

# Peripheral Europe Update

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- **Likely Spain upgrade this evening**
- **Difficult election of House speakers in Italy**

## Main market events

Peripheral bonds performed relatively well this week, with spreads tightening especially in Italy and Spain. Spreads were surprisingly resilient amid the risk-off triggered by escalating tensions related to trade tariffs between the US and China and disappointing PMs in the Eurozone. Spreads may have benefited from the ECB debates about the formulation of the forward guidance after the end of QE, with Draghi steering expectations toward a very “measured pace of rate hikes”. Today at the EU summit in Brussels, European leaders will discuss “more ambitious proposals in the fiscal and economic dimension” of the Monetary Union, in particular the completion of banking union and a common corporate tax base. Italian bonds have returned 1.58% year-to-date, Spanish bonds 2.45%, Portuguese bonds 1.68% and Irish bonds -0.14%.

## Italy

Today Italian lawmakers have formally reconvened parliament following the political earthquake of the 4 March elections. PMs will meet to elect the speakers of the two Houses. The elections will provide some insight into the willingness of the different parties to work together to reach an agreement. No compromise has yet been reached between the protagonists, unlike what was conveyed by local media reports. An apparent collapsed deal between Northern League and Five Star involved the election of a 5 Star PM as speaker in the Lower House. If Senate goes to Lega rather than to Forza Italia, the chance of Lega-5 Star government will increase. But finding a coalition government may prove challenging and may well take several months. New elections in October or at the latest in March next year are likely. In this regard, House speakers will play an important role as they will steer the legislative agenda and set priorities. In particular, they will be able to design the new electoral law, which is likely to give an advantage to Five Star and Northern League.

## Spain

Spain is likely to be upgraded this evening by S&P to A- rating from BBB+ with positive outlook. The conditions for the upgrade are strong economic performance, improving public finances and subsiding tensions between Catalonia and the Central Government. On all these metrics, Spain has performed relatively well. Yesterday, Jordi Turull failed to win enough support to become Catalan president, which suggests ongoing tensions amid the pro-independence camp. He will have a second chance to be elected on Saturday. If he fails again, his candidacy triggered a two-month deadline to find a president before new elections are called.

## Robeco Euro Government Bonds

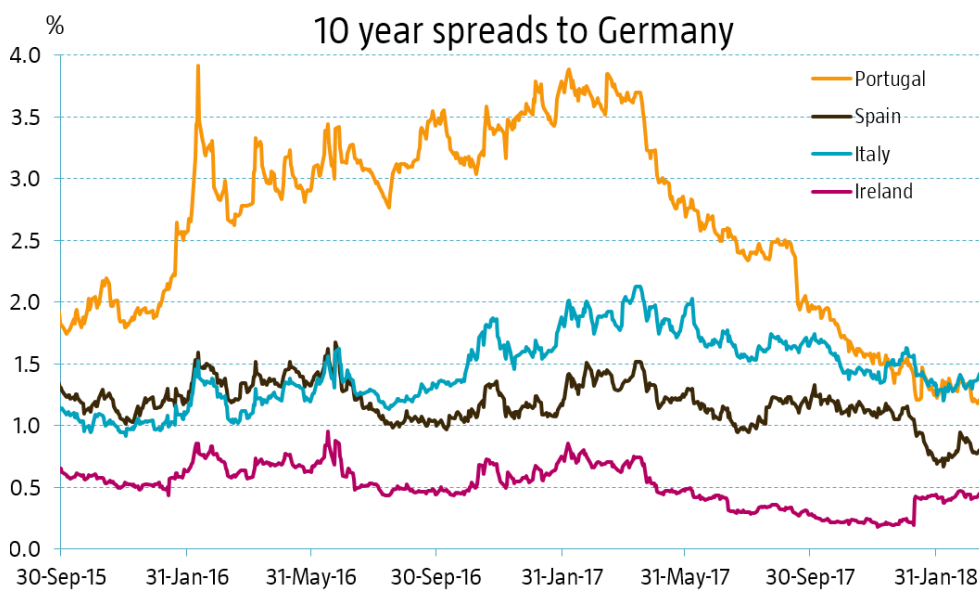
We have kept the positioning in euro peripheral bonds unchanged. The fund is now overweight 5 and 10-year Italian bonds and 10-year and longer-dated Spanish bonds. The fund still holds no Irish bonds as their spreads over France do not compensate for the potential risks stemming from Brexit and the volatility inherent to Ireland's size. Currently the fund is 47% invested in peripheral bonds, well above index level. Year-to-date the fund's absolute return is 1.23%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 22 March, 2018.  
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Current spreads and the movement over time

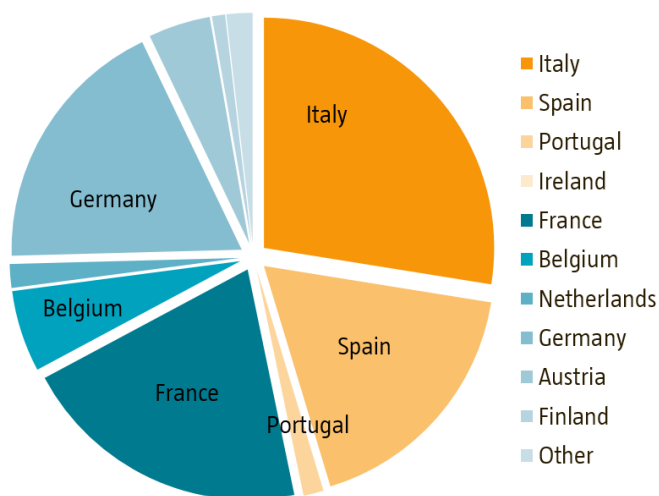
Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.67	0.12									
2	-0.61	0.12	0.33	0.29	-0.06	0.07	0.19	2.02	0.13	0.01	0.48
3	-0.44	0.15	0.41	0.31	-0.11	0.03	0.18		0.00	0.02	0.49
4	-0.27	0.15	0.52	0.19	-0.10	0.00	0.12		0.16	-0.04	0.37
5	-0.08	0.12	0.65	0.30	-0.17	0.21	0.17	3.60	0.15	-0.01	0.52
6	0.04	0.15	0.89	0.55	0.14	0.19	0.23		0.25	0.08	0.84
7	0.17	0.18	1.09	0.60	0.16	0.24	0.23		0.30	0.03	1.14
8	0.28	0.20	1.22	0.71	0.15	0.26	0.10			0.10	1.17
9	0.40	0.23	1.27	0.74	0.16	0.27	0.22			-0.07	1.17
10	0.52	0.24	1.36	0.76	0.16	0.28	0.20	3.78	0.43	0.11	1.23
15	0.66	0.47	1.72	1.12		0.49	0.40	4.01	0.41	0.23	1.60
20	0.92	0.32	1.75			0.41	0.19	4.01			1.55
30	1.15	0.42	1.78	1.13	-0.01	0.39	0.23			0.10	1.60

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 (22 March, 2018)



Source: Robeco

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