

# Peripheral Europe Update

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- **Spain's 2015 budget deficit; much weaker than expected**
- **ECB will step up bond purchases from the start of April**

## Main market events

Peripheral bonds reversed last week's widening, and outperformed core and semi-core bonds. Italian bonds have returned 2.6% this year, Portuguese bonds -1.3%, Spanish bonds 2.7% and Irish bonds 2.6%.

### Spain

This week Spain surprised the market by publishing a larger than expected budget deficit. For 2015 the deficit was 5.2% compared to a European Commission target of 4.2%. The larger deficit can primarily be explained by the larger deficits of regional governments and more than expected outlays for social security. For 2016 the deficit target is 2.8% which seems to be a daunting task given the struggles to form a government. The market response was surprisingly muted.

### ECB

The Eurosystem will step up monthly purchases of government bonds from the start of April. The total volume will increase from EUR 60 bln to EUR 80 bln per month.

### Portugal

Portugal's Public Finance Council published a note where it called for further austerity measures. The government has reversed austerity measures and uses rosy growth projections. In this regard, Fitch makes note of elevated political risks since the minority government can't find enough support for additional measures.

### Ireland

The Irish Treasury issued for the first time a bond with a maturity of 100 years at a yield of 2,35%. The bond was constructed at the request of a small number of investors, which explains the small issue size of EUR 100 mln.

## Robeco Euro Government Bonds

We continue to see the ECB's QE program as supportive for peripheral debt, but considering that political risks in the peripheral countries are rising and that growth is no longer improving we have become somewhat more cautious with respect to the periphery.

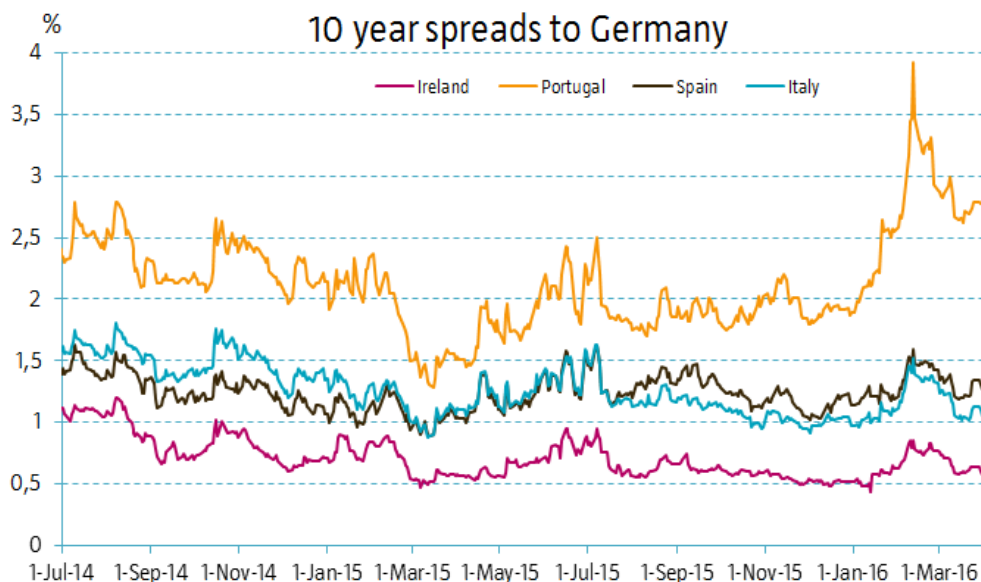
We took profit on our long Ireland bonds. Another consideration to reduce the Ireland exposure, is that the current yield levels do not compensate for the additional risks for Ireland in the event of a Brexit. We don't hold any short dated bonds of Italy and Spain due to unattractive valuations and we have a small underweight position in 10 year Italy. Peripheral bonds make up 21% of the fund. Year-to-date the fund's absolute return is 3.52%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD March 31, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

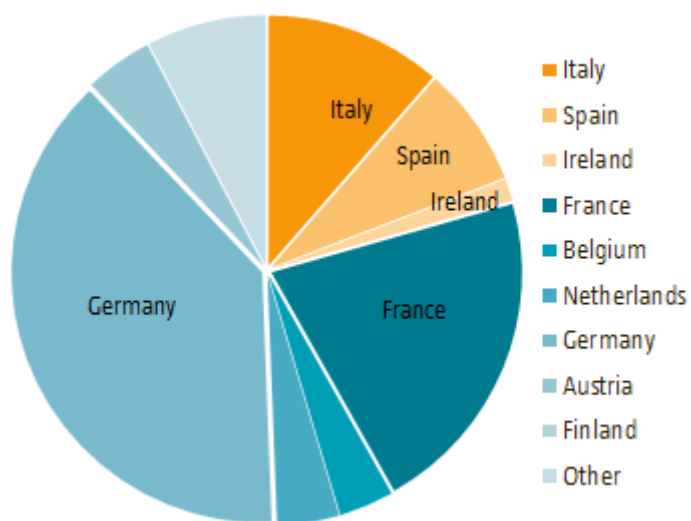
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,46	0,04									
2	-0,49	0,04	0,46	0,48	0,00	0,03	0,05		0,17	0,07	1,06
3	-0,49	0,10	0,50	0,58	0,04	0,06	0,11	9,6	0,20	0,12	1,62
4	-0,43	0,12	0,54	0,60	0,02	0,07	0,08		0,35	0,17	1,92
5	-0,34	0,13	0,61	0,67	-0,01	0,05	0,04		0,34	0,13	2,15
6	-0,31	0,22	0,79	0,90	0,15	0,11	0,19		0,48	0,24	2,00
7	-0,22	0,26	0,88	1,06	0,18	0,14	0,17		0,55	0,25	2,45
8	-0,12	0,28	0,92	1,30	0,20	0,31	0,18			0,28	
9	0,02	0,30	1,08	1,27	0,20	0,35	0,18		0,63	0,24	2,74
10	0,14	0,33	1,07	1,29	0,21	0,36	0,20	8,44	0,59	0,27	2,79
15	0,32	0,58	1,31	1,55		0,62	0,15	8,08	0,79	0,45	3,01
20	0,57	0,48	1,38			0,47	0,44	7,77			
30	0,81	0,54	1,54	1,75	0,12	0,67	0,42			0,17	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (March 31, 2016)



Source: Robeco

**Important information**

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