

# Peripheral Europe Update

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- **Irish fiscal fundamentals improve further**
- **ECB: Spain's fiscal consolidation has come to a halt**

## Main market events

Despite the more positive market sentiment, peripheral bonds spreads were relatively stable. Italian and Spanish bond spreads increased a bit, whereas both Ireland and Portugal bond spreads decreased a bit. Italian bonds have returned 1.18% this year, Portuguese bonds -2.62%, Spanish bonds 1.84% and Irish bonds 1.86%.

### Ireland

Helped by its strong economic growth, Irish debt to GDP ratio decreased significantly according to Eurostat. In 2015 it decreased to 93.8 from 107.5 in 2014. The difference compared with Italy and Spain is very noticeable, since for these countries the ratio remained the same. The Irish budget deficit improved to 2.3% from 3.8% of GDP in 2014, which is also lower than the target of 2.9% set by the European Commission.

### Italy

This week Italy issued a new 20-year government bond for a total size of EUR 6.5 bln. The bond came at a yield of 2.30%. Also Spain issued longer term bonds with a maturity of 15 and 25 years. The issuances probably explain the underperformance of both Italy and Spain.

### Spain

In a press statement, the ECB mentioned that the fiscal consolidation has seen no improvements and some of the earlier structural improvements have been reversed. Podemos voted against a left coalition with Socialists and the C's. PP leader Rajoy rejected a mandate to form a government. This makes it unlikely that a government will be formed before the May 2 deadline.

### Portugal

The leader of the Left Bloc, which supports the minority government, mentioned that further fiscal austerity measures were not discussed. Next week rating agency DBRS will publish the rating review of Portugal. If DBRS would decide to lower the rating, the ECB will stop buying Portuguese bonds under its QE program.

## Robeco Euro Government Bonds

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

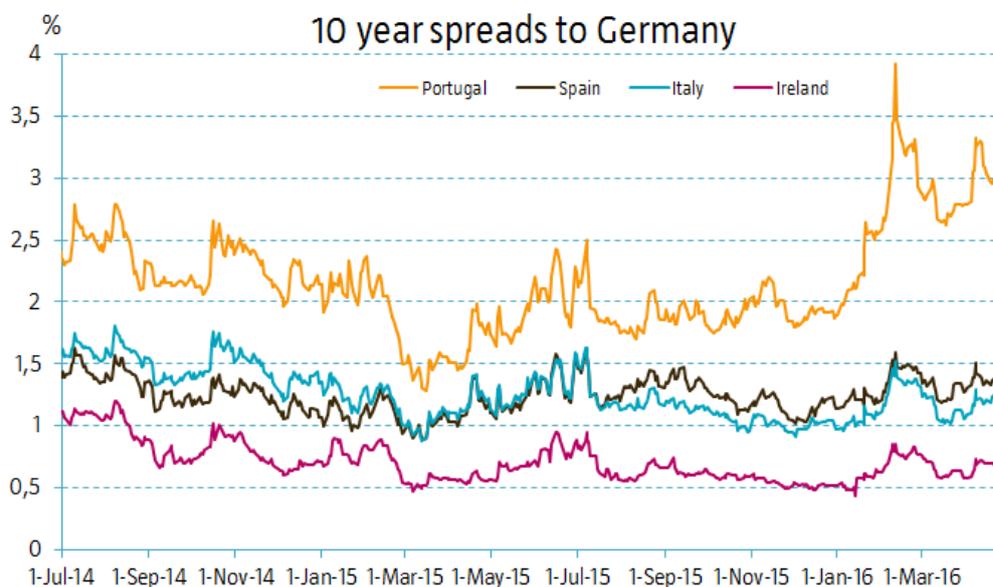
We continue to have an underweight position in both Spain and Italy given the evolving political risks and since the current spread level makes the periphery vulnerable. We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. We have an underweight position in 10 year Italy and Spain. Peripheral bonds make up 16% of the fund. Year-to-date the fund's absolute return is 2.68%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD April 21, 2016.  
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Current spreads and the movement over time

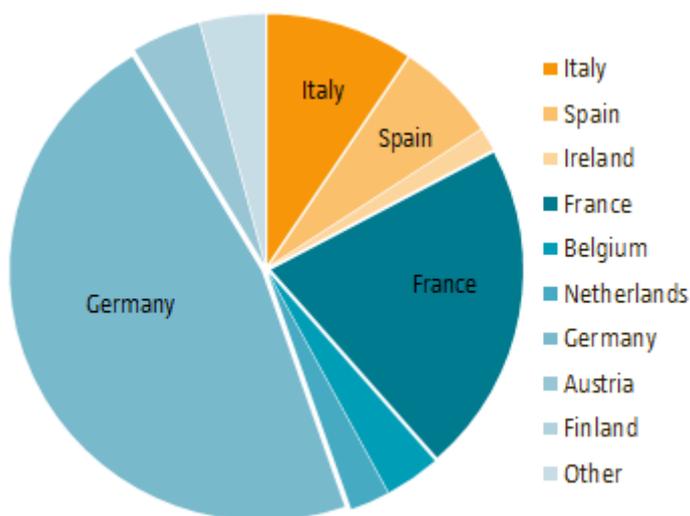
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,54	0,09									
2	-0,50	0,04	0,48	0,46	0,01	0,05	0,04		0,16	0,05	1,16
3	-0,49	0,09	0,52	0,57	0,02	0,08	0,12	9,6	0,18	0,09	1,71
4	-0,42	0,11	0,61	0,60	0,01	0,08	0,08		0,31	0,17	2,13
5	-0,32	0,13	0,71	0,72	-0,02	0,06	0,02		0,34	0,14	2,34
6	-0,28	0,23	1,01	0,94	0,17	0,14	0,18		0,50	0,27	1,97
7	-0,16	0,25	1,09	1,07	0,20	0,14	0,13		0,61	0,24	2,68
8	-0,05	0,27	1,23	1,33	0,21	0,30	0,12			0,28	
9	0,10	0,31	1,21	1,32	0,21	0,35	0,14		0,73	0,24	2,99
10	0,23	0,33	1,22	1,34	0,21	0,37	0,19	8,26	0,68	0,29	3,03
15	0,41	0,62	1,46	1,60		0,69	0,12	7,97	0,91	0,49	3,30
20	0,67	0,53	1,51			0,54	0,47	7,49			
30	0,94	0,59	1,66	1,77	0,15	0,74	0,45			0,17	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (April 21, 2016)



Source: Robeco

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