

# Peripheral Europe Update

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- **Italian spreads increase further on the back of Trump victory**
- **Spain to start parliamentary negotiations 2017 budget**

## Main market events

Bond markets initially rallied after the Trump victory, but quickly reversed. Yields moved higher during the rest of the week, as president-elect Trump announced an increase in fiscal spending, notably on infrastructure. This should lead to higher growth and inflation, but also to more issuance of U.S. Treasury bonds. Peripheral spreads increased across the board. Italian bonds have returned -0.14% this year, Spanish bonds 4.13%, Portuguese bonds -2.00% and Irish bonds 2.69%.

## Italy

Italian spreads rose further this week, surpassing the levels seen around the Brexit referendum. After the Trump victory, markets focus on the potential for further political unrest. The upcoming referendum in Italy has become a main market theme again. Renzi re-affirmed his earlier comments that he will step down, should the referendum result in a No-vote. The most recent polls consistently show a small lead for the No-vote.

## Spain

The euro area ministers of finance welcomed Spain's new government, but underscored at the same time that further fiscal consolidation measures equaling EUR5.5bn or 0.5% of GDP are required to meet the agreed 3.1% of GDP fiscal deficit. The Spanish minister of finance will present the new 2017 budget in the coming weeks. Parliamentary approval will be a challenge for the PP minority government, as the Socialists said they oppose further fiscal consolidation.

## Portugal

The Portuguese parliament approved the 2017 budget, but changes to the budget are still possible as the EC could demand further cuts in spending. The final vote for the budget is scheduled at the end of November, after the feedback from the EC. In the latest round of budgetary forecasts, the EC expects Portugal to fall short on reducing its fiscal deficit.

## Robeco Euro Government Bonds

We increased the underweight position in Italian government bonds this week. 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.

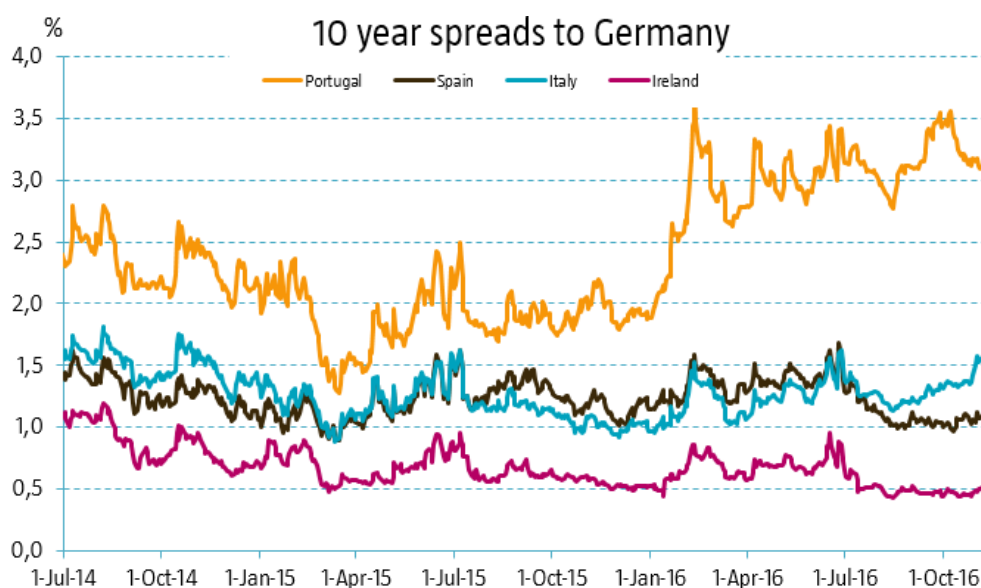
The fund doesn't hold any short-dated Italian bonds. Furthermore the fund has underweight positions in 10- and 30-year Italian bonds as well. Currently the fund is 23% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 2.85%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 10th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

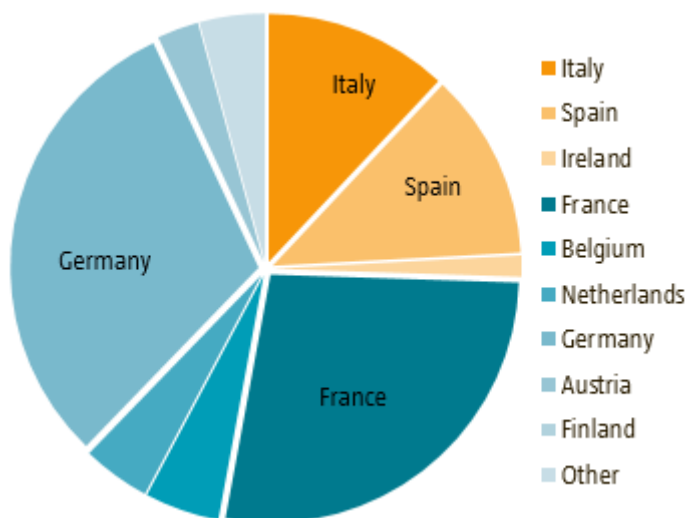
maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0,66	-0,01										
2	-0,61	0,02	0,68	0,48	0,00	0,00	0,00		0,25	0,02	0,96	
3	-0,59	0,09	0,85	0,59	0,05	0,14	0,08	7,9	0,33	0,05	1,44	
4	-0,46	0,12	0,99	0,63	0,02	0,14	0,09		0,26	0,10	2,03	
5	-0,34	0,18	1,19	0,68	0,13	0,16	0,12		0,34	0,05	2,29	
6	-0,27	0,28	1,38	0,91	0,08	0,21	0,14		0,35	0,16	2,76	
7	-0,17	0,29	1,56	1,00	0,14	0,23	0,11		0,43	0,18	3,08	
8	-0,01	0,37	1,65	1,12	0,16	0,29	0,06			0,16	3,18	
9	0,13	0,42	1,61	1,17	0,19	0,34	0,24		0,62	0,16	3,15	
10	0,30	0,41	1,68	1,15	0,16	0,35	0,24	7,04	0,64	0,19	3,15	
15	0,49	0,53	1,83	1,34		0,55	-0,03	7,02	0,79	0,34	3,46	
20	0,71	0,59	1,94			0,39	0,28	6,86			3,52	
30	0,94	0,58	2,22	1,75	0,08	0,66	0,37			0,09	3,55	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 10, 2016)



Source: Robeco

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