

# Peripheral Europe Update

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- 5 Star Movement leader Grillo back on the political stage
- Spanish PSOE leader Sanchez pressured to resign

## Main market events

Although the market sentiment was clearly risk-off, with German bond yields coming close to recent historical lows, peripheral bonds did hardly respond. The risk-off sentiment was mainly triggered by the negative news surrounding Deutsche Bank. Only exception was Italy which widened further as economic growth projections were adjusted downward by the government and former 5 Star Movement leader Grillo came back to the Italian political stage. Italian bonds have returned 4.11% this year, Spanish bonds 7.06%, Portuguese bonds -1.79% and Irish bonds 5.40%.

## Italy

Former party leader and cofounder of the 5 Star Movement Grillo announced that he will come back to the political stage and is ready to lead the party again. His return is likely related to the upcoming constitutional reform referendum which will be held December 4. A vote against the constitutional reform increases the chance of early elections in Italy.

## Spain

Support for socialist party PSOE further decreased at last week's regional elections. This puts pressure on party leader Sanchez to either allow a PP led government or to resign. To further put pressure on Sanchez's position, a majority of the PSOE Federal Executive's stepped down. According to internal PSOE rules, this effectively also puts party leader Sanchez out of position. These development increases the chance that a PP led minority government will be formed.

## Portugal

Rating agency DBRS mentioned that the recent rise of Portuguese bond yields could be negative for its rating. DBRS also mentioned Portugal's much lower than expected economic growth. The next rating review is scheduled for October 21.

## 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.

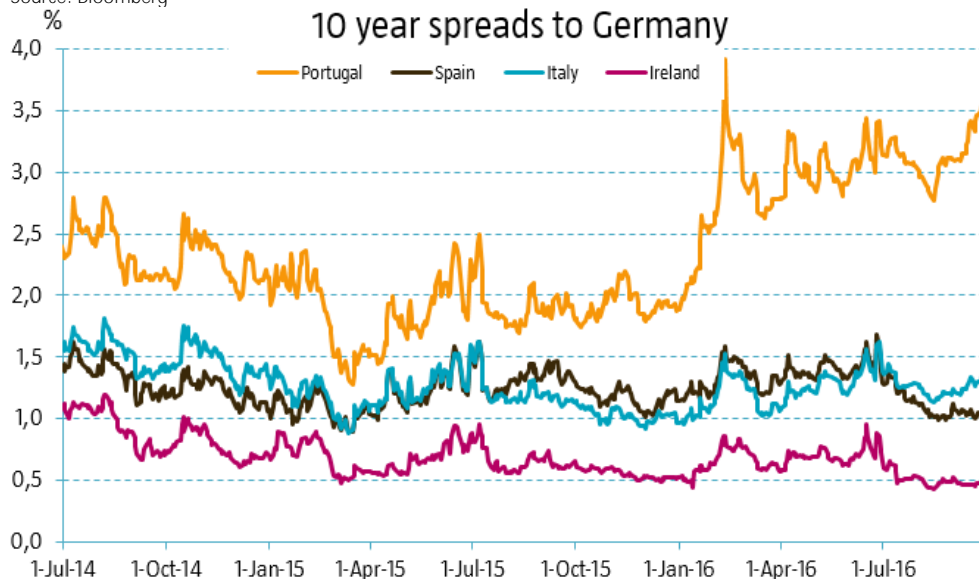
We have kept positioning in the periphery unchanged this week. The fund doesn't hold any short-dated bonds of Italy and Spain due to the unattractive valuations. Currently the fund is 22% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 6.35%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD September 29th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

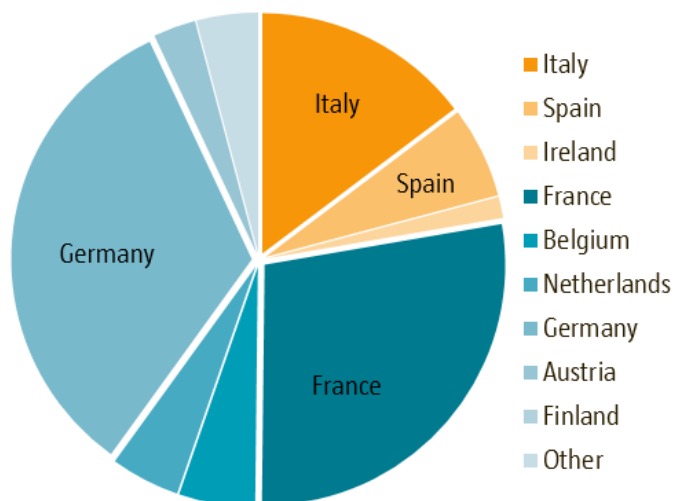
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,66	0,03									
2	-0,69	0,05	0,58	0,47	0,03	0,04	0,07		0,24	0,04	1,08
3	-0,71	0,09	0,71	0,56	0,06	0,12	0,11	9,7	0,27	0,09	1,67
4	-0,68	0,13	0,73	0,64	0,04	0,11	0,14		0,29	0,13	2,29
5	-0,59	0,14	0,85	0,63	0,10	0,09	0,09		0,59	0,07	2,47
6	-0,55	0,19	0,98	0,67	0,06	0,11	0,12		0,30	0,12	2,25
7	-0,50	0,20	1,11	0,77	0,09	0,15	0,09		0,36	0,15	2,94
8	-0,41	0,29	1,22	0,97	0,13	0,20	0,06			0,15	3,46
9	-0,30	0,31	1,32	1,01	0,15	0,26	0,22		0,51	0,14	3,42
10	-0,15	0,31	1,34	1,03	0,12	0,26	0,22	8,43	0,46	0,15	3,46
15	-0,02	0,48	1,56	1,26		0,51	0,04	8,32	0,66	0,26	3,84
20	0,20	0,53	1,64			0,37	0,29	7,93			3,86
30	0,41	0,54	1,84	1,57	0,08	0,63	0,33			0,09	3,84

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (September 29, 2016)



Source: Robeco

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