

# Peripheral Europe Review 2014

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds  
Stephan van IJendoorn, Portfolio Manager Rates

- **ECB cuts rates to negative and start bond buying programs**
- **Growth returned in Ireland and Spain, political risks in Italy reduced**
- **Greece remains Europe's 'problem child'. Clash with Troika threatens**

## Main market events

Peripheral bond markets had a tremendous year in 2014, with Spanish bonds returning 16.9%, Italian bonds 15.7% and Irish bonds 13.9%. Only Greek bonds posted negative returns of -0.9%. Increased stimulus from the ECB and the resulting "search for yield" boosted peripheral bond returns. The improving fundamentals also enticed foreign investors to return to these markets.

## European Central Bank

In the Euro area growth disappointed and inflation fell. The ECB responded by cutting rates, pushing the deposit rate into negative territory, offering cheap 4-year loans to banks and buying covered bonds and ABS. Buying government bonds is widely expected to be the next step.

## Ireland

Ireland was the first country to exit its bailout program. It regained its investment grade rating from Moody's, GDP growth accelerated to more than 7% in Q2, the budget deficit fell below 4% and the bad bank NAMA has worked off more than half of its assets, 2 years ahead of schedule.

## Spain

The Spanish economy gained traction: it grew at a 2% annualized pace in the recent quarters, driven by domestic demand. Political risks increased in Spain, with Catalonia trying to organize a referendum on independence. The Treasury launched a 50-year bond.

## Italy

Renzi replaced Letta as prime minister, pushing for more and quicker reforms. Reforms to prevent political gridlock and labor market reforms are currently in the parliamentary approval process. Italy is still struggling with slightly negative GDP growth.

## Greece

Greece issued some bonds in the market early in 2014, but yields rose strongly again towards the end of the year as the government fell. Elections will be held this month. The anti-austerity Syriza party is currently leading the polls. Current funding is only sufficient for the first few months.

## Robeco Euro Government Bonds

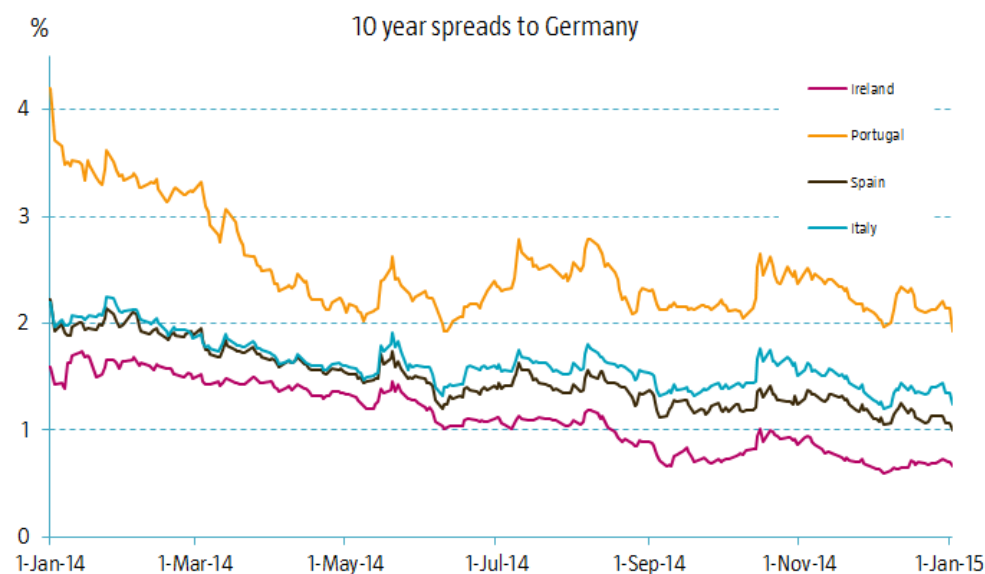
We have been overweight peripheral bond markets throughout the year. In the first part of the year we gradually shifted our positioning from short-dated to somewhat longer bonds to stay ahead of the flattening of the spread curves. In the second half we benefited several times from temporary spread widening by adding to our periphery exposure tactically. Year-to-date the fund's absolute performance is 13.89%\*, helped by the strong performance of periphery bonds.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD December 31, 2014. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

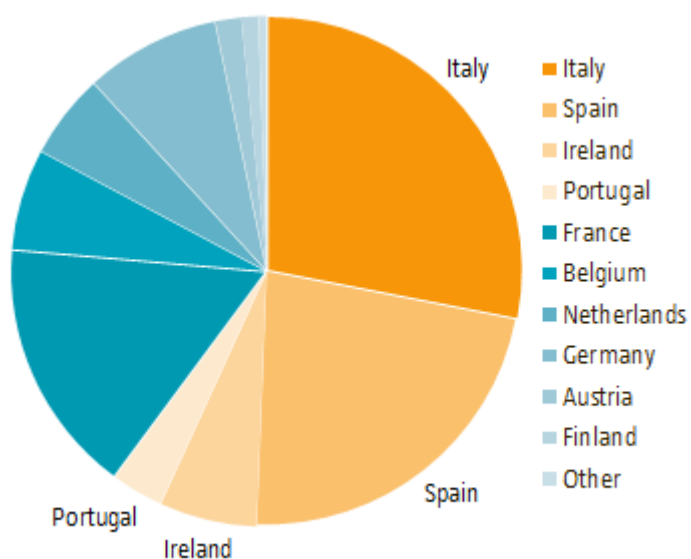
maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0.09	0.04										
2	-0.11	0.06	0.54	0.50	0.04	0.06	0.06		0.15	0.04	0.55	
3	-0.09	0.04	0.70	0.62	0.03	0.05	0.05	13.7	0.36	0.02	0.97	
4	-0.08	0.10	0.83	0.71	0.07	0.07	0.05		0.40	0.06	1.16	
5	-0.01	0.14	0.86	0.84	0.07	0.09	0.08	11.2	0.39	0.03	1.38	
6	0.03	0.18	1.01	0.89	0.08	0.15	0.09		0.52	0.07	1.55	
7	0.11	0.21	1.21	0.99	0.11	0.18	0.10		0.45	0.10	1.70	
8	0.21	0.23	1.27	1.08	0.12	0.24	0.16			0.17		
9	0.31	0.23	1.28	1.08	0.15	0.25	0.16		0.72	0.12	2.12	
10	0.46	0.28	1.32	1.10	0.11	0.26	0.14	9.24	0.72	0.08	2.08	
15	0.72	0.54	1.76	1.47		0.33	0.01	9.24	1.05	0.15	2.65	
20	0.97	0.48	1.82			0.48	0.15	8.34				
30	1.21	0.52	1.89	1.65	0.06	0.52	0.10	7.18		0.01		

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (December 31, 2014)



Source: Robeco

**Important information**

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