

Peripheral Europe Update

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- **Moody's upgrades Spain's credit rating**
- **Political deadlock in Italy continues**

Main market events

Peripheral spreads tightened significantly last week, with bonds responding to comforting news out of Italy and an upgrade of Spain's credit rating. The tightening was led by Italy and Portugal, where 10-year spreads narrowed by 12-13bps. Italian bonds have returned 2.7% year-to-date, Spanish bonds 2.8%, Portuguese bonds 2.6% and Irish bonds 0.0%.

Spain

Moody's upgraded the credit rating for Spain from Baa2 to Baa1 with a stable outlook. The upgrade was based on improved banking sector fundamentals and on the expectation that the current balanced growth profile will lead to more resilience in growth. Moody's signaled that further upgrades are not to be expected on short notice.

Today (20 April) Moody's will update the rating for Portugal. The country is currently rated BB+, but an upgrade is very well possible given the positive outlook and the higher ratings for Portugal by S&P (BBB-) and Fitch (BBB).

Italy

Italian President Mattarella has given Senate President Ms. Casellati (Forza Italia) an exploratory mandate to check whether a government alliance between the center-right bloc and Five Star would be possible. The term 'exploratory' means she is asked to check forcefully. She is not asked to form a government. This reflects the expectation that chances to succeed are low. Exploratory mandates have been given in the past as well, but generally failed to bring a breakthrough. This sign of delay in the government formation process was received well by the market. In our opinion, the lack of a government may need not be bad for bond markets as long as the economy is growing and government finances are improving consequently.

Greece

According to German media, agreement on debt relief for Greece might come as soon as 27 April, the date of the next Eurogroup meeting. The issue is expected to be discussed on the sidelines of the IMF Spring Meeting, where officials from the IMF, ECB, EU and ESM will meet. A debt relief would make it possible for the IMF to release a new credit line to Greece.

Robeco Euro Government Bonds

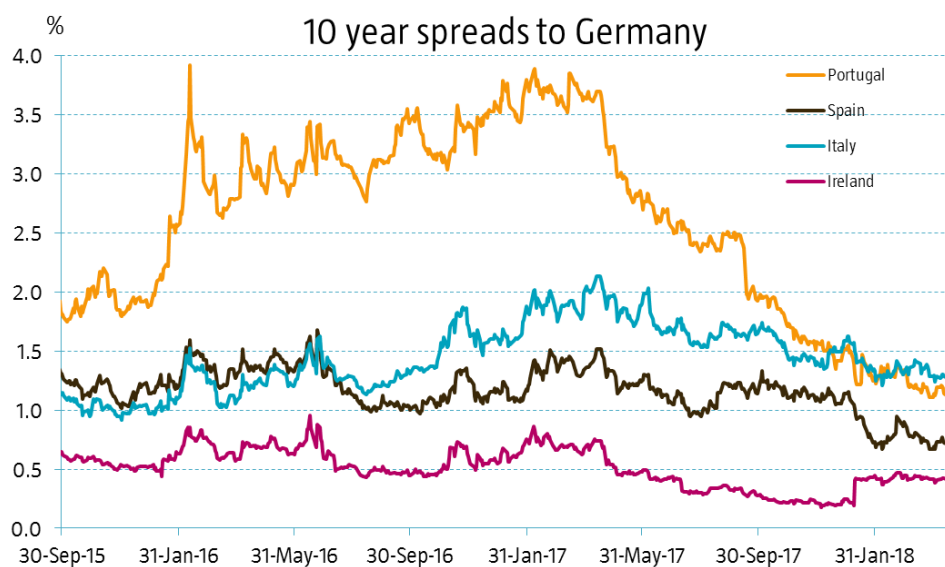
We have kept the positioning in euro peripheral bonds unchanged. The fund is now overweight 5-10 year Italian bonds and 10-year and longer-dated Spanish and Portuguese bonds. Currently the fund is 49% invested in peripheral bonds, well above index level. Year-to-date the fund's absolute return is 1.29%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 19 April, 2018.
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Current spreads and the movement over time

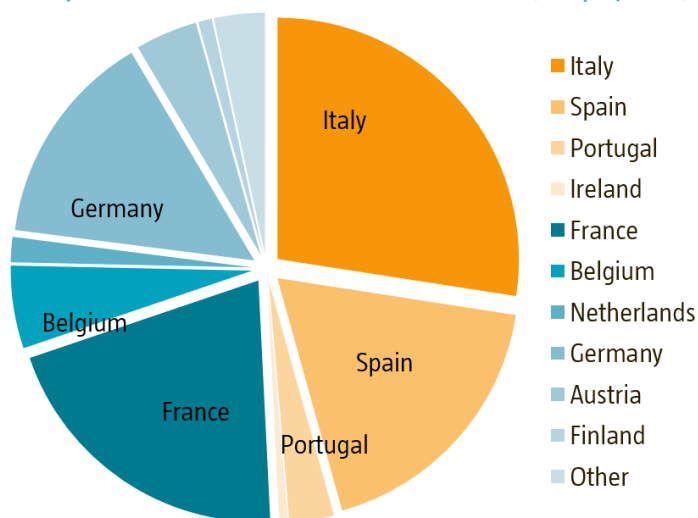
| Maturity | German yields | Spreads | | | | | | | | | | |
|----------|---------------|---------|-------|-------|-------------|---------|---------|--------|---------|---------|----------|--|
| | | France | Italy | Spain | Netherlands | Belgium | Austria | Greece | Ireland | Finland | Portugal | |
| 1 | -0.64 | 0.10 | | | | | | | | | | |
| 2 | -0.56 | 0.08 | 0.24 | 0.25 | -0.06 | 0.07 | 0.17 | 1.96 | 0.15 | 0.00 | 0.41 | |
| 3 | -0.41 | 0.12 | 0.33 | 0.29 | -0.11 | 0.00 | 0.18 | | -0.04 | 0.01 | 0.33 | |
| 4 | -0.22 | 0.13 | 0.58 | 0.15 | -0.11 | -0.03 | 0.11 | | 0.17 | -0.08 | 0.54 | |
| 5 | -0.02 | 0.10 | 0.67 | 0.25 | -0.17 | 0.19 | 0.15 | 3.23 | 0.13 | -0.04 | 0.61 | |
| 6 | 0.10 | 0.14 | 0.71 | 0.48 | 0.13 | 0.18 | 0.22 | | 0.23 | 0.04 | 0.64 | |
| 7 | 0.23 | 0.17 | 0.91 | 0.55 | 0.16 | 0.22 | 0.24 | | 0.27 | 0.01 | 0.94 | |
| 8 | 0.36 | 0.18 | 1.03 | 0.64 | 0.15 | 0.23 | 0.11 | | | 0.09 | 0.99 | |
| 9 | 0.48 | 0.21 | 1.07 | 0.68 | 0.15 | 0.26 | 0.22 | | | -0.14 | 1.02 | |
| 10 | 0.60 | 0.22 | 1.19 | 0.69 | 0.14 | 0.26 | 0.19 | 3.45 | 0.40 | 0.10 | 1.07 | |
| 15 | 0.74 | 0.48 | 1.55 | 1.04 | | 0.49 | 0.42 | 3.79 | 0.66 | 0.25 | 1.51 | |
| 20 | 1.01 | 0.31 | 1.58 | | | 0.41 | 0.20 | 3.71 | | | 1.37 | |
| 30 | 1.27 | 0.39 | 1.60 | 1.09 | -0.02 | 0.37 | 0.24 | | | 0.11 | 1.39 | |

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 (19 April, 2018)



Source: Robeco

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