

# Peripheral Europe Update

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds  
Stephan van IJendoorn, Portfolio Manager

- **Portuguese bonds rally on buy-back**
- **Spanish political impasse continues**

## Main market events

Peripheral bonds outperformed already rallying German bonds this week. Especially Portugal recovered from the sell-off in the beginning of the month. A surprise debt buy-back helped sentiment towards Portuguese government bonds. Italian bonds have returned 0.7% this year, Portuguese bonds -4.0%, Spanish bonds 1.2% and Irish bonds 1.7%.

## Spain

Final 2015 real GDP came out at 3.2%, mainly due to strong private consumption. This means that of the larger countries, Spain was the strongest growing economy in Europe.

The Spanish socialists reached an agreement with the centrist Citizens party this week. Both Podemos and Partido Popular already announced not to support this coalition, which makes forming a government very difficult. The vote for a new Prime Minister is scheduled next Wednesday. The formation of a government must take place within two months after this vote, or new elections have to take place end of June.

Moody's downgraded the outlook for Spain to Neutral as the impact of structural reforms has been smaller than anticipated and some major reforms have not been fully implemented.

## Portugal

The Portuguese Parliament passed the 2016 budget. The budget targets a fiscal deficit of 2.2%, while real GDP is projected to rise by 1.8% and the debt-to-GDP ratio to fall to below 128%.

## Greece

Greek negotiations on pension reforms are deadlocked as according to Greece the IMF is pushing too hard for further pension cuts. At the same time tensions between Greece and Europe are rising due to the refugee crisis.

## Robeco Euro Government Bonds

We continue to see the ECB's QE program, the generally supportive stance of EU policy makers towards the periphery and the improvement in growth as positives for peripheral debt. But the recent turmoil in financial markets favors a cautious stance towards peripheral bonds.

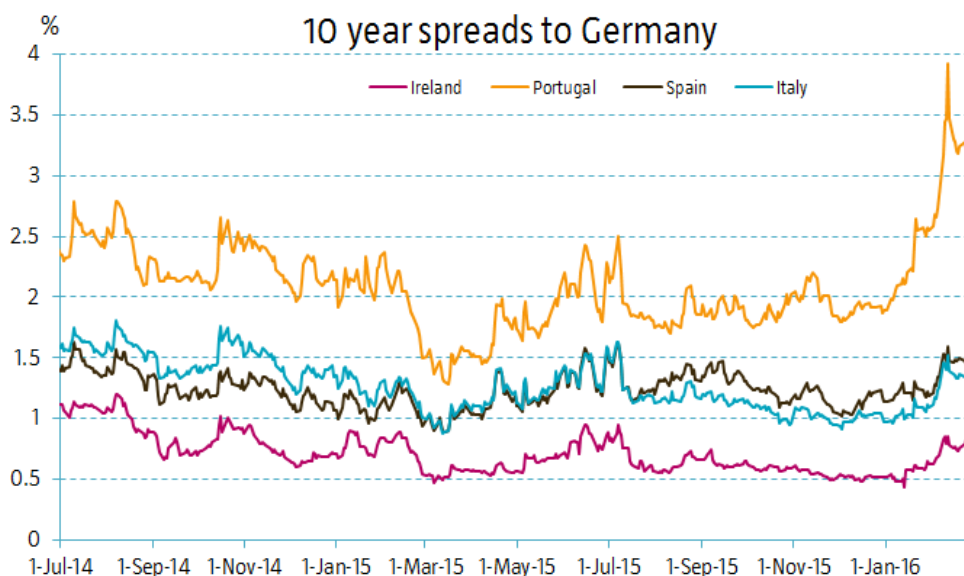
The fund has an overweight position in Ireland as strong economic growth is rapidly improving the Irish debt metrics, and a small overweight in Spanish longer dated bonds. We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. Peripheral bonds make up 36% of the fund. Year-to-date the fund's absolute return is 2.49%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD February 25, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

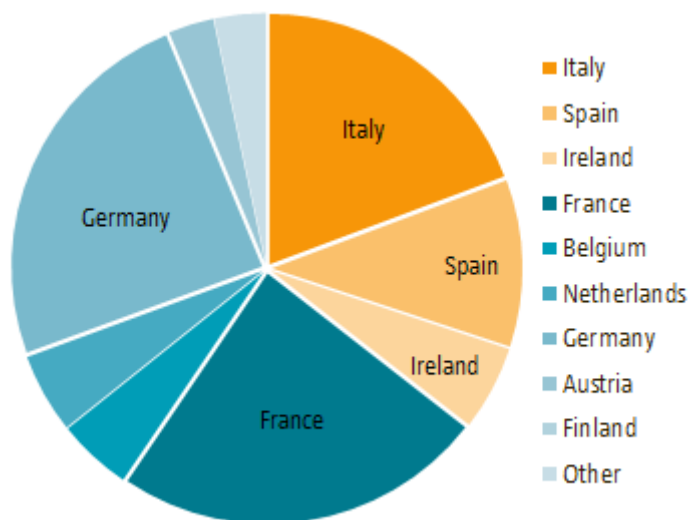
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.47	0.06									
2	-0.55	0.12	0.57	0.63	0.07	0.11	0.07		0.29	0.06	1.33
3	-0.51	0.14	0.61	0.73	0.05	0.11	0.13	14.0	0.34	0.07	1.88
4	-0.46	0.16	0.74	0.78	0.06	0.11	0.12		0.43	0.09	2.33
5	-0.37	0.17	0.85	0.93	0.01	0.09	0.07	16.4	0.44	0.12	2.49
6	-0.33	0.22	1.06	1.18	0.08	0.15	0.22		0.57	0.13	2.02
7	-0.23	0.24	1.16	1.34	0.10	0.21	0.21		0.65	0.19	2.73
8	-0.12	0.24	1.20	1.54	0.13	0.42	0.23			0.19	
9	0.03	0.30	1.34	1.49	0.10	0.46	0.25		0.80	0.20	3.03
10	0.15	0.36	1.34	1.45	0.15	0.49	0.29	10.17	0.77	0.29	3.01
15	0.35	0.69	1.54	1.72		0.72	0.23	9.29	0.96	0.58	3.21
20	0.60	0.58	1.60			0.57	0.51	8.56			
30	0.85	0.64	1.74	1.87	0.15	0.63	0.49	7.95		0.25	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (February 25, 2016)



Source: Robeco

**Important information**

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