

Peripheral Europe Update

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- **No debt relief in Greece yet**
- **Call for repeat election in Italy**

Main market events

All peripheral spreads have widened over the past week as a Five Star leader Di Maio called for repeat election and growth data disappointed somewhat. The absence of agreement regarding the Greek debt relief in the last Eurogroup meeting, which was expected by some of market participants could also help explain this relatively gloomy mood. Italian bonds have returned 2.93% year-to-date, Spanish bonds 2.97%, Portuguese bonds 2.64% and Irish bonds 0.19%.

Italy

Given the gridlock in forming a government alliance, Five Star called for new elections. President Mattarella, who has to call elections, ruled out new elections before the Summer break. Five Star rules out any deal with Berlusconi's Forza Italia, while Lega Nord rules out governing without Berlusconi. And the Democratic Party rules out both the Centre-Right and Five Star. Against this backdrop, President Sergio Mattarella resumed party talks yesterday but with no real progress. Despite seemingly narrowing policy differences between Five Star and the Northern League, the main issue remains the Berlusconi factor. Early election could take place over the next 6 to 12 months, at the earliest in October this year. A caretaker government would be an alternative.

Greece

The Eurogroup last week agreed that Greece will exit the bailout program on August 21 with no additional "precautionary credit line". This option was strongly opposed by the Greek government. A so-called "Enhanced Supervision" has been preferred, whereby all key economic policy decisions will be closely monitored by the European creditors. In short, this post-bailout exit framework is a conditionality regime without cash for at least four years. Meanwhile, no agreement has been reached yet regarding the debt relief. It is likely that any decision on this front will be released on June 21 during the next Eurogroup meeting. At that time, the IMF will have to decide whether it will contribute financially to the third Greek bail-out. The ECB is expected to maintain its "waivers" on Greek government bonds, accepting them as collateral for the refinancing of Greek banks, while remaining sub-investment grade even after the bailout.

Spain

Economic activity in Spain remained robust in Q1, growing at 0.7% QoQ against 0.4% for the Eurozone as a whole. Meanwhile, on the inflation side, the harmonized index slowed more than expected in April at 1.1% down from 1.3%.

Robeco Euro Government Bonds

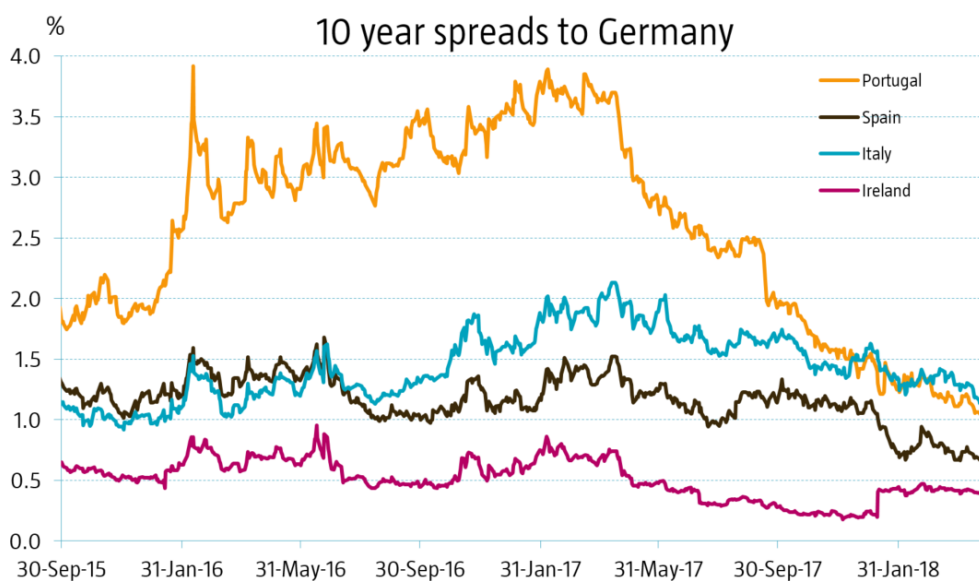
We have kept the positioning in euro peripheral bonds unchanged. The fund is now overweight 5-10 year Italian bonds and 10-year and longer-dated Spanish and Portuguese bonds. Currently the fund is 49% invested in peripheral bonds, well above index level. Year-to-date the fund's absolute return is 1.52%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 3 May, 2018.
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Current spreads and the movement over time

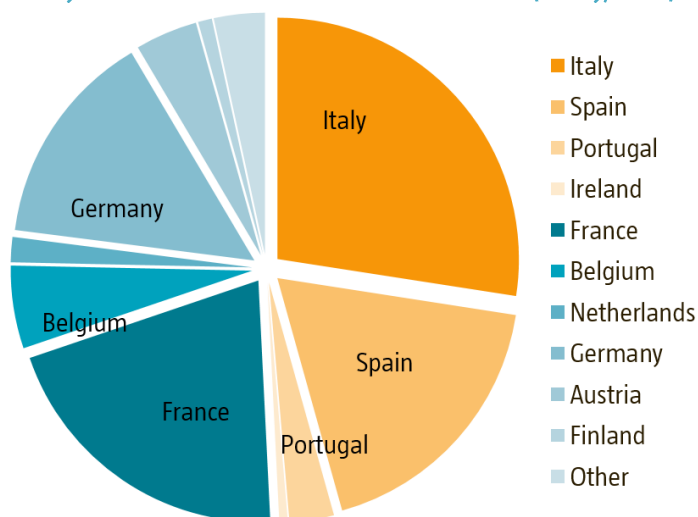
Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.62	0.05									
2	-0.58	0.09	0.25	0.24	-0.04	0.08	0.14	1.99	0.14	0.01	0.38
3	-0.44	0.13	0.34	0.29	-0.09	0.01	0.17		0.00	0.02	0.37
4	-0.27	0.13	0.59	0.17	-0.11	-0.02	0.12		0.17	-0.07	0.55
5	-0.08	0.10	0.68	0.25	-0.17	0.20	0.16	3.15	0.12	-0.03	0.62
6	0.04	0.15	0.71	0.47	0.13	0.20	0.23		0.23	0.06	0.66
7	0.17	0.18	0.91	0.54	0.16	0.25	0.25		0.28	0.02	0.95
8	0.29	0.21	1.04	0.65	0.16	0.27	0.11			0.10	1.02
9	0.40	0.23	1.09	0.70	0.16	0.28	0.23			-0.07	1.07
10	0.54	0.23	1.20	0.71	0.15	0.27	0.19	3.48	0.42	0.11	1.11
15	0.68	0.52	1.58	1.10		0.54	0.44	3.86	0.69	0.26	1.55
20	0.96	0.34	1.60			0.44	0.21	3.79			1.42
30	1.23	0.42	1.63	1.14	-0.02	0.40	0.24			0.10	1.43

Source: Bloomberg



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

Country allocation Robeco Euro Government Bonds (4 May, 2018)



Source: Robeco

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