

Peripheral Europe Update

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- **Debt relief for Greece**
- **Eurosceptic nominations in Italy's parliament**

Main market events

Peripheral spreads widened this week as the euro-skeptic Bagnai was appointed head of the Italian senate finance committee. Although this parliamentary committees' role is not more than drafting laws, markets reacted fiercely on this appointment as he is one off the two most prominent anti-euro Lega MPs. Italian bonds have returned -3.4% year-to-date, Spanish bonds 2.3%, Portuguese bonds 1.7% and Irish bonds 0.7%.

Europe

The Franco-German Eurozone reform plan released this week has been rejected by a dozen states. The Netherlands, Austria and Finland questioned the need for any joint Eurozone fiscal capacity, one of the key measures proposed by Macron. This opposition to an already unambitious EU reform proposal does not bode well for the success of the EU summit next week.

Greece

Greek bonds rallied substantially today after the debt relief agreement reached among Eurozone creditors. They decided to defer by 10 years repayment of the EUR96bn of bailout loans, including interests, with the first repayment now being due in 2033 instead of 2023. Furthermore, the final tranche of bailout money has been raised to EUR 15bn, so that Athens will have cash reserves (more than EUR 24bn) to avoid having to tap the market for the next 22 months. Other agreed measures include the return of EUR 4bn in profits made by the ECB on its Greek bond holdings. Finally, the door was also left open for further debt relief after 2030 if the economic situation were to deteriorate significantly. A key condition for the debt relief is the requirement to post a 3.5% primary budget surplus until 2022 and 2.2% on average until 2060. Such a deal had become urgent given Greece will exit its bailout programme on 20 August.

Italy

The appointment of two Eurosceptics from the far-right League in Italy's new parliament has triggered some spread widening on Thursday. Both Alberto Bagnati and Claudio Borghi have been nominated to head up key committees that deal with economic policy. The first one was indeed elected to be president of the finance committee in the Senate, while the second was chosen to be president of the Budget committee in the Lower House. These nominations raises issues given their critical view of Italy's membership of the Euro since the sovereign debt crisis.

Robeco Euro Government Bonds

This week we added to Spanish 10-year government bonds after markets widened due to the announcement of the Euro-skeptic Italian senate finance committee head. Overall, our risk position in peripheral bonds is slightly higher than that of the index, mainly located in Spain and Ireland. We remain cautious towards Italy as long as markets are vulnerable to headline-risk. Currently the fund is 34.8% invested in peripheral bonds, less than the index level as expressed in market value. Year-to-date the fund's absolute return is -0.1%*.

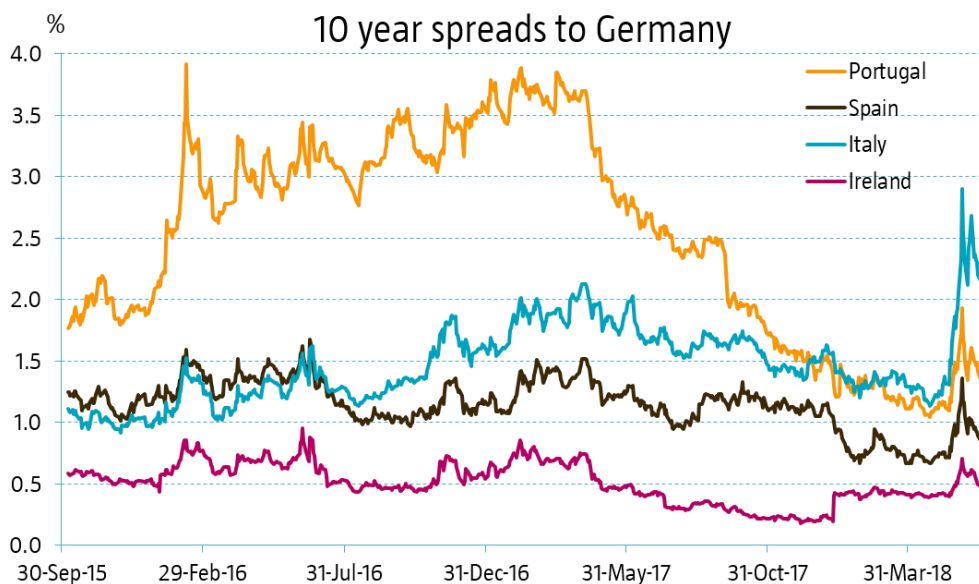
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 21 June, 2018. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.66	0.07									
2	-0.66	0.11	1.40	0.42	-0.01	0.14	0.10	2.06	0.12	0.02	0.53
3	-0.59	0.15	1.64	0.50	0.04	0.05	0.11		0.14	0.02	0.63
4	-0.46	0.16	1.86	0.53	0.07	0.03	0.12		0.21	-0.03	0.83
5	-0.29	0.14	1.97	0.68	0.08	0.27	0.20	3.62	0.15	-0.01	0.96
6	-0.18	0.29	2.23	0.76	0.15	0.26	0.28		0.29	0.09	0.99
7	-0.04	0.31	2.28	0.78	0.17	0.31	0.32		0.37	0.03	1.31
8	0.09	0.33	2.27	0.91	0.17	0.35	0.15			0.15	1.37
9	0.22	0.31	2.32	0.97	0.17	0.38	0.29			0.12	1.41
10	0.34	0.36	2.29	0.99	0.16	0.39	0.28	3.81	0.51	0.18	1.46
15	0.51	0.61	2.50	1.39		0.69	0.56	4.15	0.84	0.32	1.83
20	0.83	0.42	2.41			0.62	0.34	4.04			1.75
30	1.13	0.54	2.34	1.42	0.00	0.60	0.38			0.17	1.75

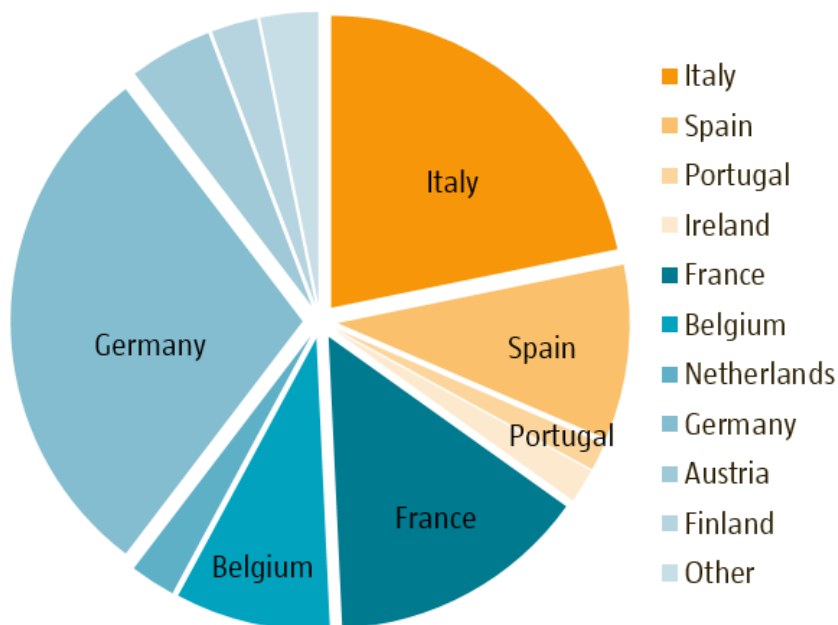
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (21 June, 2018)



Source: Robeco

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