

Peripheral Europe Update

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- **Populist government Italy likely installed next week**
- **Election Catalan president leads to approval 2018 fiscal budget Spain**

Main market events

Especially Italian government bonds came under significant pressure last week after the Huffington Post published a leaked draft version of a 5star – League coalition agreement. Especially parts on debt cancellation by the ECB and a permanent opt-out clause to give countries the possibility to stay outside of the monetary union spooked markets. Spreads of other peripheral countries widened in sympathy, although to a far lesser extent. Italian bonds have returned 0.42% year-to-date, Spanish bonds 1.81%, Portuguese bonds 1.82% and Irish bonds - 0.45%.

ECB

ECB Governing Council member François Villeroy de Galhau gave a hawkish speech on Monday morning in Paris, mentioning 'well past' meaning quarters but not years, and "the time when our net asset purchases will end is approaching -- whether it will be in September or in December is not a deep existential question".

Italy

5star and League have released their final government contract. The document does not contain a provision asking the ECB to give EUR250bn of debt relief to Italy and also does not contain a proposal related to a Euro exit. But the much softer tone on EU matters is offset by a very aggressive fiscal expansion (EUR100bn slippage on top of the currently expected EUR30bn). Electors of the two parties are called to ratify the deal by the weekend; Salvini and Di Maio are expected to meet President Mattarella early next week. No agreement has been reached as of yet on who would serve as prime minister.

Spain

The Catalanian parliament elected Quim Torra this week as regional President, thereby avoiding new regional elections. This decision will lead to the removal of Article 155 which enabled the central government to gain temporary and extraordinary powers over Catalonia following the illegal referendum of last year. It also means the likely approval of the delayed 2018 fiscal budget by the Spanish parliament, which depended on support of the Basque Nationalist Party.

Robeco Euro Government Bonds

We decreased exposure to Italy at the start of the month, anticipating more volatility as negotiations would continue. As markets rebounded somewhat last Thursday after the large sell-off on Wednesday we decided to move back to neutral in both Italy as Portugal. The overweight position in Spanish bonds remains in place, as we remain constructive on Spanish fundamentals. Currently the fund is 46% invested in peripheral bonds, slightly above index level. Year-to-date the fund's absolute return is 0.20%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 17 May, 2018.

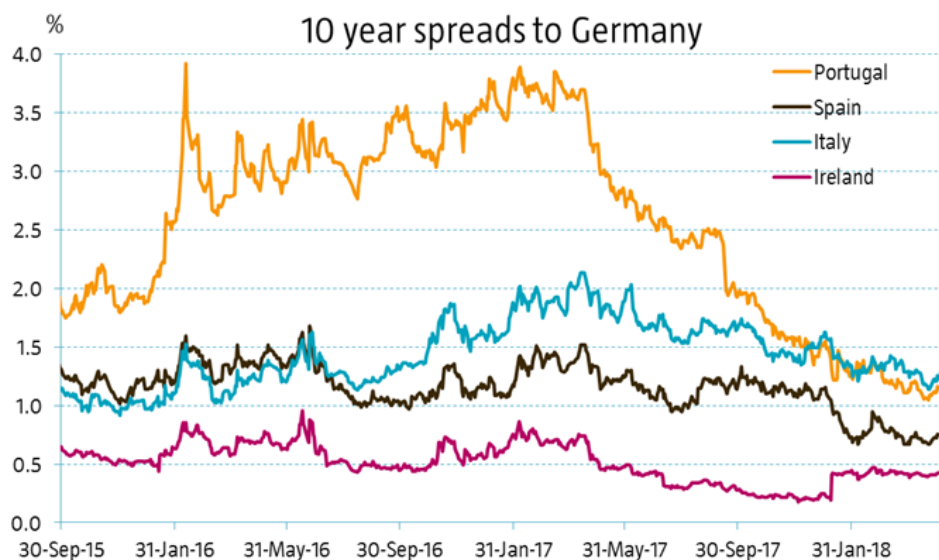
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Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.63	0.09									
2	-0.57	0.09	0.63	0.27	-0.04	0.08	0.16	1.97	0.15	0.00	0.44
3	-0.41	0.13	0.71	0.33	-0.11	0.00	0.17		-0.04	-0.01	0.43
4	-0.22	0.14	0.89	0.21	-0.12	-0.03	0.13		0.17	-0.08	0.64
5	-0.02	0.11	0.98	0.32	-0.18	0.20	0.17	3.56	0.11	-0.03	0.69
6	0.11	0.15	1.23	0.57	0.14	0.19	0.23		0.22	0.06	0.74
7	0.25	0.18	1.38	0.63	0.15	0.24	0.26		0.29	0.00	1.04
8	0.38	0.21	1.48	0.73	0.16	0.26	0.11			0.10	1.12
9	0.50	0.24	1.56	0.77	0.16	0.28	0.23			-0.16	1.17
10	0.63	0.23	1.55	0.79	0.14	0.27	0.21	3.85	0.42	0.12	1.21
15	0.78	0.51	1.89	1.19		0.53	0.45	4.11	0.70	0.26	1.62
20	1.06	0.33	1.92			0.44	0.22	4.06			1.50
30	1.34	0.40	1.93	1.23	-0.02	0.39	0.24			0.10	1.50

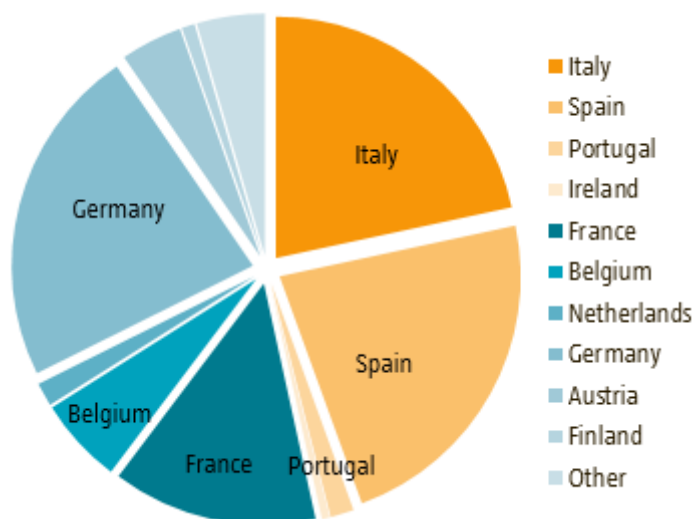
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (17 May, 2018)



Source: Robeco

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