

Peripheral Europe Update

Michiel de Bruin, Head Euro Sovereigns
Stephan van IJzerdoorn, Portfolio Manager Euro Sovereigns

- Pressure on ECB mounts as inflation expectations collapse
- Italy and Spain raise a combined EU18.5bn in a supply dominated week

Main market events

Declining European inflation expectations supported bond markets. German Bunds continued their rally as 10-year and 30-year yields touched new lows at -0.26% and 0.32% respectively. BTPs managed to hold their ground as heavy supply hit the market. Italian bonds have returned 3.3% year-to-date, Spanish bonds 7.2%, Portuguese bonds 7.3% and Irish bonds 5.2%.

Italy

A supply driven week in Italy initially took its toll on BTPs. The market sold off sharply on Tuesday after a surprise 20-year syndicate announcement. But after Italy raised EUR 6bn in the deal, with books in excess of EUR 24bn, the market started to bounce back. A regular BTP supply round on Thursday did not derail the rally. Italy raised another EUR 6.5bn at solid bid to cover ratios to reach a combined EUR 12.5bn sold over the week. The 10y BTP-Bund spread tightened and touched 2.57%, about 30bp tighter month-to-date.

Spain

Spain also announced a new syndicated deal, a 10-year bond maturing in October 2029. Demand amounted to EU27bn and EU6bn was raised at a record low yield for a new 10 year. Foreign demand at 86% was solid and underpinned Spain's strong rally. The spread of 10-year Spanish bonds over Bunds also continued its tightening path and touched 0.76%.

ECB

The market-based measure of inflation expectations, the so-called five-year, five-year inflation swap rate declined to 1.17%, a record-low. This is adding to market concerns that the ECB is losing its grip on anchoring inflation expectations, even after extending its commitment to keep interest rates low and pledging to do more if needed. Therefore pressure on the ECB to dig deeper in its toolbox to shore up inflation expectations is likely to build the next weeks. This is especially relevant as President Draghi terms ends in October and jitters around the US-China trade war continue.

Robeco Euro Government Bonds

The fund took a slightly more offensive stance in both the periphery and semi-core markets, aiming to profit from attractive spread and carry characteristics as Bund yields declined to new lows. Also we believe that ECB monetary policy will remain very accommodative; we do not rule out that the ECB is forced to add to stimulus over summer. This should provide further support for EGB spreads. Investments in peripheral bonds increased slightly to 35%, which is 5% below the level of the index. This is mainly because of expensive valuations in very short dated peripheral bonds. Year to date the absolute return of the fund is 4.66%*.

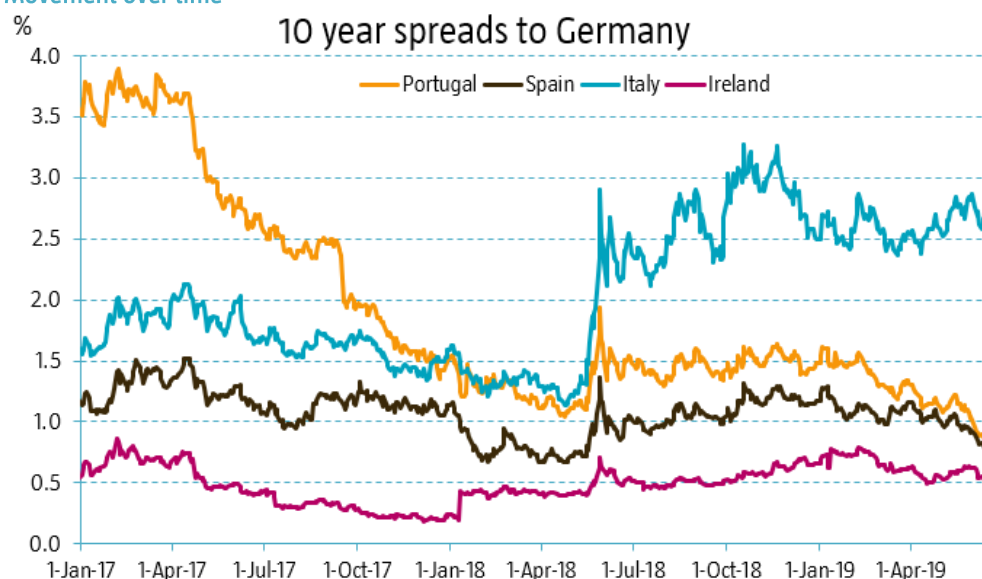
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 14 June, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.63	0.07										
2	-0.70	0.07	1.05	0.31	0.10	0.10	0.09			0.26	0.11	0.37
3	-0.70	0.11	1.70	0.40	0.03	0.13	0.15			0.29	0.15	0.52
4	-0.68	0.14	1.87	0.51	0.03	0.22	0.18			0.27	0.19	0.56
5	-0.61	0.18	2.18	0.54	0.04	0.28	0.21		2.15	0.28	0.15	0.54
6	-0.58	0.25	2.18	0.58	0.15	0.30	0.25			0.40	0.26	0.68
7	-0.52	0.28	2.31	0.66	0.18	0.34	0.30			0.44	0.26	0.70
8	-0.44	0.31	2.40	0.71	0.19	0.37	0.27				0.32	0.77
9	-0.36	0.33	2.36	0.72	0.18	0.41	0.28					0.85
10	-0.26	0.35	2.57	0.76	0.18	0.42	0.29		2.97	0.55	0.32	0.86
15	-0.05	0.51	2.83	1.09		0.57	0.43		3.05	0.70	0.38	1.06
20	0.13	0.46	2.82			0.65	0.33		3.13			1.12
30	0.32	0.73	3.00	1.25	0.04	0.82	0.41				0.29	1.28

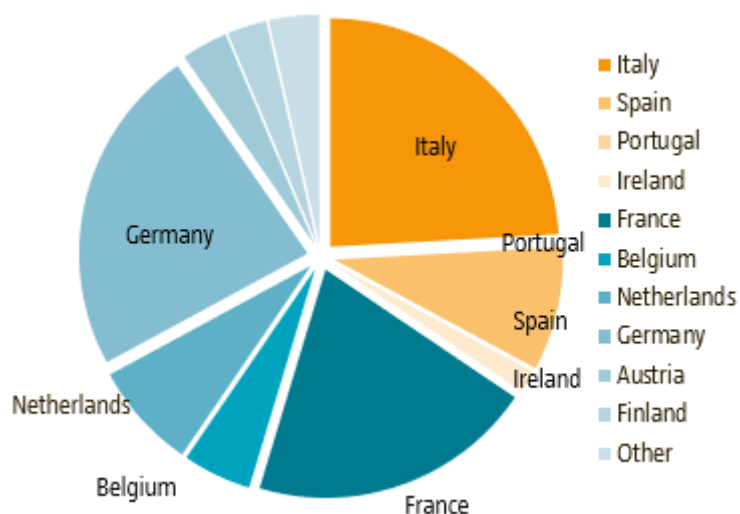
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (14 June, 2019)



Source: Robeco

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