Peripheral Europe Update

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- **Italian Court rejects main referendum question**
- **Spain's 2016 budget deficit larger than expected**

Main market events
In a positive market sentiment, peripheral bond spreads tightened this week. The largest move in spreads was in Portugal, as demand for a new Portuguese 10-year bond was stronger than expected. Italy was supported by the decision from the constitutional court. Italian bonds have returned -0.49% this year, Spanish bonds -0.05%, Portuguese bonds -0.91% and Irish bonds -0.93%.

Italy
On the 11th of January the Constitutional Court decided that the most relevant referendum question about labor market reform was not admissible. Labor unions requested the referendum, aiming to repeal the recently implemented labor market reforms. The other questions are allowed, but these are less relevant. The immediate need to call elections (to delay the referendum) has abated. Today rating agency DBRS will decide on the rating of Italy. A downgrade would have some negative effects as the ECB would increase the haircut on Italian bonds that banks use to borrow money from the ECB.

Spain
The government confirmed this week that the 2016 budget deficit came out at 4.6% of GDP, much larger than the EU target of 3.6% as agreed in the Stability Program. Given this large deviation, the original target of 2.9% in 2017 looks even more cumbersome. A slightly positive surprise is that the economic growth for 2016 came higher at 3.3%.

Portugal
This week Portugal issued a 10-year bond which was received rather well by the market. Demand for the bond was high, as investors subscribed for a total amount of EUR 8.5bn. The Portuguese Treasury issued the bond with a size of EUR 3bn and a coupon of 4.125%. For this year the Treasury is planning to issue between EUR 14 and 16bn.

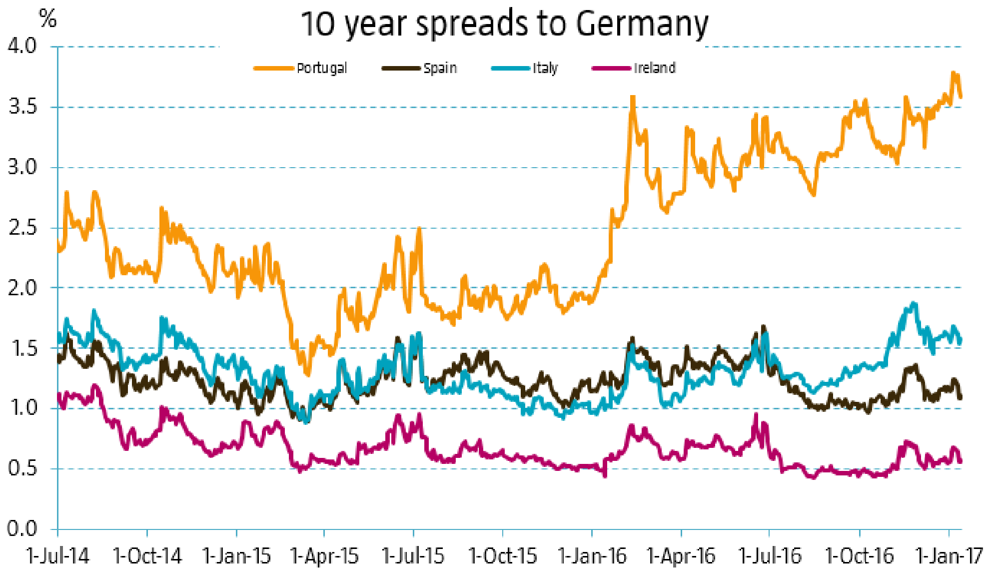
Robeco Euro Government Bonds
Positioning in Italy remained unchanged this week. Our fundamental view on Italy remains negative. Italy needs reforms to increase growth. Stronger growth is necessary to improve the sustainability of the public debt, to reduce bank NPLs and to reduce unemployment and hence political unrest. Rising yield levels are also unfavorable given Italy's large public debt.
We maintain our overweight position in Ireland. Irish bond spreads are attractive given the improved Irish fundamentals and its strong ESG scores. Currently the fund is 31% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is -0.54%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, January 12, 2017.
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

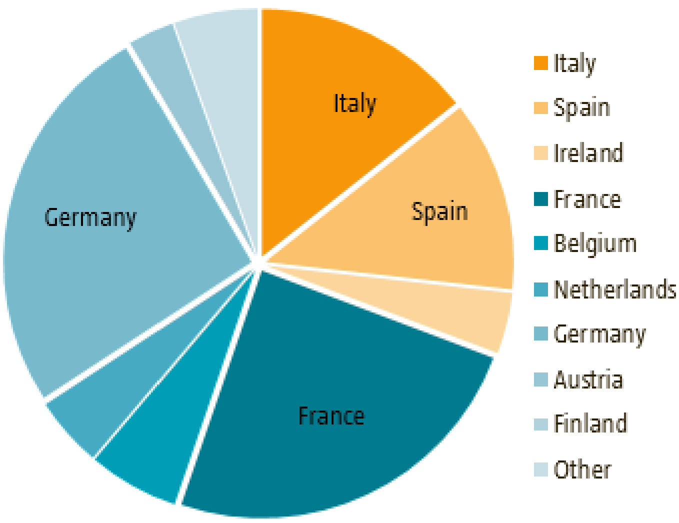
maturity	German yields	Spreads France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.70	0.12									
2	-0.72	0.12	0.63	0.43	0.04	0.11	0.09		0.30	0.10	0.98
3	-0.73	0.30	0.85	0.56	0.06	0.17	0.14	7.8	0.33	0.12	1.52
4	-0.62	0.36	0.92	0.67	0.03	0.15	0.15		0.30	0.17	2.05
5	-0.49	0.45	1.14	0.74	0.19	0.16	0.16		0.52	0.12	2.48
6	-0.31	0.30	1.21	0.90	0.04	0.18	0.17		0.54	0.12	2.93
7	-0.17	0.30	1.38	0.94	0.07	0.17	0.12		0.67	0.19	3.40
8	-0.01	0.39	1.48	1.07	0.09	0.26	0.16			0.10	3.51
9	0.15	0.45	1.50	1.14	0.10	0.33	0.17		0.53	0.17	3.58
10	0.31	0.47	1.58	1.11	0.10	0.35	0.19	6.67	0.57	0.12	3.58
15	0.51	0.69	1.79	1.36		0.65	0.48	6.92	0.84	0.33	3.92
20	0.79	0.73	1.80			0.44	0.31	6.73			3.79
30	1.05	0.72	2.00	1.67	0.10	0.73	0.39			0.11	3.82

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 12, 2017)



Source: Robeco

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