

# Peripheral Europe Update

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds  
Marck Bulter, Portfolio Manager

- Italian spreads increase to pre-Brexit levels
- Rajoy finally reelected

## Main market events

Bond markets were rather volatile this week. German Bunds rallied at the beginning of the week as risk sentiment declined with Trump advancing in the opinion polls. Later in the week German Bunds gave back some of their gains after hawkish comments from the Bank of England. Peripheral spreads increased this week, except for Portugal. Spreads widened the most in Italy, where bonds were hurt by the uncertainty surrounding the referendum. Italian bonds have returned 1.21% this year, Spanish bonds 5.30%, Portuguese bonds -1.37% and Irish bonds 3.75%.

## Italy

Italian spreads rose significantly this week, as uncertainty surrounding the constitutional referendum have increased. Spreads versus Germany are close to the highs of the year. Besides the referendum, the EU approval of the government budget for 2017 is a struggle. According to Italian media the EC is probably willing to except additional spending related to the earthquakes, but is likely to be critical on structural fiscal efforts. Spreads did get some brief support from rumors that the referendum would be postponed, but these rumors were later denied.

## Spain

Positive news from Spain. After almost one year, Spain has again a government. Rating agency Fitch expressed its doubts on the effectiveness of the new government. According to the rating agency, the PP-led minority government will remain fragile and it will be difficult to push through the structural reform agenda. In addition, Fitch expects the fiscal deficit to overshoot the target by 0.5pp in 2017 (3.6% of GDP vs a target of 3.1%).

## Portugal

The Portuguese Budgetary Support Unit has warned about significant deviation risks for the 2017 budget. The planned fiscal consolidation measures are probably not sufficient enough to reduce the structural fiscal deficit by 0.6pp, as requested by the EC. According to the Budgetary Support Unit, the government is rather optimistic about economic growth and tax revenues.

## 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.

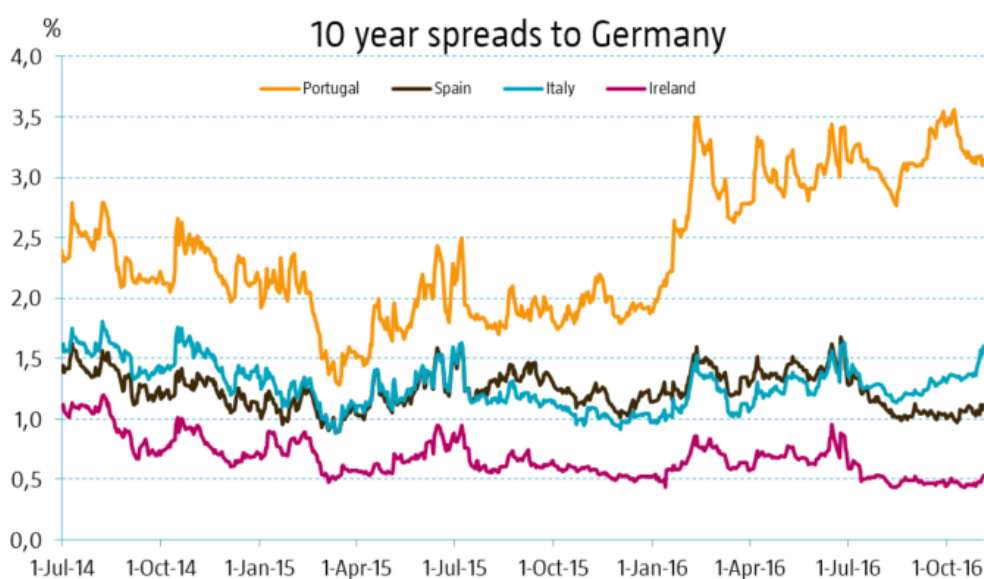
This week, we increased the underweight position in Italian government bonds. The fund doesn't hold any short-dated bonds of Italy due to the unattractive valuations. Currently the fund is 26% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 4.04%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 3rd, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

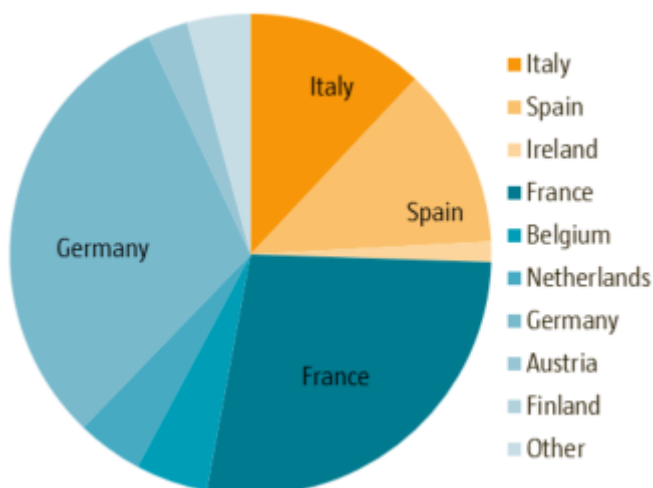
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,65	0,00									
2	-0,64	0,03	0,64	0,43	0,00	0,00	0,04		0,23	0,03	0,99
3	-0,63	0,07	0,77	0,53	0,03	0,11	0,09	8,4	0,27	0,05	1,47
4	-0,53	0,09	0,91	0,59	0,01	0,09	0,09		0,22	0,10	2,04
5	-0,43	0,13	1,10	0,63	0,09	0,09	0,11		0,43	0,04	2,30
6	-0,37	0,21	1,25	0,85	0,05	0,13	0,12		0,28	0,13	2,77
7	-0,29	0,22	1,43	0,95	0,11	0,15	0,10		0,36	0,17	3,08
8	-0,16	0,28	1,52	1,08	0,12	0,21	0,05			0,15	3,19
9	-0,02	0,33	1,52	1,13	0,15	0,26	0,19		0,53	0,13	3,16
10	0,14	0,32	1,60	1,12	0,12	0,26	0,20	7,67	0,54	0,15	3,15
15	0,31	0,45	1,79	1,29		0,47	-0,05	7,65	0,68	0,30	3,49
20	0,53	0,50	1,89			0,31	0,26	7,34			3,52
30	0,74	0,49	2,07	1,68	0,07	0,58	0,35			0,07	3,54

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 3, 2016)



Source: Robeco

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