

Peripheral Europe Update

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- **Upside surprises in European growth support peripheral bonds**
- **Spanish elections' outcome and Italy's S&P rating review show no surprises.**

Main market events

Upside surprises in European growth supported peripheral bonds the past week. What also helped was the fact that the Spanish election outcome and the S&P rating review of Italy did not yield major surprises. Italian bonds have returned 2.3% year-to-date, Spanish bonds 3.7%, Portuguese bonds 4.5% and Irish bonds 3.0%.

Spain

After winning the elections, acting PM Pedro Sanchez, the leader of the socialist PSOE party, will launch an initial round of meetings with the leaders of Spain's three other main political parties next week. Real negotiations to form a government, however, may not start before the 26-May European elections. A minority government with the left wing Podemos party still looks a feasible outcome. In the meantime, Spain's economic growth has held up surprisingly well, with real GDP accelerating to 0.7% QoQ in Q1 (from 0.6% in Q4 2018), despite exports being weak. It seems the Spanish economy is increasingly relying on domestic demand again as a growth engine, as in the years before the euro sovereign debt crisis.

Italy

After two successive quarters of negative growth in the second half of 2018, Italy escaped recession in Q1 of this year, as real GDP rose by 0.2% QoQ. This outcome was better than had been suggested by the more bleak confidence survey data, reinforcing concerns that second-quarter GDP might technically come in somewhat weaker. Encouragingly, though, manufacturing PMI sentiment bounced to a four-month high in April. Next week will show how sentiment in the services sector fared in April. In any case, Italian government bonds performed strongly this week versus their German counterparts, also in the wake of the decision by S&P last Friday evening not to downgrade the BBB rating it assigns to the country.

ECB

ECB Governing Council member Jens Weidmann further downplayed the benefits of a so-called tiered deposit system this week. In a speech in Frankfurt he mentioned that whilst the potential benefits would certainly be felt, these ultimately would be negligible. Mr. Weidmann, a possible candidate to succeed ECB-president Draghi, therefore seems at odds with the more dovish ECB council members, such as President Draghi who seems to be biased to add monetary stimulus and postpone normalization.

Robeco Euro Government Bonds

As Portuguese 10 year bond yields declined to an all-time low, we reduced exposure in Portuguese bonds to slightly below index weight. Otherwise positions in the fund remained unchanged. 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 2.48%*.

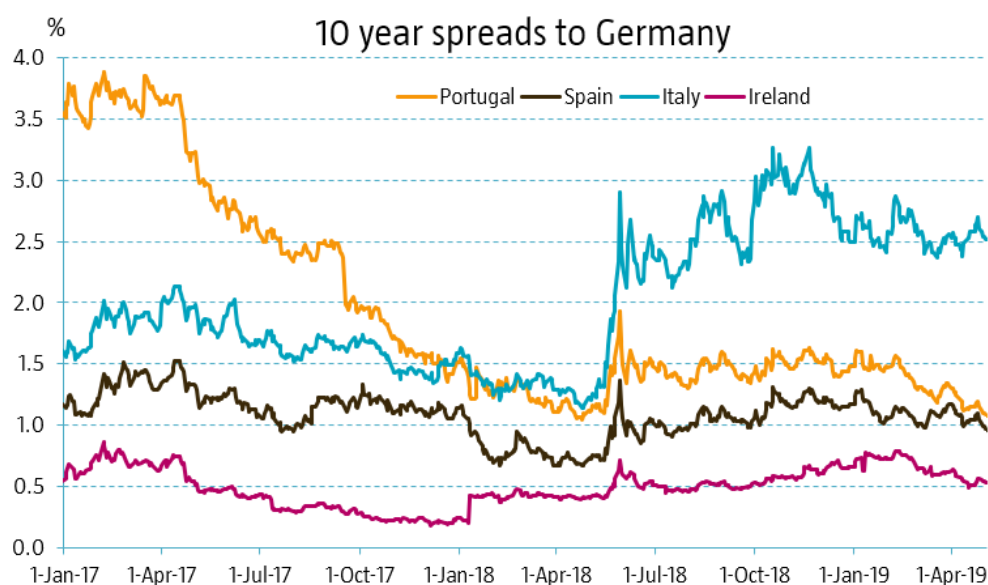
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value 1st of May, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.56	0.01									
2	-0.59	0.04	1.04	0.25	0.03	0.08	0.06		0.15	0.07	0.25
3	-0.58	0.13	1.65	0.35	0.00	0.15	0.16		0.27	0.07	0.36
4	-0.50	0.14	1.75	0.46	-0.01	0.23	0.17		0.21	0.09	0.46
5	-0.40	0.17	1.84	0.55	0.01	0.28	0.20	2.63	0.25	0.10	0.48
6	-0.35	0.24	2.07	0.63	0.15	0.31	0.25		0.37	0.09	0.75
7	-0.26	0.28	2.22	0.76	0.16	0.35	0.31		0.44	0.15	0.86
8	-0.17	0.32	2.35	0.86	0.18	0.40	0.28			0.15	0.96
9	-0.07	0.34	2.31	0.89	0.18	0.43	0.29				1.06
10	0.04	0.35	2.52	0.96	0.17	0.43	0.29	3.31	0.53	0.21	1.08
15	0.28	0.51	2.74	1.34		0.60	0.42	3.51	0.66	0.35	1.31
20	0.47	0.45	2.70			0.68	0.31	3.63			1.38
30	0.68	0.74	2.85	1.47	0.03	0.85	0.42			0.26	1.51

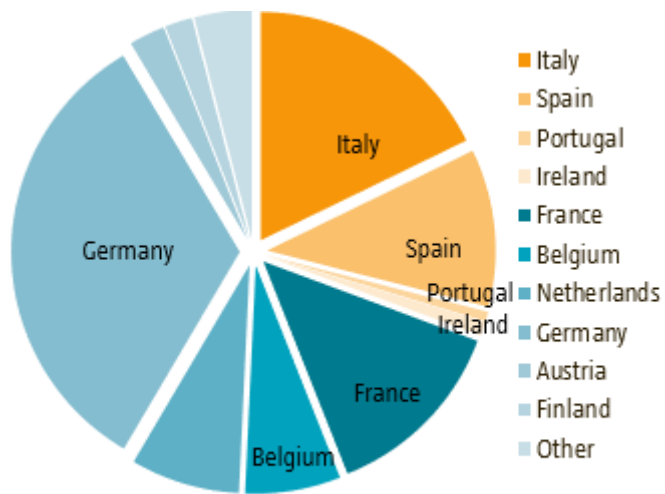
Source: Bloomberg

Movement over time



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (3rd May 2019)



Source: Robeco

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