ROBECO

Peripheral Europe Update

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- **Italian Court to rule on new referendum**
- **Peripheral bonds have a difficult start of the year**

Main market events

Peripheral bond spreads widened across the board. Especially Portuguese yields increased this week, as ECB data showed that the share of Portuguese bonds for the ECB QE program was further reduced last month. Portugal is expected to issue bonds next week, which puts pressure on the market. Ireland issued EUR 4bn of a new 20-year bond, covering at least 30% of its 2017 full-year issuance target of EUR 9-13bn. Italian bonds are under pressure as political risk rises, as a new referendum or early elections are looming. Italian bonds have returned -0.81% this year, Spanish bonds -0.69%, Portuguese bonds -1.07% and Irish bonds -1.03%.

Italy

On the 11th of January, the Constitutional Court will decide if all requirements have been met to hold a referendum on the labor market law and if so, set a date for the referendum. Labor unions have organized the referendum, aiming to repeal the recently implemented labor market reforms. On the 24th of January there is another Constitutional Court ruling. The Court will determine whether the current electoral law is compatible with the constitution. This decision is important to assess the likelihood that early elections will be called.

Spain

Macro-economic data surprised to the upside this week and underscores the strong economic momentum. E.g PMI data for the service and the manufacturing sector was better than expected. Also inflation, 1.4% for the month of December was significantly higher than expected (1.0%) and higher than the 0.5% for the month of November. The rise in inflation was primarily related to higher energy prices.

Robeco Euro Government Bonds

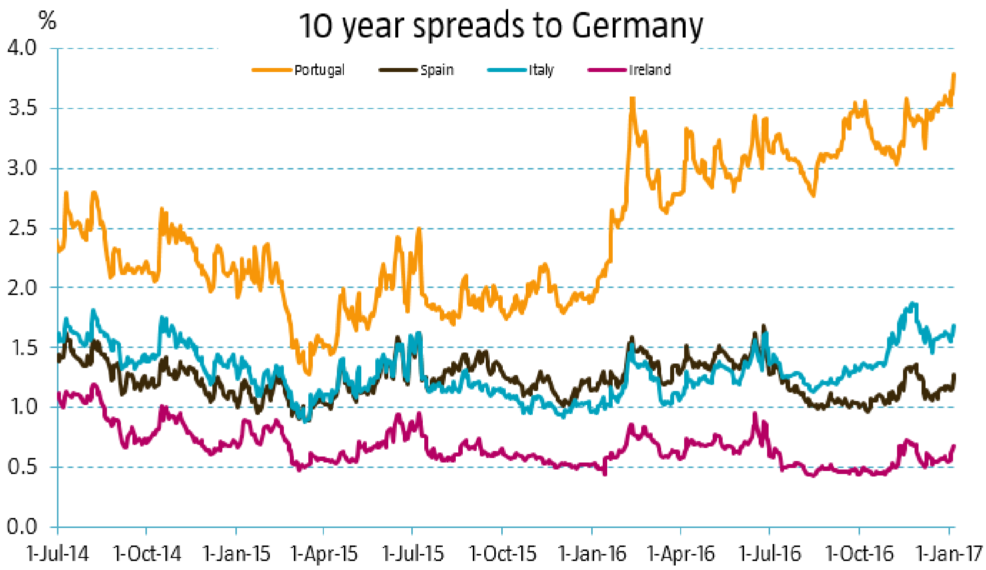
This week we increased the underweight position in Italian government bonds. Political risks have increased again, as it is likely that either a referendum will be organized to repeal the labor market reform or that the president calls general elections before June 15. Our fundamental view on Italy remains 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. Last year the fund's absolute return was 3.21%*.

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

Current spreads and the movement over time

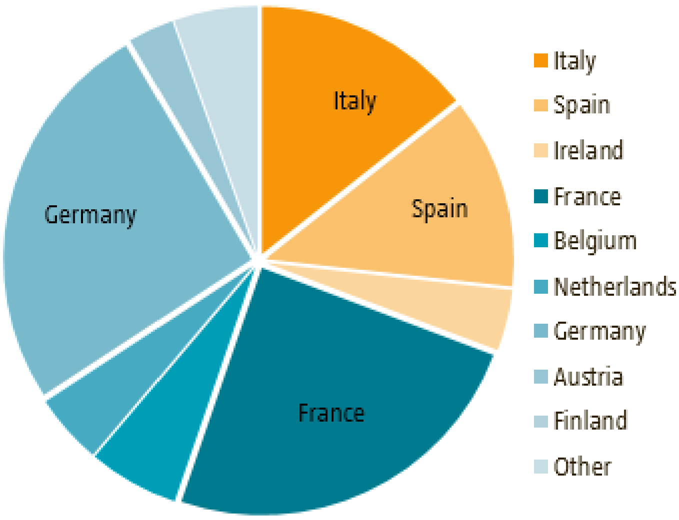
maturity	German yields	Spreads France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.73	0.10									
2	-0.73	0.11	0.65	0.48	0.06	0.09	0.10		0.22	0.12	0.96
3	-0.72	0.29	0.86	0.59	0.08	0.16	0.14	7.5	0.26	0.12	1.39
4	-0.60	0.38	0.96	0.74	0.02	0.14	0.17		0.25	0.15	2.04
5	-0.48	0.45	1.19	0.81	0.19	0.16	0.18		0.48	0.09	2.48
6	-0.34	0.35	1.32	1.05	0.09	0.23	0.22		0.35	0.14	2.94
7	-0.21	0.36	1.52	1.12	0.13	0.22	0.18		0.45	0.23	3.46
8	-0.05	0.45	1.60	1.25	0.16	0.34	0.22			0.15	3.60
9	0.09	0.54	1.61	1.32	0.19	0.43	0.25		0.66	0.26	3.75
10	0.27	0.54	1.68	1.27	0.17	0.42	0.25	6.62	0.67	0.18	3.79
15	0.50	0.69	1.82	1.48		0.65	0.48	6.67	0.88	0.32	4.07
20	0.77	0.72	1.86			0.44	0.32	6.56			3.91
30	1.02	0.74	2.11	1.82	0.10	0.74	0.42			0.10	3.96

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 6, 2017)



Source: Robeco

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