

# Peripheral Europe Update

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

- **Portugal's government program put to the vote**
- **Spain risks large deficit overshoot**

## Main market events

Peripheral bonds underperformed German bonds this week. This can partly be attributed to increasing political tensions in Spain and Portugal, but also to declining market expectations of a large-scale increase of the QE program by the ECB in December. Portuguese bonds have returned 2.8% this year, Italian bonds 4.0%, Irish bonds 1.3% and Spanish bonds 1.3%.

### Portugal

Portugal's new centre-right minority government presented its program. Parliament will vote on it next week. The program includes some easing of austerity to try to gain support from part of the socialist party. For the government to survive, up to eight abstentions in the opposition are necessary. If the program is voted down, the President has to nominate a new prime minister.

### Greece

The ECB stress test on the four main Greek banks showed recapitalization needs of EUR 14.4bln. Greek parliament approved further bailout measures, needed for disbursement of the next EUR 2bln tranche. The IMF asked for a debt relief agreement for its participation in the 3rd bailout.

### Italy

2015 GDP growth projections were revised up to 0.9% by both ISTAT and the EU commission. Stronger domestic demand is cited as the main driver of the improved economic outlook.

### Spain

Spanish fiscal deficit will overshoot targets in 2015 to 2017 according to the EU Commission. Although the deficit continues to decline in coming years due to cyclical factors, EU projections differ 0.5% (2015) to 1.2% (2017) compared to the Spanish government's forecasts.

## Robeco Euro Government Bonds

We continue to see the ECB's QE program, the generally supportive stance of EU policy makers towards the periphery and the improvement in growth as positives for peripheral debt. On the other hand risk aversion in wider financial markets (related to emerging markets, commodities and expected FED tightening) and further political uncertainty might weigh on the periphery.

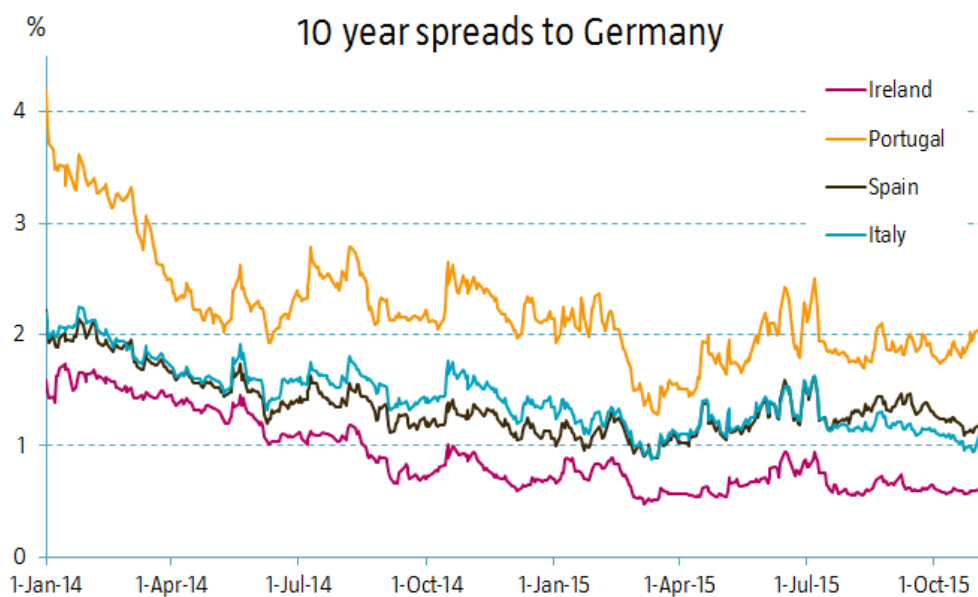
Overall the fund has significantly reduced its periphery exposure in recent weeks. Currently the fund has overweight positions in Portugal and Ireland versus underweight positions in Spanish and Italian bonds. Portugal benefits disproportionately from QE and strong economic growth is rapidly improving the Irish debt metrics. Peripheral bonds make up 28% of the fund. Year-to-date the fund's absolute performance is 1.37%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 6, 2015. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

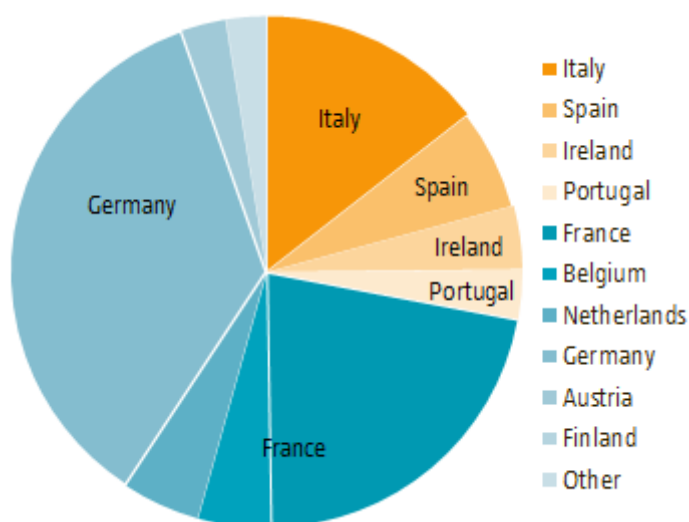
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.36	0.11									
2	-0.32	0.07	0.38	0.37	0.02	0.05	0.06		0.14	0.03	0.58
3	-0.28	0.11	0.44	0.48	0.05	0.05	0.06	22.6	0.20	0.07	0.80
4	-0.20	0.15	0.52	0.64	0.05	0.11	0.09		0.28	0.07	1.15
5	-0.07	0.17	0.64	0.78	0.03	0.11	0.04	16.1	0.34	0.09	1.39
6	0.01	0.21	0.81	1.06	0.09	0.17	0.14		0.52	0.08	1.63
7	0.13	0.26	1.03	1.21	0.11	0.23	0.22		0.64	0.20	1.97
8	0.28	0.26	1.01	1.23	0.15	0.23	0.23			0.17	
9	0.44	0.31	1.10	1.27	0.15	0.25	0.24		0.69	0.18	1.83
10	0.60	0.34	1.10	1.23	0.17	0.29	0.27	7.15	0.57	0.26	2.03
15	0.88	0.61	1.28	1.51		0.30	0.10	6.87	0.81	0.42	2.32
20	1.16	0.44	1.28			0.46	0.29	6.60			
30	1.43	0.49	1.37	1.58	0.15	0.49	0.24	7.37		0.07	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 6, 2015)



Source: Robeco

**Important information**

This statement is intended for professional investors. Robeco Institutional Asset Management B.V. has a license as manager of UCITS and AIFs from the Netherlands Authority for the Financial Markets in Amsterdam. This document is intended to provide general information on Robeco's specific capabilities, but does not constitute a recommendation or an advice to buy or sell certain securities or investment products. The prospectus and the Key Investor Information Document for the Robeco Funds can all be obtained free of charge at [www.robeco.com](http://www.robeco.com).