ROBECO

Peripheral Europe Update

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

- **Spain's bonds draw massive demand of EUR 29bln from investors**
- **Greek pension reform proposed**

Main market events

Peripheral bonds traded more or less in line with German bonds this week. Spanish bonds underperformed in the run up to the new bond issuance, but this quickly reversed after the overwhelming demand for the bond. Italian bonds have returned 0.2% this year, Portuguese bonds -0.9%, Spanish bonds -0.1% and Irish bonds 0.6%.

Spain

Spain launched a new 10-year bond this week. Demand for the issue was massive, with an order book of over EUR 29bln. The Spanish Treasury issued EUR 9bln of this new bond and EUR 4.3bln of other bonds, which is about 11% of the total gross funding needs for the whole of 2016.

Spain's 2016 budget requires extra fiscal consolidation measures in order to comply with the Stability and Growth Pact. The next Spanish government will need to cover the fiscal deviation. The fact that the Catalan pro-independence parties formed a new regional government might lead to the quick formation of a 'grand coalition' to respond to the Catalan secession threat.

Portugal

The EU Commission expects to receive the Portuguese 2016 draft budget in coming days, so the Eurogroup can review it at its February 11 meeting. The relaxation in the fiscal position relative to previously agreed targets is likely to face opposition in Brussels.

Greece

The ECB has informed Greece that passing the pension reform will constitute a key step towards the completion of the first review, which means Greek bonds can be accepted by the ECB as collateral. This allows Greek banks to make use of cheap ECB funding (0.05% interest rate).

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. But these positives are partly reflected in current valuations. We remain cautious towards Spanish bonds as we expect the political uncertainty to continue in coming months, and towards Italian bonds due to valuations.

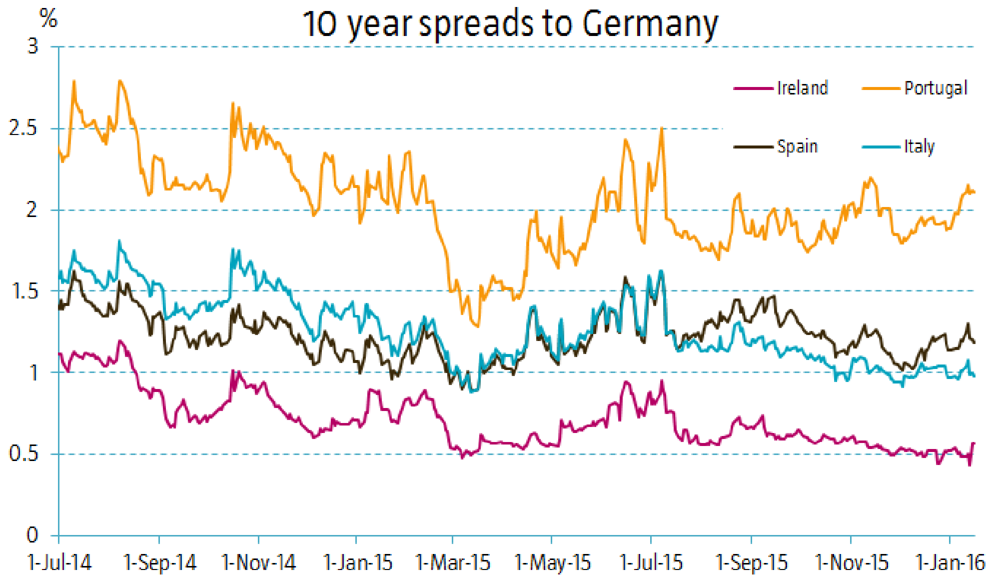
The fund has overweight positions in Portugal and Ireland and underweight positions in Spain and Italy. We used the Spanish auction this week to buy some Spanish bonds versus Italian bonds. We like Portuguese bonds as they benefit disproportionately from QE. Strong economic growth is rapidly improving the Irish debt metrics. Peripheral bonds make up 32% of the fund. Year-to-date the fund's absolute return is 0.37%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD January 14, 2016.
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

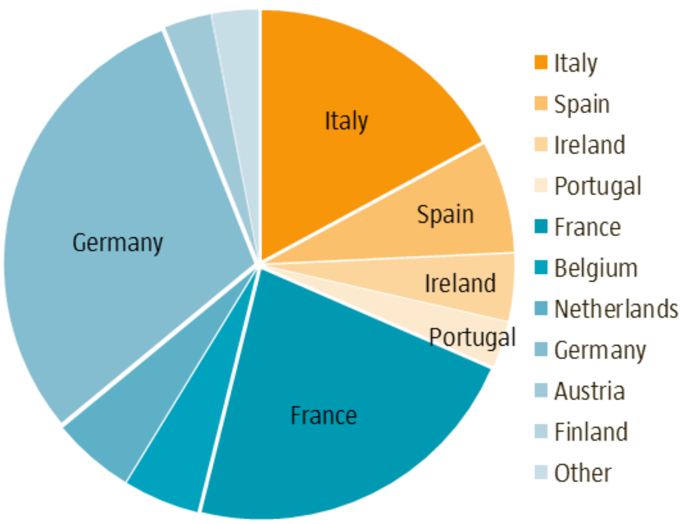
		Spreads									
maturity	German yields	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.39	0.04									
2	-0.39	0.05	0.40	0.40	-0.01	0.03	0.04		0.09	0.00	0.49
3	-0.36	0.15	0.45	0.50	0.04	0.08	0.08	9.5	0.21	0.07	0.64
4	-0.28	0.19	0.64	0.65	0.07	0.15	0.13		0.30	0.08	1.00
5	-0.14	0.20	0.71	0.81	0.05	0.14	0.08	16.2	0.29	0.12	1.32
6	0.00	0.17	0.85	1.00	0.05	0.15	0.09		0.34	0.05	1.48
7	0.13	0.22	0.88	1.13	0.07	0.19	0.17		0.43	0.14	1.89
8	0.27	0.22	0.90	1.14	0.10	0.21	0.18			0.13	
9	0.44	0.27	0.98	1.21	0.08	0.22	0.19		0.56	0.13	1.84
10	0.57	0.32	0.98	1.19	0.12	0.28	0.24	8.03	0.57	0.25	2.10
15	0.81	0.65	1.16	1.48		0.71	0.14	7.87	0.75	0.49	2.47
20	1.09	0.51	1.17			0.53	0.35	7.53			
30	1.33	0.58	1.31	1.58	0.12	0.58	0.29	7.46		0.12	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 14, 2016)



Source: Robeco

Important information