

Peripheral Europe Update

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- Global bonds rally hard as the ECB and Fed shift into easing mode
- BTP-Bund spread hits YTD low but political and economic concerns remain

Main market events

Mr. Draghi's dovish comments in Sintra took center stage this week. As also the Fed hinted at a change in policy towards accommodation, global bonds rallied. The grab for yield was fueled as Bund yields dived deeper into negative territory, touching -0.30%. Italian bonds have returned 5.1% year-to-date, Spanish bonds 8.6%, Portuguese bonds 8.2% and Irish bonds 6.0%.

Italy

The BTP-Bund spread declined to touch 232bp, a fresh year-to-date low, as investors grew less worried about the cost of Italy's public debt in the face of a prolonged and potentially even more accommodative ECB policy backdrop. However, the spread bounced back a bit towards the end of the week. Investors realized Italy still faces political risks with deputy PM Salvini reportedly threatening to call for early elections if taxes are not cut next year. Also economic risks remain, with GDP growth possibly turning negative again in Q2.

Spain

Tonight Fitch will review Spain's A- rating. Fitch could upgrade the outlook from stable to positive, possibly prelude an upgrade to A later this year. The market impact of such a change would likely be minimal, given Spain's already strong relative performance in the past weeks.

ECB

ECB President Draghi in his Sintra speech on Tuesday lived up to his reputation and managed to exceed market expectations once more. The bar for further policy action was laid low. All tools clearly are on the table, including rate cuts and a restart of QE. Regarding the latter Mr. Draghi added to the dovish sentiment by stressing that the asset purchase programme still has "considerable headroom" and thus suggesting the ECB is not constrained by the 33% issuer limit for government bond purchases. He also emphasized that the inflation target is symmetric, so an overshoot of inflation above 2% can be allowed. It is therefore likely easing measures are announced either at the July or September meeting. It seems Mr. Draghi is firmly ensuring monetary policy remains accommodative even after he leaves in October, leaving little headway for his successor to reverse course without a strong market reaction.

Robeco Euro Government Bonds

The fund benefited significantly from the rally in peripheral and semi-core markets. At the start of the week the fund added to semi-core exposure, further increasing its offensive stance. As mentioned last week, we anticipated a very dovish speech from President Draghi. Investments in peripheral bonds remained at 35% which is 5% below the level of the index, but this is mainly because of expensive valuations in very short dated peripheral bonds. Year to date the absolute return of the fund is 5.97%*.

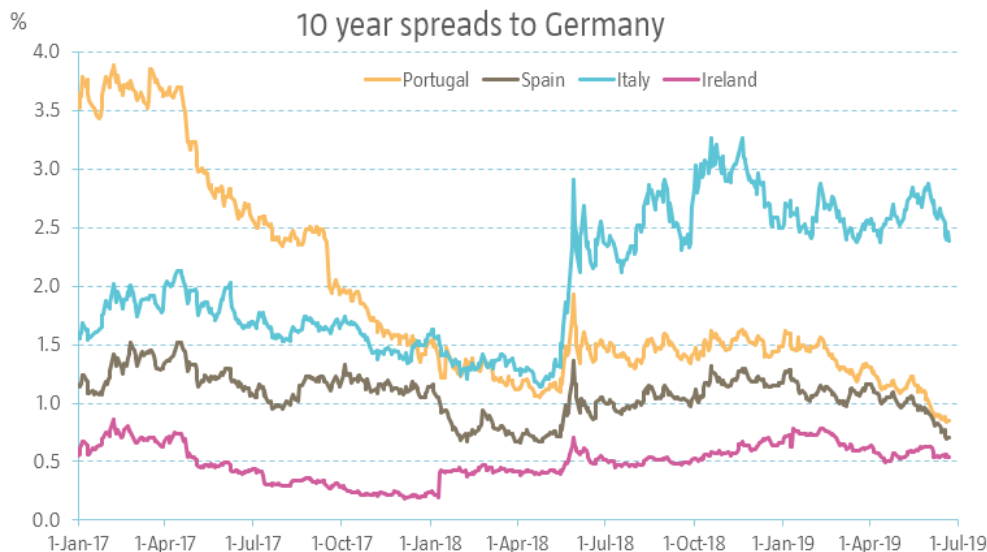
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 21 June, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.69	0.11									
2	-0.74	0.08	0.94	0.33	0.10	0.09	0.10		0.30	0.12	0.37
3	-0.73	0.10	1.53	0.40	0.03	0.12	0.14		0.29	0.15	0.50
4	-0.71	0.12	1.67	0.51	0.01	0.21	0.18		0.27	0.19	0.56
5	-0.64	0.16	1.97	0.52	0.03	0.27	0.20	1.99	0.29	0.14	0.55
6	-0.60	0.24	1.96	0.57	0.14	0.30	0.24		0.40	0.25	0.71
7	-0.54	0.27	2.10	0.64	0.16	0.33	0.29		0.44	0.25	0.72
8	-0.47	0.30	2.21	0.67	0.18	0.36	0.27			0.31	0.76
9	-0.39	0.32	2.19	0.68	0.17	0.39	0.27				0.84
10	-0.29	0.33	2.39	0.71	0.17	0.40	0.29	2.82	0.54	0.30	0.85
15	-0.09	0.50	2.66	1.02		0.55	0.43	3.02	0.70	0.36	1.02
20	0.08	0.44	2.66			0.62	0.34	3.16			1.06
30	0.28	0.70	2.82	1.12	0.03	0.79	0.41			0.27	1.20

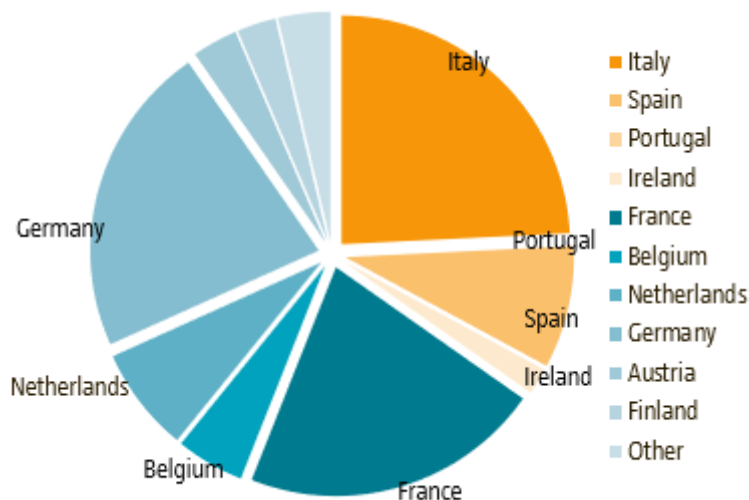
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (21 June, 2019)



Source: Robeco

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