Peripheral Europe Update

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds
Marck Bulter, Portfolio Manager

- **Italy loses its last single-A rating**
- **EU approves Spain's 2017 budget draft**

Main market events
In an eventful week with UK Prime Minister May's Brexit speech, an ECB press conference and the US presidential inauguration, peripheral bond markets were calm. Italian spreads widened a bit, while Portuguese spreads tightened somewhat. Demand for the new 15-year Italian government bond was decent, but Italy issued a smaller amount than expected. Italy has to issue a significant amount of long-dated bonds to manage the refinancing risk of its sizeable government debt. Italian bonds have returned -1.05% this year, Spanish bonds -0.40%, Portuguese bonds -0.50% and Irish bonds -1.44%.

Italy
Last Friday rating agency DBRS decided to downgrade Italy to BBB-high, with a stable outlook. Main reasons for the downgrade are the lack of reform, the weak economic growth and the continuing issues with the banking sector. The DBRS downgrade will have negative repercussions for the Italian banking sector, as the ECB will now increase the haircut on Italian government bonds that banks use to borrow money from the ECB. Banks will need to post on average 8% more collateral to borrow the same amount of money from the ECB.

Spain
The European Commission approved the draft budget for 2017. The government will now need to find agreement with opposition parties to secure parliamentary approval. The EC expects the budget deficit to decline from 4.6% in 2016 to 3.3% in 2017 with this plan. The plan contains more austerity measures than required to reduce the structural deficit by at least 0.5% of GDP.

Greece
Recent polls indicate that the support for the ruling government party is decreasing as Syriza just gets 16% of the votes versus 31% for opposition party New Democracy (centre right). Although the polls differ from week to week, it's clear that Syriza lags New Democracy.

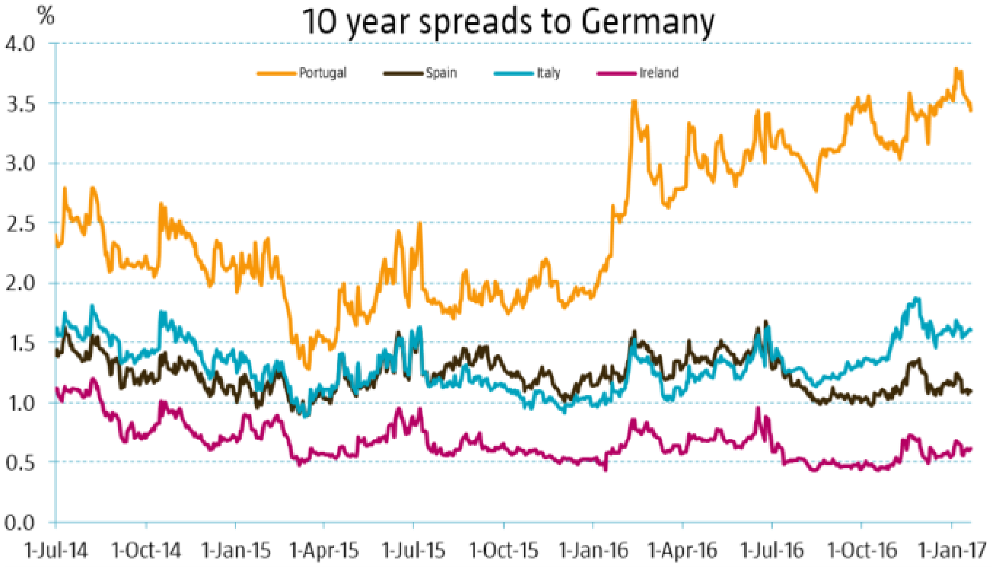
Robeco Euro Government Bonds
We maintained our underweight position in Italy this week. Italy needs reforms to increase growth. Stronger growth is necessary to improve the sustainability of the public debt, to reduce banks' NPLs and to reduce unemployment and hence political risks. Rising yield levels 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 -0.98%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, January 19, 2017.
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

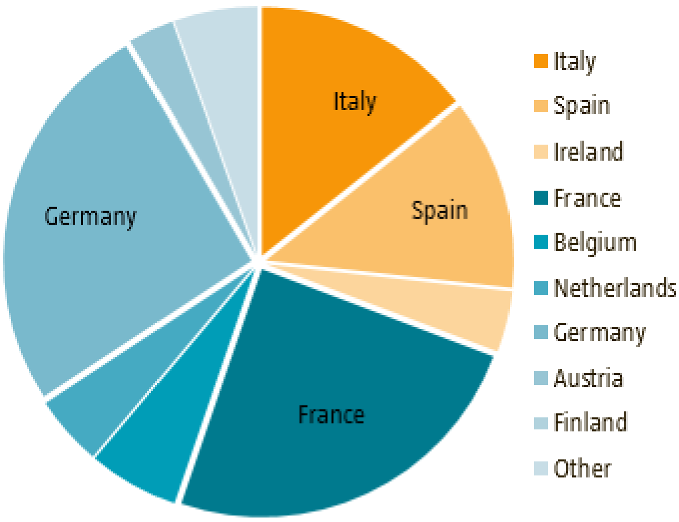
maturity	German yields	Spreads France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.62	0.11									
2	-0.68	0.14	0.58	0.39	0.06	0.14	0.10		0.25	0.09	0.78
3	-0.69	0.34	0.80	0.49	0.09	0.20	0.16	7.7	0.38	0.11	1.38
4	-0.57	0.37	0.87	0.60	0.04	0.18	0.16		0.34	0.17	1.91
5	-0.43	0.43	1.10	0.67	0.18	0.15	0.14		0.52	0.10	2.33
6	-0.24	0.28	1.19	0.86	0.03	0.15	0.15		0.57	0.11	2.78
7	-0.09	0.30	1.39	0.90	0.07	0.16	0.13		0.70	0.19	3.22
8	0.07	0.38	1.51	1.05	0.10	0.24	0.17			0.11	3.33
9	0.23	0.46	1.51	1.11	0.12	0.31	0.18		0.44	0.19	3.42
10	0.40	0.49	1.60	1.10	0.11	0.33	0.19	6.71	0.62	0.14	3.44
15	0.63	0.70	1.79	1.32		0.61	0.43	6.92	0.85	0.35	3.74
20	0.90	0.74	1.82			0.41	0.29	6.73			3.68
30	1.17	0.75	2.04	1.64	0.10	0.71	0.37			0.11	3.67

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 19, 2017)



Source: Robeco

Important Information

Robeco Institutional Asset Management B.V., hereafter Robeco, has a license as manager of UCITS and AIFs from the Netherlands Authority for the Financial Markets in Amsterdam. Without further explanation this document cannot be considered complete. It is