

# Peripheral Europe Update

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- **Draghi doesn't signal further easing yet**
- **EU funds for Spain to be frozen as sanction?**

## Main market events

Spanish bonds performed well as the long-awaited launch of the new 10-year bond was well-received. The ECB meeting did not move markets. As Italy skipped the mid-August bond auction, bond supply will now slow down for the summer break. Italian bonds have returned 3.59% this year, Spanish bonds 5.6%, Portuguese bonds -1.23% and Irish bonds 4.61%.

## ECB

The ECB did not announce any new measures at its July press conference. Brexit was mentioned as a downside risk to growth, but the ECB downplayed its importance by referring to the benign market reaction to the vote. Draghi failed to signal further easing measures for the September meeting. When asked about potential limits to the QE program, Draghi referred to the ECB's track record of flexibility in adjusting the program to maintain its size.

## Weidmann

Bundesbank president Weidmann admitted that the ECB might discuss changes to the QE program after Summer. The program nears the limits on buying German bonds. He warned, however, that the legal limits of the ECB's mandate need to be considered. He clearly doesn't favor buying more peripheral debt instead of German bonds.

## Spain

The independent fiscal watchdog AIReF increased its 2016 budget deficit projection to 4.1%-4.7%, citing a progressive deterioration in fiscal compliance. Spanish newspapers reported that EU structural funds (subsidies for Spanish regions) and 60 EU investment projects in Spain will be frozen as part of sanctions for breaching the fiscal rules. Spain's acting government reportedly asked for another extension of the deadline to reduce the deficit to less than 3%.

## Portugal

Finance Minister Centeno formally requested the EU to cancel sanctions on Portugal, threatening that imposing fines would strongly reduce the support for the European project in Portugal.

## Robeco Euro Government Bonds

We maintain our cautious stance towards euro periphery debt, despite the ECB's QE program. The lack of further reforms and the failure to improve public finances sufficiently in the current benign environment makes the periphery vulnerable. The Brexit will have ramifications for the peripheral countries, since it will result in further uncertainty and lower economic growth. Consensus positioning is overweight in the periphery and valuation is not really compelling.

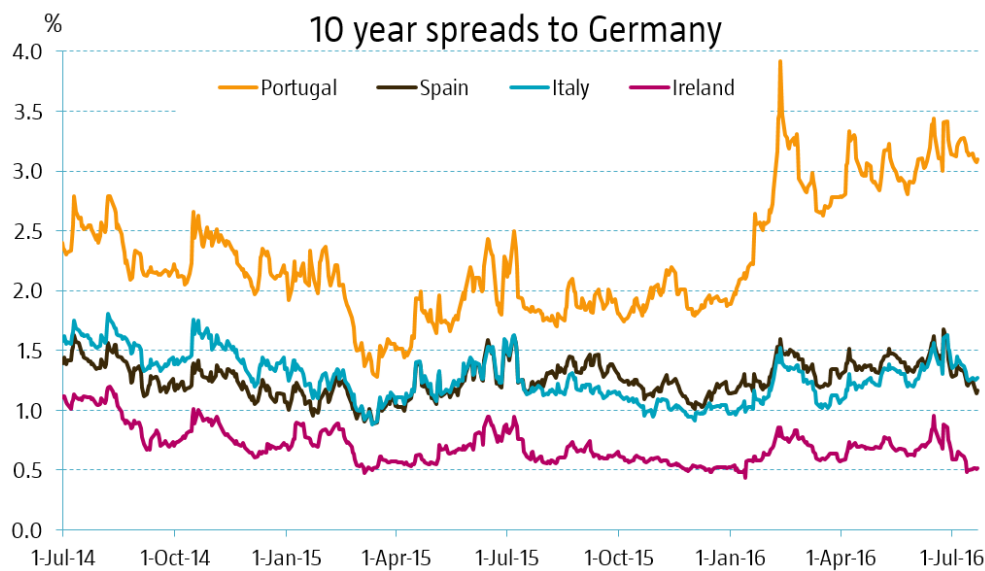
We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. The holdings of peripheral bonds are unchanged at 24%, versus 39% in the benchmark. Year-to-date the fund's absolute return is 5.69%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD July 21, 2016.  
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

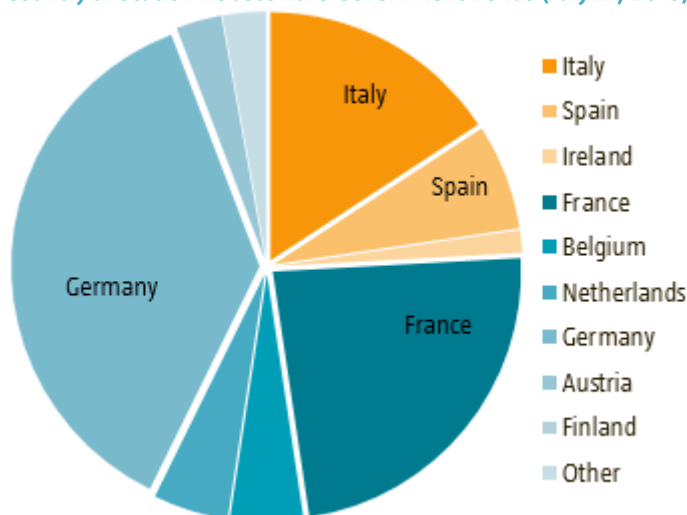
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.60	0.07									
2	-0.61	0.09	0.56	0.46	0.06	0.06	0.11		0.20	0.06	1.30
3	-0.62	0.15	0.63	0.55	0.08	0.12	0.15	9.9	0.28	0.08	1.86
4	-0.57	0.15	0.70	0.61	0.04	0.10	0.13		0.32	0.13	2.21
5	-0.48	0.15	0.81	0.71	0.09	0.08	0.11		0.48	0.08	2.41
6	-0.44	0.17	0.96	0.75	0.07	0.14	0.12		0.37	0.16	2.14
7	-0.37	0.21	1.08	0.88	0.11	0.16	0.08		0.48	0.14	2.79
8	-0.26	0.21	1.18	1.12	0.13	0.22	0.02			0.12	
9	-0.13	0.23	1.23	1.12	0.13	0.24	0.20		0.56	0.10	3.03
10	0.00	0.24	1.27	1.16	0.12	0.27	0.22	7.99	0.51	0.15	3.10
15	0.13	0.42	1.51	1.37		0.47	0.01	7.76	0.63	0.27	3.34
20	0.33	0.48	1.62			0.34	0.30	7.43			
30	0.52	0.48	1.79	1.74	0.08	0.59	0.34			0.09	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (July 21, 2016)



Source: Robeco

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