

Peripheral Europe Update

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- **ECB staff preparing EUR 500 billion government bond purchasing program**
- **Greek bond yields rise as fears of further debt restructuring increase**

Main market events

Peripheral bond markets had a great start of the year on January 2, but this New Year rally lasted only one day. On the one hand, investors are cautious as Greek elections are due on January 25; on the other hand expectations are rising that the ECB will announce some form of government bond buying at their January 22 meeting.

European Central Bank

ECB President Draghi confirmed in a letter to the European Parliament that the ECB could buy sovereign bonds as well. Bloomberg reported that ECB staff has presented several options for the design of a EUR 500 billion purchasing program of government bonds.

Ireland

Ireland started the year with a new 7-year bond auction. They issued EUR 4 billion at a record low 0.9% yield. They will use the money to repay IMF loans, which carry 5% interest.

Spain

Spanish HICP inflation fell to -1.1%, far below expectations. Eurozone CPI as a whole fell to -0.2%, the first negative inflation print since October 2009. Inflation expectations in the inflation-linked swap market kept falling as well, putting further pressure on the ECB to deliver more stimulus.

Italy

Consumer confidence in Italy continues to deteriorate. The December outcome was the fifth consecutive drop. Unemployment rose to 13.4%, a new record high. Italy badly needs growth. Structural reforms are being discussed in parliament, but have not been implemented yet.

Greece

The Greek parliament failed to elect a president in three rounds of elections. New government elections will take place on January 25. Anti-austerity party Syriza is currently leading the polls. Yields on Greek 3-year bonds briefly rose to 15% as investors fear another debt restructuring. Syriza leader Tsipras says his party is pushing for change, but not for exiting the euro.

Robeco Euro Government Bonds

We remain positive on peripheral bond markets as fundamentals are improving and the ECB's policy remains very supportive. Peripheral bonds remain attractive amidst the search for yield. We prefer Spain to Italy at similar spread levels based on better economic fundamentals. Peripheral bonds make up 60% of the fund, with overweight positions in Ireland, Spain and Portugal. Year-to-date the fund's absolute performance is 0.24%*. Last year the fund returned 13.89%*, helped by the strong performance of peripheral bonds.

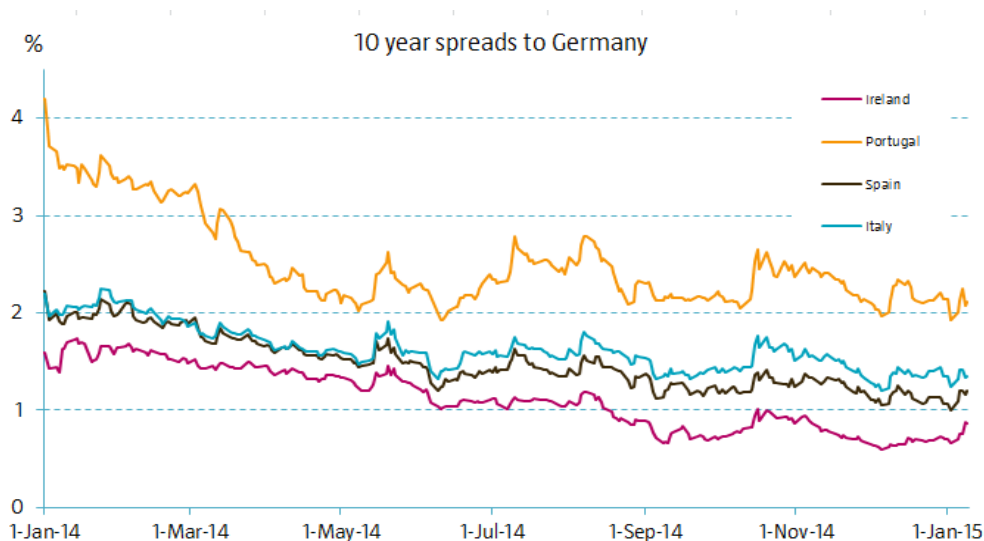
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD January 8, 2015.

The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

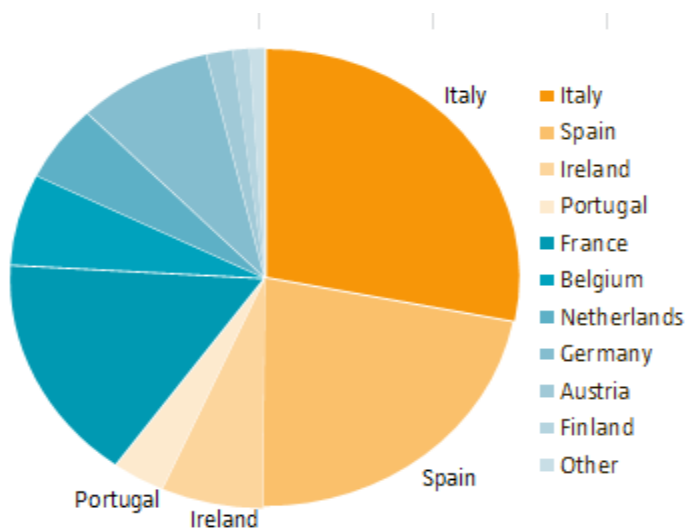
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.10	0.01									
2	-0.12	0.06	0.60	0.52	0.02	0.07	0.04		0.18	0.02	0.59
3	-0.10	0.07	0.79	0.69	0.05	0.11	0.06	13.5	0.40	0.05	1.07
4	-0.07	0.11	0.92	0.81	0.08	0.17	0.06		0.42	0.08	1.34
5	0.01	0.15	0.96	0.96	0.08	0.18	0.10	11.5	0.64	0.04	1.52
6	0.04	0.20	1.11	1.02	0.09	0.26	0.11		0.63	0.08	1.67
7	0.13	0.22	1.32	1.14	0.12	0.35	0.13		0.76	0.12	1.86
8	0.23	0.26	1.34	1.21	0.14	0.36	0.19			0.19	
9	0.35	0.24	1.32	1.20	0.15	0.39	0.18		0.86	0.12	2.19
10	0.51	0.28	1.35	1.20	0.11	0.36	0.14	9.65	0.87	0.08	2.11
15	0.79	0.52	1.82	1.55		0.30	0.00	9.36	1.00	0.15	2.64
20	1.02	0.48	1.91			0.46	0.15	8.40			
30	1.28	0.49	1.98	1.75	0.06	0.49	0.10	7.09		0.01	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 9, 2015)



Source: Robeco

Important information

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