

# Peripheral Europe Update

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- **Renzi wins PD leadership challenge**
- **Greece and institutions close to final agreement**

## Main market events

The dominant theme in the market remained the French election. Market sentiment was clearly positive at the start of the week and as a result both peripheral and French bond spreads tightened. On Thursday, the day after the last television debate of Le Pen and Macron, markets continued to rally as Macron was perceived as the winner of the debate. It is broadly expected that Macron will win the final round this Sunday. Italian bonds have returned -1.61% this year, Spanish bonds -0.44%, Portuguese bonds 4.30% and Irish bonds -0.60%.

## Italy

Earlier this year PD party leader and former PM Renzi called a PD leadership election with the expectation to win the election and to reconfirm his mandate. In last Sunday's party leadership challenge Renzi ended up as the clear winner. Afterwards Renzi mentioned that early elections are still on the table, but the electoral law needs to be changed beforehand. As the 5-Star Movement is currently leading in the polls and Renzi hinted at possible early elections, renewed Italian political risks might become a key market theme again.

## Greece

The Greek minister of Finance, Tsakalotos, announced that negotiations on technical issues have concluded. Greek 10-year bonds rallied on the news and closed that day 30bp lower. The current level of 5.8% is the lowest level since 2014. One of the measures where Greece and EU/IMF agreed on is a further cut in pensions. A final agreement is still uncertain, as PM Tsipras mentioned last week that debt relief is a requirement or he will not enforce the new measures. Lastly, also the parliament needs to agree on the new measures.

## Spain

The Spanish economy continues to surprise to the upside. Registered unemployment declined significantly in April, a further prove of the labor market recovery. This is supporting the Spanish consumer, with confidence figures rising to the highest point since January 2016 and a strong rebound in retail sales in April.

## Robeco Euro Government Bonds

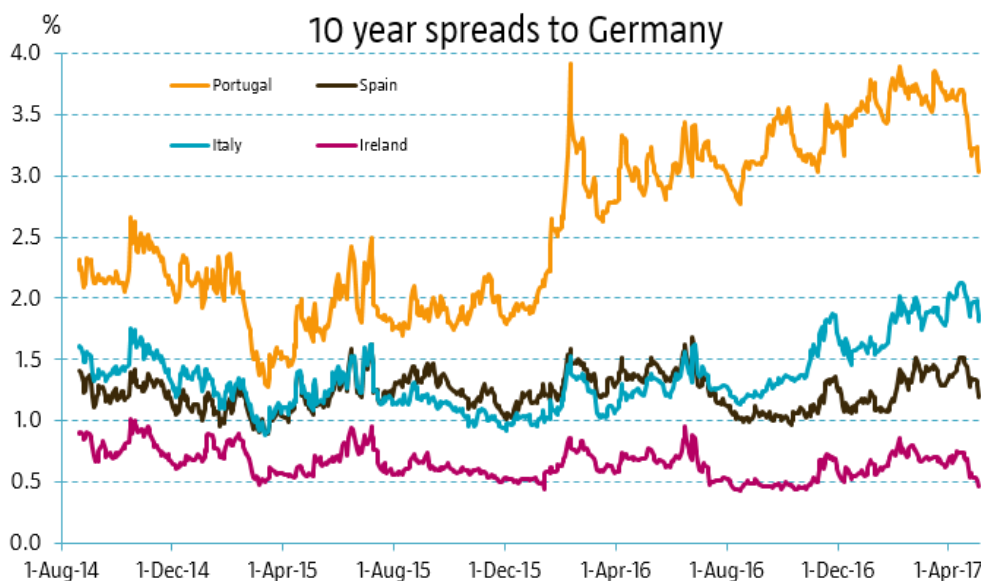
The current positioning in Italy and Spain is neutral. Country spreads have tightened in recent weeks, as risks concerning the French election has abated somewhat. A further relief rally is possible if Macron wins the 2nd round this Sunday, as we expect. On a longer horizon, the withdrawal of the ECB's extraordinary stimulus looms and our fundamental view especially on Italy remains bearish. We maintain our overweight position in Ireland. Irish bond spreads are attractive given the improved Irish fundamentals and its strong ESG scores. Currently the fund is 39% invested in peripheral bonds, in line with the index. Year-to-date the fund's absolute return is -1.01%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, May 4, 2017.  
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Current spreads and the movement over time

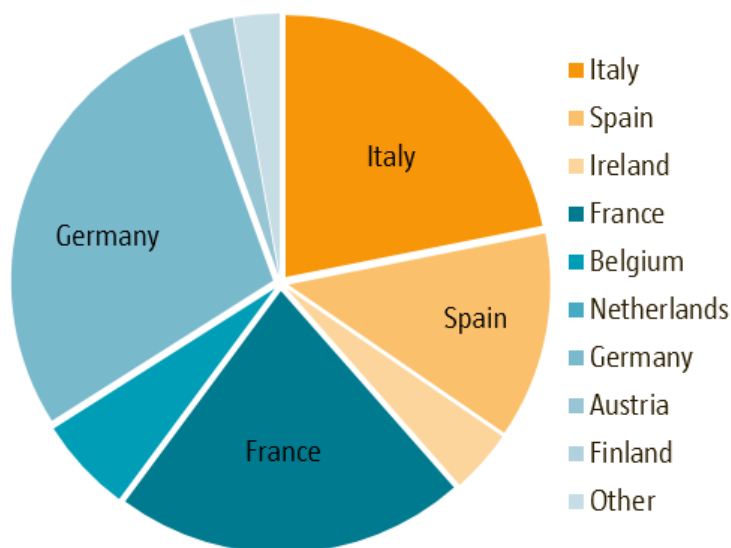
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.72	0.15									
2	-0.70	0.26	0.56	0.40	0.09	0.16	0.14		0.28	0.06	1.07
3	-0.64	0.21	0.85	0.53	0.11	0.19	0.20	7.7	0.24	0.08	1.30
4	-0.51	0.24	0.89	0.54	0.11	0.21	0.21		0.20	0.09	1.61
5	-0.34	0.27	1.31	0.72	0.07	0.21	0.15		0.28	0.17	2.20
6	-0.21	0.31	1.42	0.78	0.16	0.22	0.11		0.36	0.11	2.63
7	-0.08	0.35	1.73	1.01	0.19	0.34	0.12		0.47	0.16	2.73
8	0.07	0.42	1.75	1.13	0.22	0.40	0.16			0.07	2.84
9	0.21	0.46	1.79	1.20	0.23	0.40	0.15		0.47	0.15	2.92
10	0.38	0.44	1.81	1.18	0.21	0.40	0.27	5.49	0.46	0.06	3.05
15	0.59	0.59	2.11	1.40		0.53	0.46	5.85	0.71	0.30	3.22
20	0.88	0.62	1.94			0.33	0.30	5.64			3.10
30	1.16	0.63	2.11	1.72	0.06	0.62	0.36			0.18	3.04

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (May 4, 2017)



Source: Robeco

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