

# Peripheral Europe Update

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- **Markets driven by ECB exit strategy rumor**
- **Spanish socialist leader Sanchez resigns**

## Main market events

Markets were driven by rumors that the ECB has reached consensus on tapering its QE program, once the decision is taken to end the program. The week started with a risk-on sentiment as German bond yields rose. After the ECB rumor the move to higher yields continued. Peripheral spreads barely moved on the news. Only Portugal continued its trend to higher spreads versus Germany. Italian bonds have returned 3.09% this year, Spanish bonds 6.35%, Portuguese bonds -2.82% and Irish bonds 4.62%.

## ECB

Although the taper rumor was quickly denied by the ECB, the news did push German yields higher as some market participations feared that the ECB is about to start the exit of the QE program. Also several Governing Council members underscored that the deposit rate should not be reduced further and that low interest rates for a prolonged period could be damaging.

## Spain

Socialist party leader Sanchez (PSOE) resigned after losing a confidence vote. Sanchez refused to change its stance to allow a PP led government, which resulted in a further deterioration of the socialist party in the polls. His resignation increases the chance of a PP led minority government.

## Italy

5 Star Movement again called for early elections if the upcoming referendum on constitutional reform results in a No vote. In addition, the party also promised to hold a referendum on the membership of the Euro. Recent polls show that support for a No vote is growing, although a significant amount of the voters are still undecided.

## Robeco Euro Government Bonds

We maintain our cautious stance towards euro periphery debt, despite the ECB's QE program. The lack of further reforms and the failure to improve public finances sufficiently in the current benign environment make the periphery vulnerable to economic shocks, political risks or financial-market volatility. Consensus positioning is overweight in the periphery.

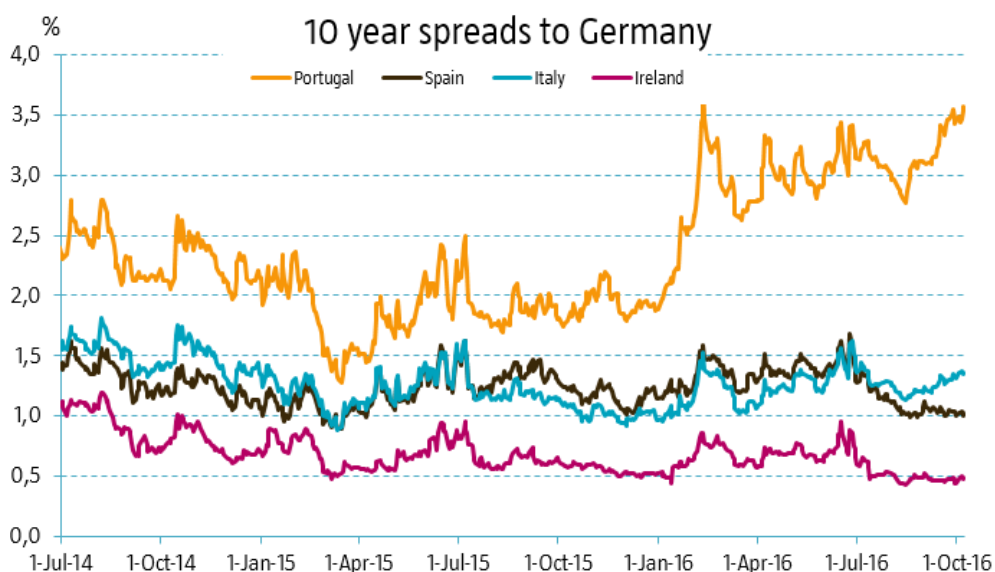
We have kept positioning in the periphery unchanged this week. The fund doesn't hold any short-dated bonds of Italy and Spain due to the unattractive valuations. Currently the fund is 22% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 5.36%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD October 6th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

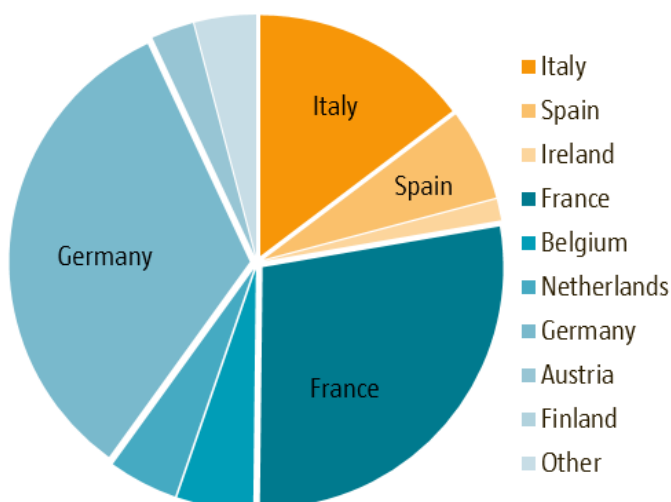
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,66	0,04									
2	-0,66	0,06	0,57	0,45	0,04	0,04	0,08		0,21	0,04	1,07
3	-0,66	0,10	0,69	0,53	0,06	0,11	0,12	9,5	0,25	0,08	1,70
4	-0,60	0,13	0,71	0,60	0,04	0,11	0,14		0,26	0,13	2,39
5	-0,49	0,14	0,84	0,60	0,10	0,09	0,11		0,50	0,06	2,61
6	-0,44	0,19	0,99	0,64	0,06	0,11	0,11		0,27	0,11	2,13
7	-0,37	0,20	1,12	0,74	0,08	0,14	0,09		0,37	0,13	3,05
8	-0,26	0,28	1,24	0,94	0,11	0,19	0,05			0,14	3,60
9	-0,13	0,31	1,33	0,98	0,15	0,25	0,22		0,53	0,12	3,54
10	0,03	0,30	1,35	1,00	0,12	0,24	0,22	8,26	0,48	0,14	3,58
15	0,18	0,46	1,58	1,21		0,49	0,01	8,19	0,66	0,27	3,88
20	0,43	0,49	1,65			0,33	0,31	7,75			3,85
30	0,66	0,49	1,81	1,51	0,08	0,58	0,34			0,08	3,81

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (October 6, 2016)



Source: Robeco

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