

# Peripheral Europe Update

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- **ECB disappoints market by keeping policy unchanged**
- **Portuguese PM Costa announces additional spending, while EC demands more austerity**

## Main market events

On balance Italian and Spanish bonds moved in line with German bonds this week. A modest spread tightening at the start of the week was reversed after the ECB disappointed somewhat. The spread widening of Portuguese bonds continued. Italian bonds have returned 4.34% this year, Spanish bonds 6.51%, Portuguese bonds -0.80% and Irish bonds 5.03%.

## ECB

The ECB disappointed the market somewhat by not announcing any new stimulus measures, nor any changes in the technicalities of the bond purchase program. ECB president Draghi did announce that the staff is investigating options to ensure a smooth implementation of the purchase program. In the press conference, Draghi also hinted on a continuation of the program beyond March 2017, but this was not officially announced.

## Portugal

PM Costa announced he will present additional spending in his 2017 budget. According to Portuguese media the plans would include cutting the income tax, making the income tax system more progressive and increasing minimum wages and pensions. These plans are at odds with the demands from the European Commission. Only two months ago, plans to fine the Portuguese government for breaching fiscal rules were cancelled because Finance Minister Centero promised additional austerity measures worth 0.3% GDP.

## Italy

Italian PM Renzi has publicly confirmed that he will step down if the Italian public would reject the constitutional reform. The referendum on the reform is delayed somewhat to the 15 November – 5 December period.

## Greece

The Eurogroup has decided to delay the release of the next (EUR 2.8bn) tranche in the Greek bailout program. Greece has yet only delivered on two out of the fifteen reform “milestones”. The 15 September deadline will most likely not be met, but comments from amongst others German Finance minister Schauble remained optimistic on Greece fulfilling the requirements.

## 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 make the periphery vulnerable to economic shocks, political risks or financial-market volatility. Consensus positioning is overweight in the periphery.

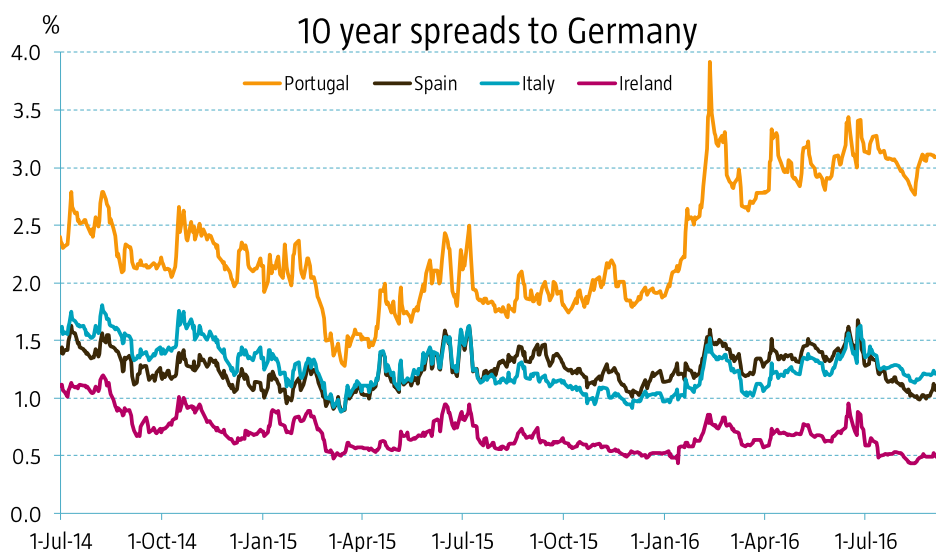
We have kept positioning in the periphery stable this week. The fund currently doesn’t hold any short-dated bonds of Italy and Spain due to the unattractive valuations. Currently the fund is 22% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund’s absolute return is 6.18%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD September 8th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

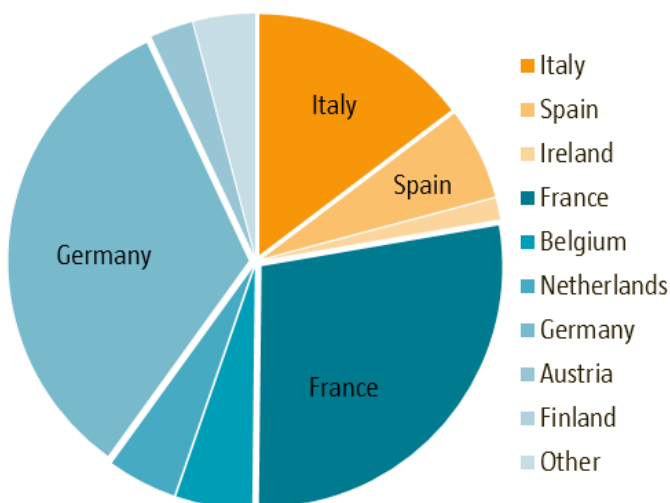
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.59	0.03									
2	-0.63	0.05	0.55	0.50	0.05	0.07	0.10		0.28	0.05	1.14
3	-0.63	0.10	0.66	0.59	0.05	0.11	0.12	9.7	0.27	0.06	1.58
4	-0.59	0.11	0.68	0.64	0.03	0.09	0.12		0.29	0.11	2.15
5	-0.50	0.13	0.79	0.68	0.09	0.08	0.10		0.50	0.05	2.37
6	-0.45	0.18	0.92	0.71	0.06	0.10	0.11		0.30	0.10	2.15
7	-0.38	0.19	1.04	0.83	0.09	0.13	0.09		0.37	0.12	2.79
8	-0.28	0.27	1.13	1.03	0.11	0.18	0.02			0.13	3.16
9	-0.15	0.29	1.20	1.05	0.13	0.22	0.17		0.50	0.10	3.12
10	0.00	0.30	1.23	1.06	0.10	0.23	0.18	8.28	0.46	0.13	3.14
15	0.16	0.44	1.43	1.27		0.47	-0.06	8.00	0.62	0.23	3.41
20	0.39	0.51	1.51			0.33	0.26	7.58			3.43
30	0.60	0.49	1.70	1.58	0.06	0.57	0.31			0.08	3.39

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (September 8, 2016)



Source: Robeco

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