

Peripheral Europe Update

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- Periphery spreads stabilize in run up to G20 meeting
- Eurozone economic confidence declines

Main market events

Peripheral spread tightening took a breather as market focus shifted from central bankers hinting at fresh monetary stimulus to the uncertain outcome of the meeting between Trump and Xi at the G20 in Japan. The best outcome of the talks seems to be a trade truce, so negotiators get back to the table and a fresh round of tariffs is postponed. In Europe the economic sentiment indicator (ESI) unexpectedly declined, as trade tensions continue to weigh on the industrial sector. Italian bonds have returned 5.2% year-to-date, Spanish bonds 8.6%, Portuguese bonds 8.6% and Irish bonds 6.3%.

Italy

The 10yr BTP-Bund spread hovered around the low end of the recent trading range at around 240bp. As ECB policy is shifting towards rate cuts and a possible restart of QE a retest or possible break of this level seems more likely than not. Peripheral spreads will benefit most from the hunt for yield. The spread could find further near time support from Italy's favourable issuance profile over the next months and the EC likely delaying an excessive deficit procedure. The big threat for the spread will be the 2020 budget and in how far gross issuance will rise.

Spain

Fitch, in its review of Spain last Friday, kept its A- rating with stable outlook unchanged. Slightly disappointing, as there were some expectations for an upgrade to a positive outlook. The market however shrugged it off and the SPGB-Bund spread traded largely unchanged. In the meantime, negotiations to form a new government have not delivered any results so far. Should attempts continue to fail new election could be announced.

ECB

The European commission's sentiment indicator for the Eurozone declined in June. Declines were seen across the board and indicate weak economic momentum going into Q3. As this indicator is closely followed by the ECB, the weak reading adds to the ammunition for the ECB to deliver on rate cuts and/or a restart of QE.

Robeco Euro Government Bonds

After the recent rally exposure to the periphery and semi-core bonds was reduced slightly. In Italy the overweight was transferred from 10yr to the 30yr sector. This is a more defensive position as 30yr bonds are expected to outperform the belly, should the BTP-Bund spread widen in an adverse scenario. Moreover the BTP curve is relatively steep still. Investments in peripheral bonds are at 32%, which is 8% below the level of the index. Year to date the absolute return of the fund is 6.04%*.

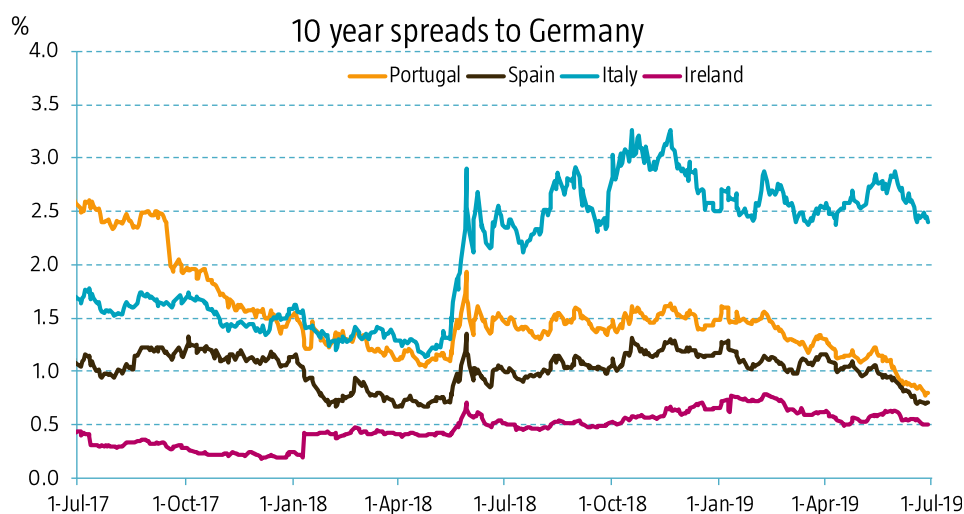
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 28 June, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.66	0.05										
2	-0.74	0.07	0.94	0.32	0.11	0.08	0.09			0.30	0.11	0.31
3	-0.75	0.09	1.54	0.36	0.04	0.13	0.15			0.27	0.15	0.45
4	-0.71	0.10	1.68	0.47	0.01	0.21	0.17			0.26	0.18	0.50
5	-0.64	0.15	1.99	0.50	0.01	0.26	0.19		1.94	0.26	0.14	0.49
6	-0.61	0.23	1.99	0.56	0.15	0.30	0.23			0.38	0.24	0.65
7	-0.55	0.25	2.12	0.63	0.15	0.32	0.28			0.41	0.24	0.67
8	-0.48	0.28	2.23	0.68	0.18	0.36	0.26				0.31	0.70
9	-0.41	0.30	2.20	0.68	0.17	0.38	0.26					0.77
10	-0.31	0.32	2.40	0.71	0.17	0.39	0.28		2.75	0.50	0.30	0.79
15	-0.11	0.48	2.65	0.99		0.53	0.42		2.91	0.66	0.36	0.94
20	0.06	0.43	2.64			0.60	0.34		2.96			0.96
30	0.26	0.67	2.81	1.11	0.03	0.76	0.41				0.28	1.10

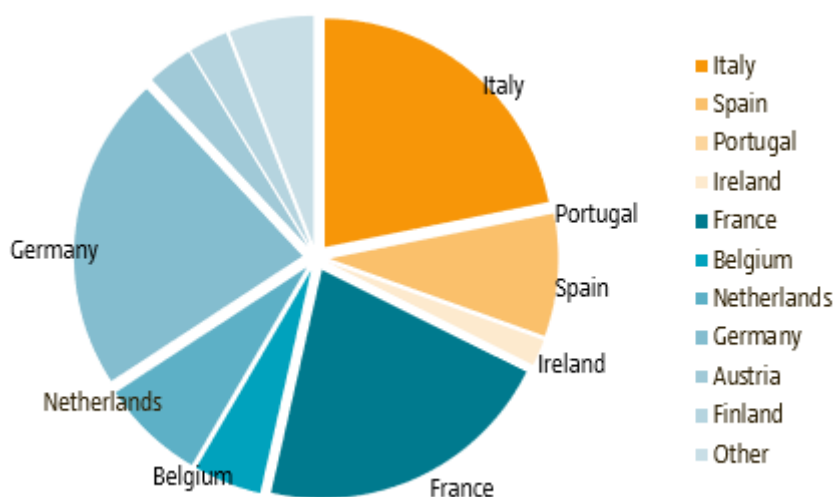
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (28 June, 2019)



Source: Robeco

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