

Peripheral Europe Update

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- **Spanish PM: approve the 2017 budget or face new elections**
- **No-votes Italian referendum advance in polls**

Main market events

German government bonds recovered somewhat this week, but peripheral bond yields continued to rise. All country spreads have increased since the election, also for higher rated EMU countries like France. This is driven by the combination of rising global bond yields and a strong focus on political risks. Italian bonds have returned -1.31% this year, Spanish bonds 2.85%, Portuguese bonds -3.59% and Irish bonds 2.22%.

Spain

Prime Minister Rajoy pressured the Socialist party (PSOE) this week to either accept the 2017 budget or to face a new round of general elections. Given that the PSOE is lagging in the polls, and the likely scenario that the PP party can form a majority government in case of new elections, it's likely that PSOE will support the budget. The fiscal plan for 2017 includes EUR5.5bn (0.5% of GDP) of austerity measures, which the PSOE initially said it would not support.

Italy

Similar to the last couple of weeks, Italian spreads rose further this week to levels last seen in 2014. The upcoming referendum is still the main market theme and recent polls show that the No-vote is increasing its lead. On a positive note rating agency S&P kept the BBB- rating with stable outlook and mentioned that the referendum won't have a significant impact on Italy's creditworthiness.

Portugal

The European Commission mentioned that the 2017 budget is at risk of non-compliance, but that these risks are rather contained. The softer stance on budget non-compliance is part of a new trend where the Commission argues for a more supportive fiscal policy.

Robeco Euro Government Bonds

We have used the general widening of country spreads to open an overweight position in Irish government bonds. Current spreads are attractive given the improved Irish fundamentals and its strong ESG scores. We have maintained the underweight position in Italian government bonds. Italy needs reforms to increase growth. Stronger growth is necessary to improve the sustainability of the public debt, to reduce bank NPLs and to reduce unemployment and hence political unrest. A no vote in the referendum will slow the implementation of reforms and could lead to a political crisis. Rising yield levels are also unfavorable given Italy's large public debt.

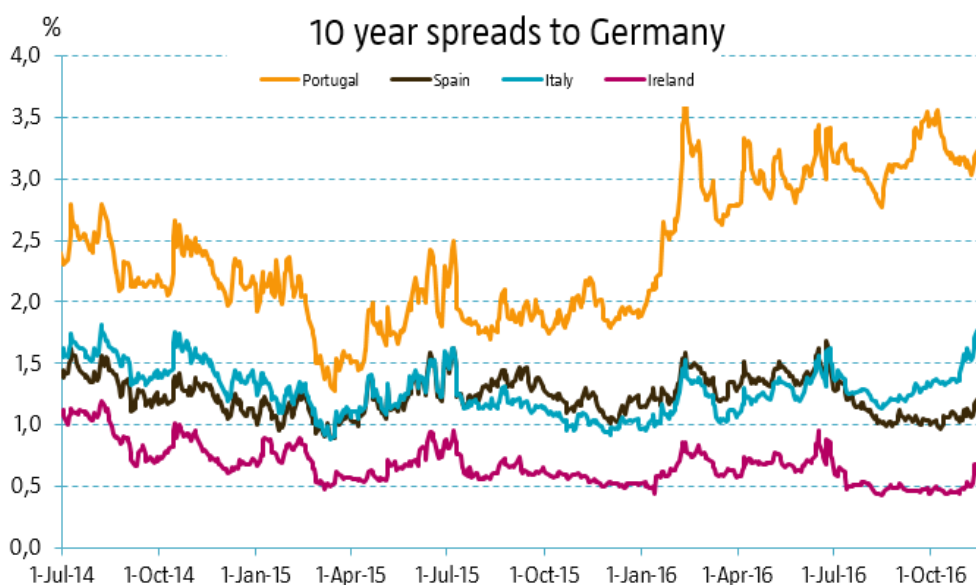
The fund doesn't hold any short-dated Italian bonds. Furthermore the fund has underweight positions in 10- and 30-year Italian bonds and an overweight position in 10-year Irish bonds. Currently the fund is 24% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 2.42%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 17th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

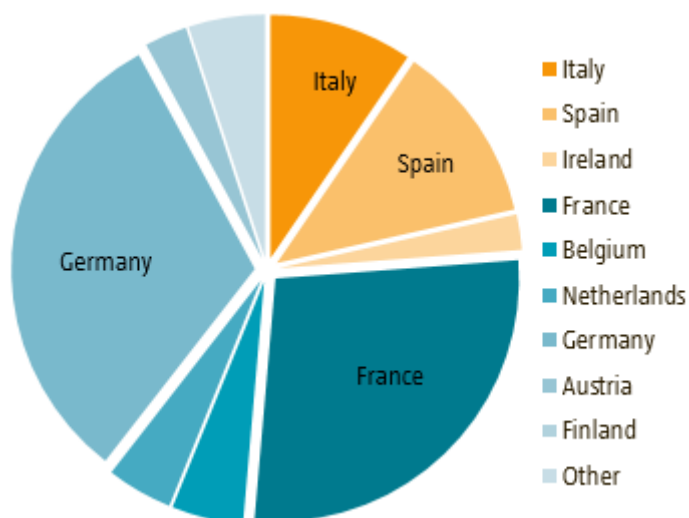
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,73	0,10									
2	-0,66	0,06	0,70	0,51	-0,01	0,06	0,07		0,26	0,07	1,14
3	-0,62	0,11	0,90	0,67	0,02	0,17	0,15	7,4	0,35	0,08	1,65
4	-0,49	0,14	1,06	0,72	0,01	0,14	0,13		0,32	0,13	2,29
5	-0,36	0,20	1,25	0,82	0,14	0,16	0,15		0,36	0,06	2,54
6	-0,28	0,29	1,44	1,06	0,08	0,20	0,23		0,41	0,16	3,10
7	-0,17	0,31	1,60	1,14	0,12	0,20	0,20		0,48	0,17	3,40
8	-0,03	0,40	1,74	1,27	0,16	0,29	0,25			0,17	3,56
9	0,10	0,47	1,71	1,33	0,19	0,37	0,26		0,68	0,16	3,55
10	0,27	0,46	1,77	1,29	0,16	0,39	0,27	6,88	0,71	0,19	3,52
15	0,46	0,56	1,87	1,44		0,57	0,43	6,98	0,83	0,34	3,78
20	0,67	0,61	1,96			0,40	0,29	6,78			3,75
30	0,88	0,60	2,20	1,83	0,09	0,67	0,38			0,09	3,81

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 17, 2016)



Source: Robeco

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