out below expectations, at 47.8. This was the fourth consecutive number below 50 and suggests economic weakness is spilling over into 2019. The fiscal targets are at risk should growth fail to rebound. The EC budget review is scheduled to be finalized by mid-May. Should last year's standoff between Italy and the EC be any indication, some difficult negotiations could lay ahead. On the slightly more constructive side, Italian consumer confidence rose in January and was actually higher than market expectations.

Spain

Spain's Q4 GDP held up nicely at +0.7% q-o-q (+2.4%yoy). Both external and internal demand contributed to growth. Also Spain's January manufacturing PMI was solid at 52.4. Optimism about the future rose to a 6 month high. Spain and France, with a 1.5pt gain to 51.2, were the only countries which saw their PMI's improve.

ECB

On Wednesday it was confirmed that Philip Lane, Governor of the Bank of Ireland, is the sole candidate to succeed Peter Praet as the ECB's Chief Economist in the Executive Board. His appointment seems an obvious choice as Philip Lane is regarded as an excellent economist and charismatic speaker. He is seen as being in the center with a dovish tilt. We believe that the appointment of Philip Lane provides important continuity in the executive board.

Robeco Euro Government Bonds

After a strong performance of the 5 year segment of Italy, we took the opportunity to sell the overweight in that area. The Italian outlook is becoming increasingly more cloudy. The overweights in Spain and Ireland in duration terms were remained. The Portugal underweight was closed given the supportive back drop for Portugal, both fiscally and with regards to the issuance outlook. The fund's investments in peripheral bonds amount to circa 40%, slightly below the level of the index. Year to date the absolute return of the fund is 0.92%*

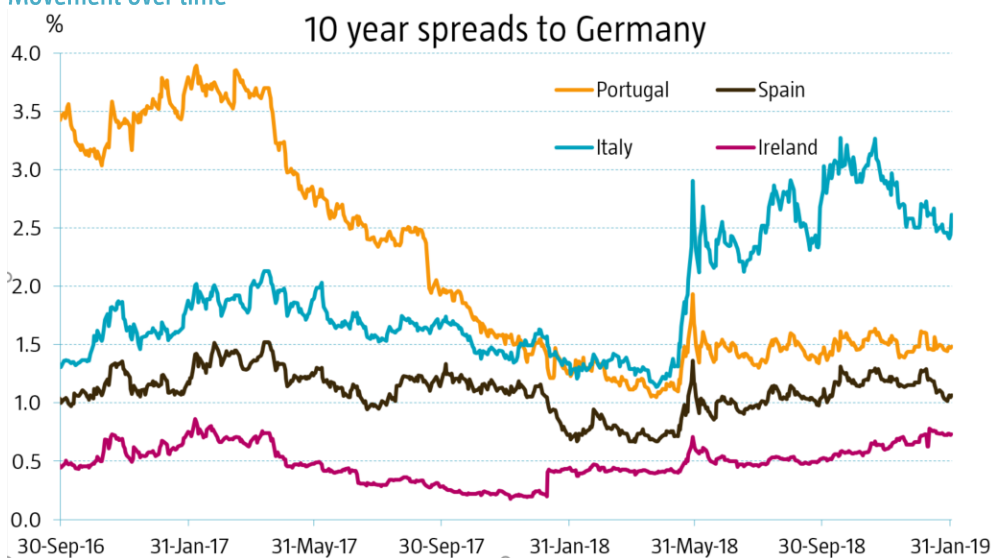
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 30th January, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0.53	0.00										
2	-0.57	0.12	1.03	0.31	-0.01	0.06	0.11	1.97	0.13	0.10	0.37	
3	-0.51	0.17	1.54	0.44	-0.05	0.07	0.04		0.38	0.05	0.59	
4	-0.43	0.21	1.77	0.45	-0.03	0.10	0.11		0.32	0.08	0.71	
5	-0.32	0.24	2.02	0.52	-0.01	0.20	0.09	3.22	0.38	0.11	0.76	
6	-0.25	0.24	2.24	0.74	0.05	0.24	0.17		0.50	0.12	1.15	
7	-0.16	0.29	2.40	0.87	0.07	0.32	0.20		0.57	0.20	1.29	
8	-0.06	0.34	2.36	0.96	0.08	0.37	0.26			0.18	1.37	
9	0.04	0.33	2.49	1.04	0.11	0.43	0.23				1.46	
10	0.15	0.41	2.61	1.06	0.10	0.45	0.22	3.82	0.73	0.26	1.48	
15	0.38	0.62	2.86	1.37		0.66	0.47	4.15	0.86	0.40	1.70	
20	0.55	0.58	2.80			0.80	0.37	4.27			1.80	
30	0.76	0.77	2.83	1.65	0.05	0.85	0.46			0.28	1.92	

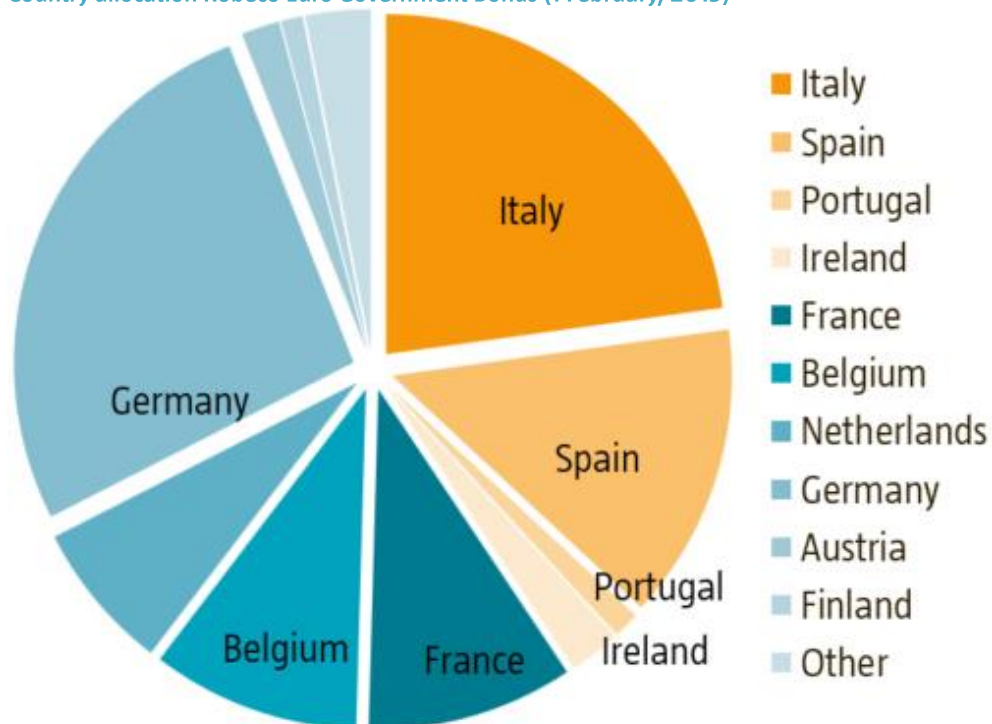
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (1 February, 2019)



Source: Robeco

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