

# Peripheral Europe Update

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- **Spain likely to avoid a third round of elections**
- **Portuguese market awaiting DBRS review**

## Main market events

German yields moved higher this week, without clear market moving events. Main mover in the peripheral bond markets was Portugal. Spreads decreased significantly on the back of optimistic remarks from the Minister of Finance on the upcoming review from rating agency DBRS. Spanish spreads remained more or less stable, whereas Italian and Irish spreads decreased. Italian bonds have returned 2.87% this year, Spanish bonds 6.18%, Portuguese bonds -1.86% and Irish bonds 4.67%.

## Spain

King Felipe of Spain summoned party leaders for a meeting to form a government. The vote to appoint Rajoy as Prime Minister will likely be held near October 27, just before the deadline of October 31 to avoid another round of general elections. The socialist party (PSOE) already agreed to allow a PP led minority government to be formed.

## Portugal

According to Minister of Finance Centeno, rating agency DBRS concluded that Portugal's fiscal position is very strong. 10-Year Portuguese spreads decreased significantly on the news, from 3.50% to 3.25%. On October 21, DBRS will publish its rating review on Portugal and a negative surprise in either the rating or the outlook will push Portuguese spreads significantly higher. General expectation is that DBRS will keep both the rating and outlook unchanged.

## Greece

ECB executive board member Coeure is calling for a Greek debt relief, as the IMF's financial involvement has recently become more uncertain. Greece's progress on bailout implementation is not going smoothly, and Germany did share its worries in that regard.

## 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.

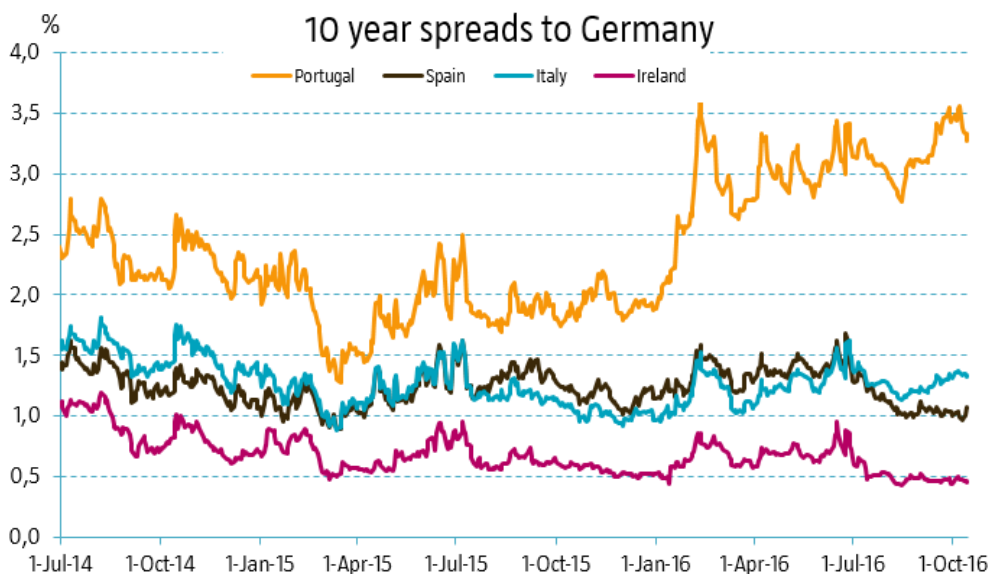
We have increased investments in Spanish government bonds, as political risks in Spain have recently decreased. The fund doesn't hold any short-dated bonds of Italy due to the unattractive valuations. Currently the fund is 28% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 5.18%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD October 13th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

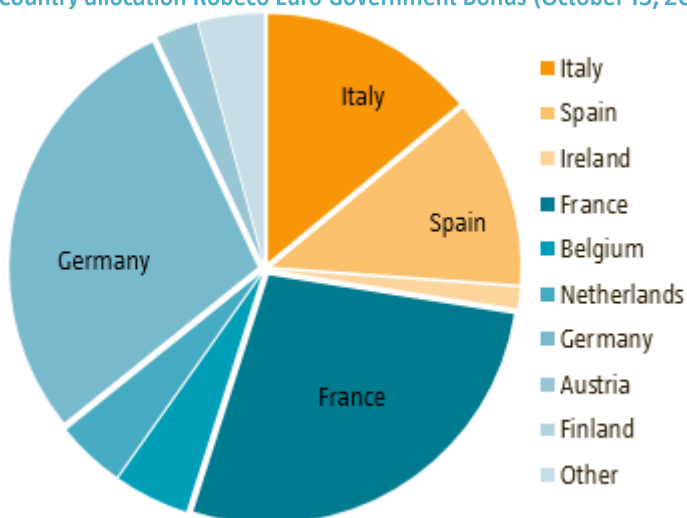
maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0,71	0,10										
2	-0,65	0,04	0,57	0,44	0,03	0,02	0,05			0,20	0,02	0,95
3	-0,65	0,09	0,69	0,54	0,05	0,11	0,10	9,8		0,24	0,05	1,54
4	-0,59	0,11	0,71	0,61	0,03	0,10	0,11			0,24	0,10	2,11
5	-0,48	0,13	0,84	0,61	0,10	0,08	0,11			0,48	0,03	2,30
6	-0,42	0,18	1,06	0,81	0,05	0,12	0,11			0,25	0,09	2,80
7	-0,35	0,19	1,23	0,90	0,09	0,13	0,08			0,32	0,12	3,14
8	-0,23	0,26	1,33	1,03	0,11	0,18	0,03				0,12	3,28
9	-0,10	0,29	1,31	1,09	0,13	0,24	0,19			0,48	0,11	3,23
10	0,05	0,28	1,33	1,06	0,11	0,23	0,19	8,35		0,45	0,13	3,27
15	0,20	0,43	1,59	1,22		0,46	-0,05	8,29		0,60	0,26	3,59
20	0,45	0,46	1,66			0,30	0,29	7,84				3,56
30	0,67	0,47	1,83	1,55	0,06	0,56	0,34				0,06	3,56

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (October 13, 2016)



Source: Robeco

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