

Peripheral Europe Update

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- **Italy raises EUR 8bn in surprise 30 year syndicated bond deal**
- **Risk sentiment reverses as Europe's growth outlook downgraded by the EC**

Main market events

Peripheral bonds to some extent mirrored last week's movements as spreads drifted wider as the week progressed. Sentiment started to turn February 1st, after Italian PMI's indicated the Italian technical recession is likely not just a one off. Broader disappointing growth indicators, fading risk sentiment and significant supply weighed on spreads. Italian bonds gave up this year's positive return all together. Italian bonds have returned -1.2% year-to-date, Spanish bonds 1.2%, Portuguese bonds 1.2% and Irish bonds 1.1%.

Italy

Italy raised EUR 8bn in its new 30-year syndicated deal on Wednesday. Just 3 weeks after the 15 year syndication in January, the announcement actually came as a big surprise. The total order book of EUR 41 bn beat the record set in the 15 year syndicate earlier. The Italian debt office indeed noted that the placement was very diversified with involvement of around 450 investors coming from over 35 countries. However at an issue spread at 18 basis points over the 2048 benchmark, Italy was prepared to pay up in the challenging environment. The ability of the market to absorb all this supply was put into question though as supply pressures seemed to linger even after the 30 year deal was priced.

Market sentiment deteriorated further after the European Commission downgraded its Italian 2019 GDP growth estimate to 0.2%, way below the government's own assessment at 1%.

Spain

Spain's economic performance is stable with the composite PMI at 54.5 still being well into growth territory. However Spain's political backdrop seems to deteriorate as prime minister Sanchez has difficulties passing his 2019 budget. Should his attempts fail, early elections could follow.

Robeco Euro Government Bonds

During the week we in two steps moved from being slightly overweight to slightly underweight Italian risk. We also reduced the overweight in the intermediate segment of the curve as this segment had performed very well year to date. We have changed our bias to Italy from slightly constructive to being more negative. We believe the Italy - Germany spread could move towards the higher end of the trading range we have seen the last months. We also reduced the Spain overweight. So all in all we took a more defensive stance, waiting for better times to add risk in the peripheral markets again. Year to date the absolute return of the fund is 0.68%*

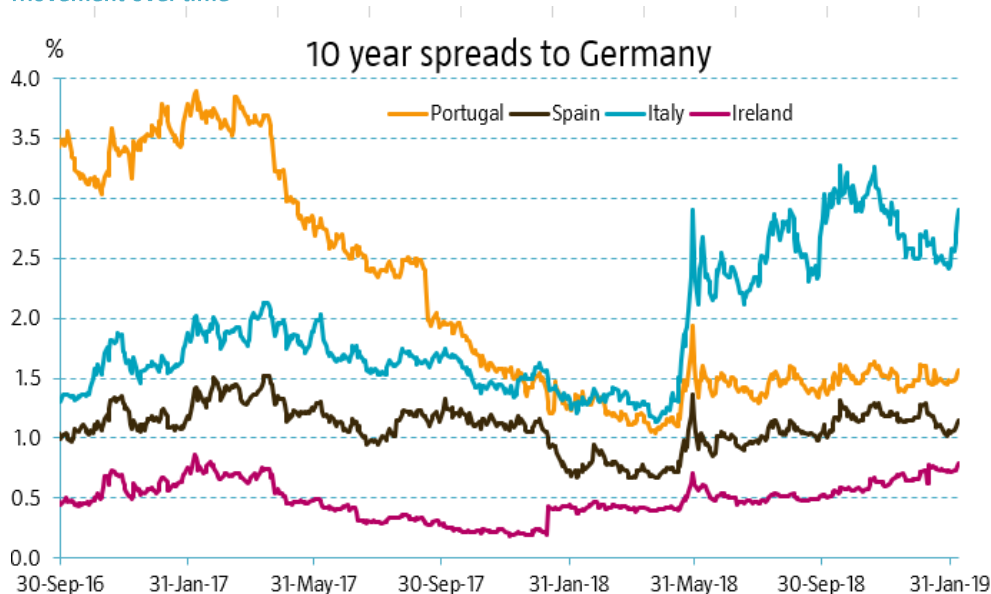
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 8th February, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance

Current 10-yr spreads versus Germany

		Spreads									
Maturity	German yields	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.51	0.02									
2	-0.58	0.13	1.27	0.33	0.02	0.13	0.14	1.99	0.15	0.11	0.38
3	-0.55	0.20	1.88	0.47	-0.02	0.20	0.06		0.43	0.07	0.59
4	-0.47	0.23	2.13	0.50	-0.02	0.32	0.12		0.38	0.10	0.75
5	-0.37	0.28	2.42	0.59	0.00	0.40	0.10	3.73	0.44	0.12	0.81
6	-0.31	0.28	2.60	0.81	0.07	0.44	0.17		0.55	0.12	1.20
7	-0.22	0.33	2.73	0.94	0.09	0.50	0.21		0.62	0.20	1.35
8	-0.13	0.39	2.67	1.04	0.10	0.57	0.28			0.19	1.45
9	-0.03	0.37	2.80	1.13	0.12	0.60	0.24				1.54
10	0.08	0.46	2.91	1.15	0.11	0.61	0.23	3.94	0.79	0.26	1.57
15	0.32	0.67	3.15	1.46		0.77	0.50	4.18	0.91	0.41	1.78
20	0.49	0.63	3.12			0.85	0.39	4.27			1.88
30	0.70	0.84	3.12	1.75	0.06	0.91	0.49			0.29	2.00

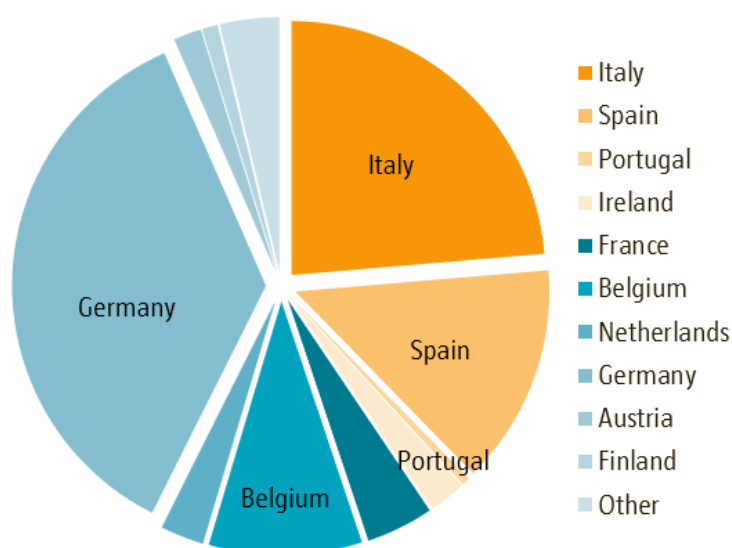
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (8 February, 2019)



Source: Robeco

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