

Peripheral Europe Update

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- **German IFO index dims hope for swift economic recovery**
- **Spanish elections unlikely to end political fragmentation**

Main market events

Core government bonds rallied as the German IFO index surprises to the downside, reinforcing doubts that Chinese economic green shoots are about to spill over to Germany. Reports around possible US tariffs for European carmakers further supported the risk-off sentiment. Italian bonds have returned 1.30% year-to-date, Spanish bonds 3.0%, Portuguese bonds 4.0% and Irish bonds 3.0%.

Spain

With more than 20% of the electorate still undecided, the outcome of the Spanish general election on Sunday is cloudy. Whilst it is generally expected that the current ruling party PSOE will be the largest, political fragmentation will likely remain high. Spanish growth has consistently beat the European average and has been immune to the political instability in the country so far. However, reforms have stalled and growth has been more fiscally-driven lately. Risks to Spanish growth are deemed to be limited and largely external but the political deadlock is complicating the implementation of a clear domestic structural reform agenda, addressing the longer term health of the countries finances. It's hard to see this materially change after Sunday's elections, and anyway as long as a political limbo exists. The Spanish economy could therefore eventually be more cyclically exposed to an economic downturn.

Italy

Reports of rising tensions between the two coalition parties, at a time when the economic vulnerability of the country was highlighted by stalling business and consumer confidence indicators, were not supportive for BTPs. Moreover, tonight S&P will review Italy's rating. As we observed last week, it is expected that S&P keeps its BBB rating with a negative outlook. Should S&P decide to downgrade Italy to BBB- after all, the BTP-Bund spread can widen substantially.

ECB

ECB Executive Board member Coeuré in an interview with German newspaper Frankfurter Allgemeine Zeitung (FAZ), played down the need for a tiered deposit system, citing there is no evidence so far that a negative deposit rate is hurting bank lending. Against a background of deteriorating economic performance in the Eurozone it is remarkable that ECB rhetoric about policy tools remain confusing.

Robeco Euro Government Bonds

Peripheral positions in the fund were reduced slightly. We remain cognizant of rising political risks against a background of continuing weak growth and uncertainty around ECB policy tools. Investments in peripheral bonds are at circa 31%, about 9% below the level of the index. Year to date the absolute return of the fund is 2.2%*.

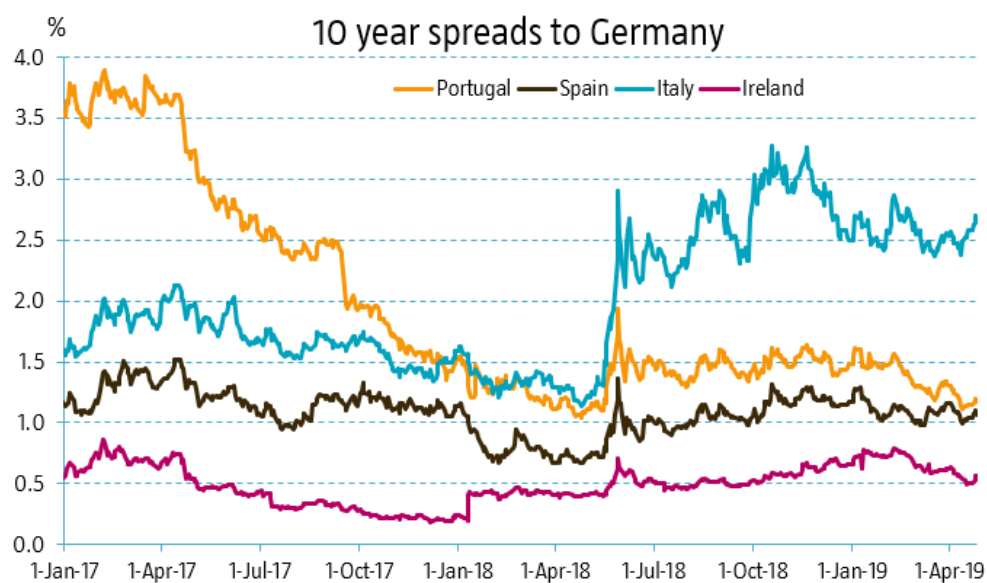
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value 26th of April, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.56	0.03										
2	-0.60	0.05	1.17	0.27	0.03	0.08	0.07			0.16	0.08	0.25
3	-0.59	0.13	1.77	0.40	-0.01	0.14	0.15			0.26	0.07	0.40
4	-0.53	0.16	1.89	0.55	0.00	0.23	0.17			0.23	0.09	0.53
5	-0.44	0.18	2.00	0.63	0.01	0.28	0.20		2.63	0.28	0.10	0.55
6	-0.40	0.26	2.23	0.73	0.15	0.33	0.25			0.40	0.10	0.84
7	-0.31	0.30	2.37	0.87	0.16	0.38	0.32			0.47	0.17	0.95
8	-0.23	0.34	2.49	0.97	0.19	0.44	0.29				0.17	1.05
9	-0.13	0.37	2.45	1.00	0.19	0.47	0.30					1.16
10	-0.02	0.38	2.65	1.07	0.18	0.47	0.30		3.33	0.57	0.24	1.17
15	0.22	0.55	2.88	1.46		0.65	0.44		3.52	0.71	0.37	1.42
20	0.41	0.49	2.82			0.73	0.33		3.64			1.49
30	0.63	0.79	2.97	1.59	0.04	0.90	0.44				0.27	1.62

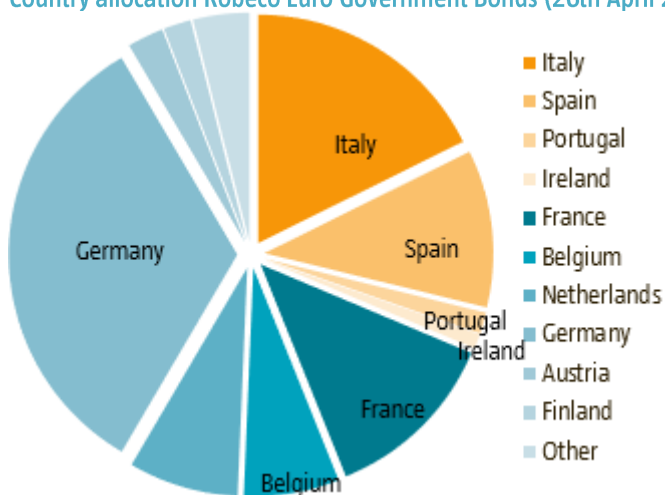
Source: Bloomberg

Movement over time



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (26th April 2019)



Source: Robeco

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