

# Peripheral Europe Update

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- **Periphery rallies as low German yields spur search for yield**
- **Spanish public debt rises to new record of EUR 1 trillion**

## Main market events

Peripheral spreads tightened as geopolitical tensions waned and risk sentiment returned. Disappointing growth numbers and low inflation briefly pushed German 10-year yields below 1% for the first time ever. This spurred the demand for higher yielding assets, with sizeable buying in semi-core countries like France and Belgium and even more so in periphery. Spanish bonds have returned 11.8% year to date, Italian bonds 10.6% and Irish bonds 9.9%.

## Eurozone

Eurozone GDP growth slowed to 0.0% in the second quarter, due to a contraction in Germany (-0.2%) and Italy (-0.2%) and a lack of growth in France (0.0%). Spain and Portugal grew by 0.6% and the contraction in Greek GDP slowed. This underlines Draghi's remarks last week about the difference between countries that have implemented reforms and those that haven't.

## Ireland

Due to stronger growth and resulting strong tax receipts, Ireland expects to record a deficit closer to 4% of GDP than to the 5.1% limit agreed with the EU for this year.

## Spain

Spanish public debt rose to a new record of EUR 1 trillion (98.5% of GDP) in June 2014.

## Italy

The Italian upper house passed the first of four readings for the crucial senate reform, which reduces the size (from 315 to 100) and the powers of the upper house, with 183 votes in favor, 4 abstentions and no votes against. The vote confirms a broad majority in favor of institutional reforms.

## Portugal

Portugal's Constitutional Court has rejected a government proposal to cut salaries for public sector employees between 2016 and 2018 and to impose a tax on public sector pensions. The court approved the salary cuts for public sector workers in 2014 and 2015.

## Robeco Euro Government Bonds

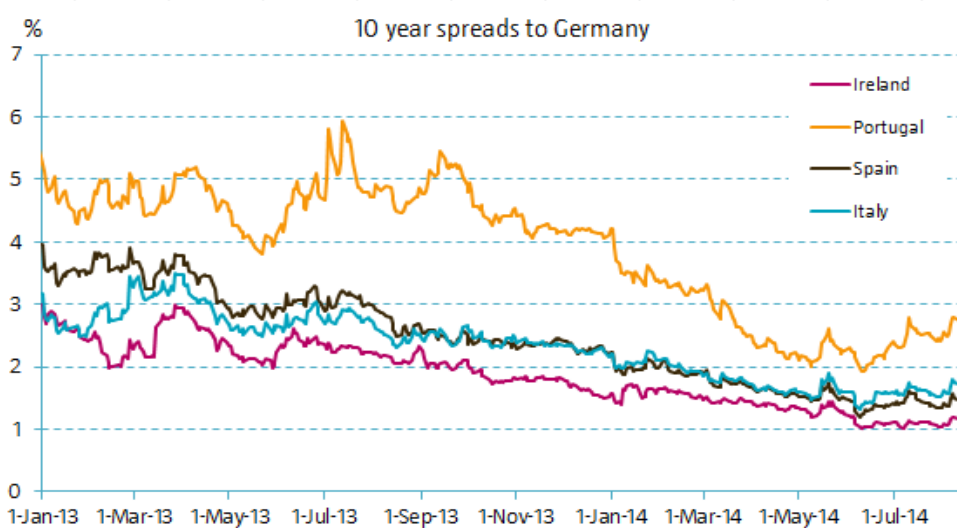
We remain positive on peripheral bond markets as these bonds are attractive in the current low yield environment and given the supportive stance from the ECB and the EU. This week's market developments demonstrate the power of this theme. Spanish, Italian, Irish and Portuguese debt make up 57% of the fund, more than half of which is Italian. Year to date the fund's absolute performance is 9.37%\*, helped by the strong performance of periphery bonds.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD August 14, 2014.  
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

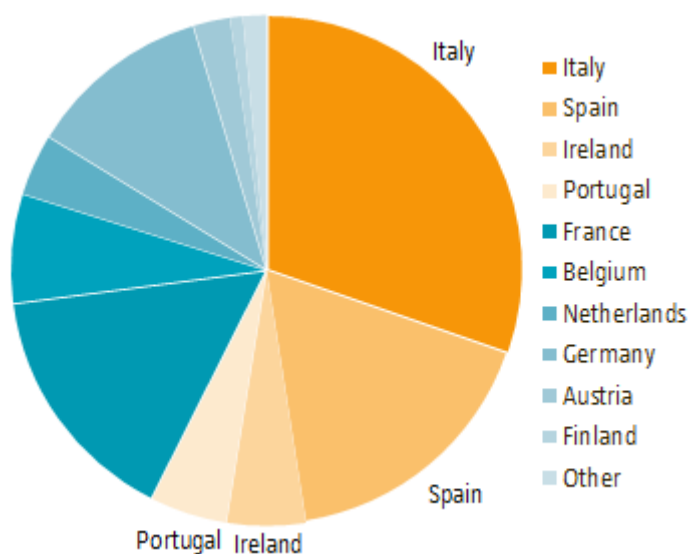
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	0.01	0.02									
2	0.00	0.06	0.35	0.20	0.04	0.04	0.03		0.04	0.04	0.67
3	0.01	0.11	0.62	0.47	0.07	0.10	0.10	3.62	0.30	0.09	1.01
4	0.09	0.18	0.83	0.65	0.05	0.13	0.14		0.41	0.15	1.40
5	0.22	0.22	1.00	0.74	0.04	0.21	0.12	4.27	0.39	0.14	1.76
6	0.35	0.15	1.18	0.89	0.15	0.23	0.17		0.59	0.17	1.93
7	0.50	0.18	1.29	0.98	0.17	0.26	0.22		0.51	0.17	2.17
8	0.69	0.19	1.50	1.04	0.18	0.31	0.14			0.25	
9	0.85	0.25	1.51	1.35	0.20	0.33	0.26		0.91	0.19	2.48
10	1.01	0.38	1.60	1.42	0.18	0.37	0.27	4.91	1.01	0.18	2.48
15	1.41	0.55	1.82	1.61		0.36	0.04	5.31		0.18	
20	1.76	0.37	1.76			0.44	0.08	5.19			
30	1.90	0.48	1.92	1.75	0.07	0.54	0.12	4.74			

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (August 15, 2014)



Source: Robeco

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