

Peripheral Europe Update

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- **Portugal matches strong Spanish growth in Q4**
- **Last polls before the Italian elections suggest centre-right to be in the lead**

Main market events

Periphery government bond markets were more or less stable versus Germany this week. A notable exception was Greece. While Greece was able to tap the market last week, Greek spreads widened by as much as 60bps this week. Italian bonds have returned 0.25% year-to-date, Spanish bonds 0.71%, Portuguese bonds -0.11% and Irish bonds -0.96%.

ECB

The process of selecting a new vice president for the ECB (to replace Vitor Constancio) is in full swing and hearings of the candidates by the European Parliament have taken place. The Spanish Economy Minister De Guindos is seen as the frontrunner for this appointment, with Irish central bank president Lane following.

Portugal

Portuguese GDP managed to increase by 0.7% q-o-q in the fourth quarter, which brings the GDP growth for the year as a whole at 2.7%. Details will be released on 28 February, but foreign trade is seen as the main driver behind this strong figure. In Q4 Portugal was able to match preliminary Spanish growth data and outpaced Germany (0.6%) and Italy (0.3%). Portuguese credit data show a continued deleverage (non-financial private sector debt -2.8% y-o-y) and a 0.4% m-o-m decline in non-performing loans to 7.2%.

Italy

This is the last week in which it is allowed to publish polls for the 4 March Italian elections. On a party-by-party comparison Five Star is still in the lead, with 25-28%, but Five Stars is not willing to be part of a coalition government. Looking at possible coalitions, the centre-right is in the lead, with 35-38% of the votes. Under the current electoral law, any new government would need circa 40% of the votes to get a majority of seats in parliament.

Robeco Euro Government Bonds

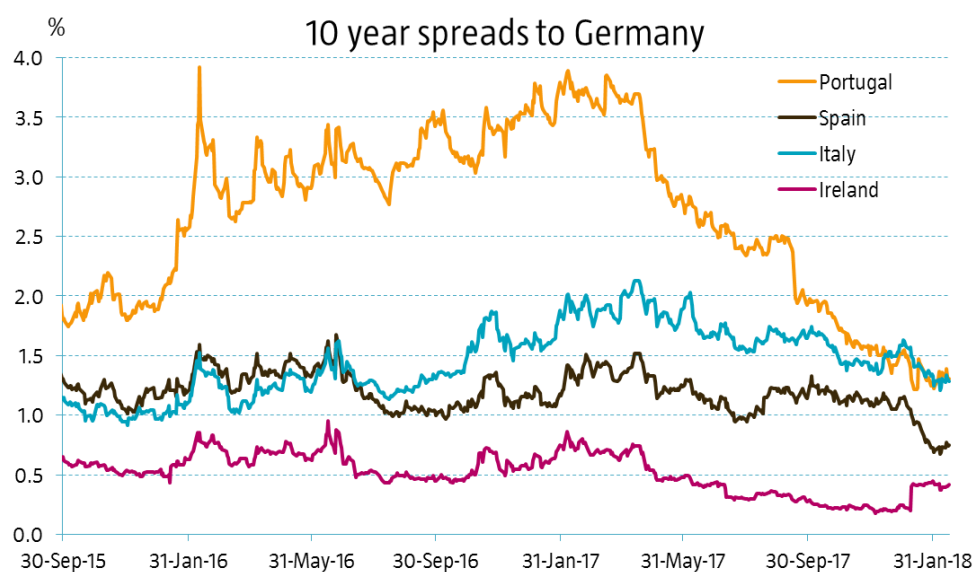
We have increased the overweight position in Spanish government bonds a bit. The long end of the curve widened somewhat on the expectation of new long end issuance. This created a more attractive entry level for long positions. The fund still holds no Irish bonds as their spreads over France do not compensate for the potential risks stemming from Brexit, international tax reform and the volatility inherent to Ireland's size. Currently the fund is 43% invested in peripheral bonds, a bit above index level. Year-to-date the fund's absolute return is -0.37%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 15 February, 2018.
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Current spreads and the movement over time

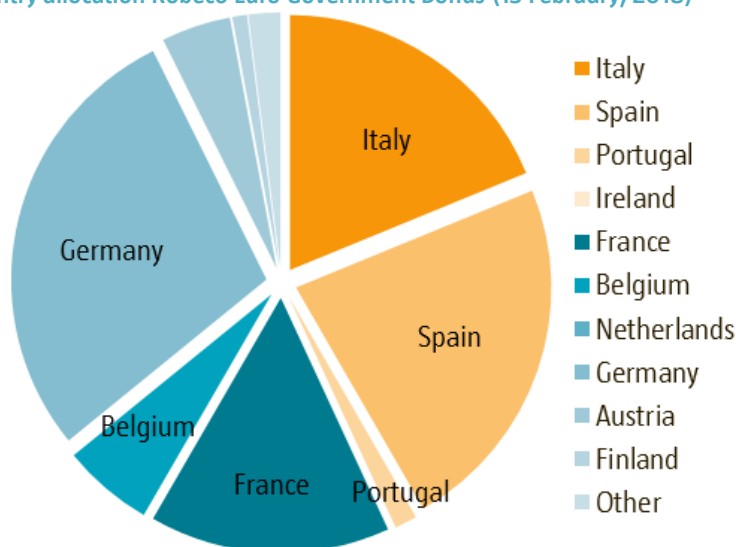
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.59	0.03									
2	-0.57	0.14	0.36	0.37	-0.05	0.10	0.07	2.34	0.17	0.01	0.51
3	-0.34	0.16	0.43	0.34	-0.12	0.00	-0.01		-0.11	0.01	0.46
4	-0.13	0.15	0.51	0.19	-0.12	-0.02	-0.02		0.17	-0.07	0.23
5	0.08	0.11	0.62	0.30	-0.20	0.20	-0.01	3.35	0.10	-0.04	0.50
6	0.21	0.15	0.68	0.38	-0.06	0.19	0.04		0.22	0.06	0.91
7	0.36	0.17	1.07	0.48	-0.02	0.22	0.07		0.28	0.00	1.19
8	0.48	0.20	1.09	0.61	0.03	0.24	0.09			0.08	1.22
9	0.60	0.23	1.19	0.69	0.03	0.25	0.13			-0.27	1.25
10	0.71	0.25	1.28	0.75	0.05	0.28	0.10	3.56	0.42	0.11	1.31
15	0.87	0.48	1.70	1.18		0.46	0.38	3.95	0.38	0.21	1.39
20	1.11	0.34	1.75			0.38	0.17	3.81			1.67
30	1.36	0.42	1.77	1.22	0.01	0.36	0.19			0.09	1.74

Source: Bloomberg



Source: Bloomberg. Note: the recent jump in Irish yields is due to the issuance of a new 10-year bond.

Country allocation Robeco Euro Government Bonds (15 February, 2018)



Source: Robeco

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