

# Peripheral Europe Update

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- **Early elections in Italy coming closer**
- **Eurogroup demands more austerity from Portugal**

## Main market events

Peripheral bond spreads increased this week as early elections in Italy are more likely after the ruling from the constitutional court. Spreads also widened for countries like France and Belgium. The biggest moves were in Italy and Portugal. The recent strong supply of bonds contributed to the widening. Italy will issue a new 10-year bond next week. Italian bonds have returned -2.37% this year, Spanish bonds -1.09%, Portuguese bonds -1.71% and Irish bonds -2.43%.

## Italy

The Italian constitutional court ruled this week that part of the current electoral law is unconstitutional. However, it stressed that the remaining electoral law is ready-to-use. Early elections are thus possible without further adjustments to the electoral law. Forming a majority government will likely be difficult under this law. The second-round is ruled unconstitutional, but the majority bonus for the party that gets at least 40% of the votes remains. This means there will be only one round, and provided that no one gets 40%, the lower house will have a purely proportional representation. Most parties favor early elections; former PM and PD-leader Renzi already hinted that elections can be held as early as June 11<sup>th</sup>.

## Portugal

Local newspapers in Portugal report that it's likely that the group of EU Ministers of Finance will demand extra austerity measures in order to comply with EU fiscal rules. Recent measures by the left wing minority government, like increasing the minimum wage, did not help in that regard. Also an important bill from the ruling Socialist Party (PS) was struck down in the lower house, which will increase tensions between the PS and the left wing partners. The political tensions form a problem for Portugal, since Portuguese 10-year rates increased to above 4%.

## Spain

Economic data continue to surprise to the upside. Both manufacturing and services production were strong, which means that GDP growth will likely be strong again. In addition, the unemployment rate decreased further to 18.6% in Q42016 from 18.9% in Q32016.

## 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.

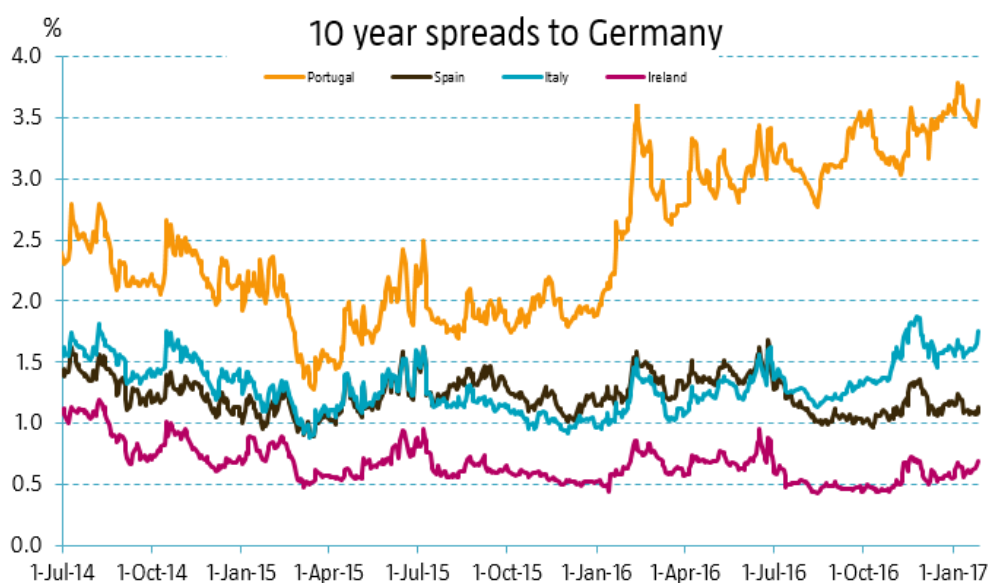
We maintain our overweight position in Ireland. Irish bond spreads are attractive given the improved Irish fundamentals and its strong ESG scores. Currently the fund is 31% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is -1.82%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, January 26, 2017.  
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

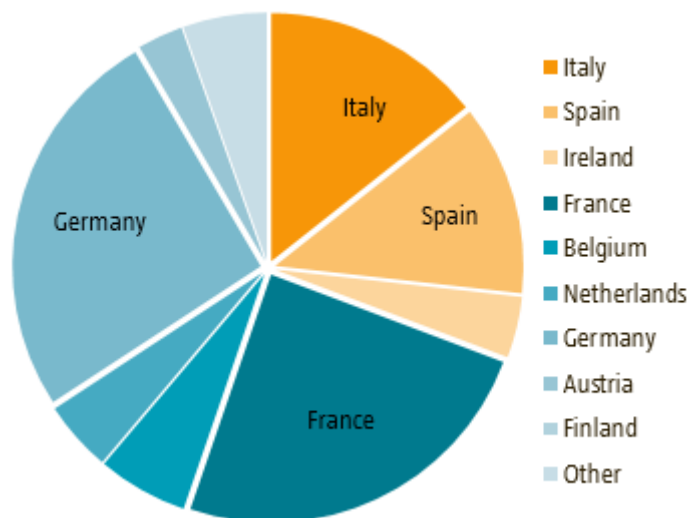
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.62	0.11									
2	-0.68	0.14	0.58	0.39	0.06	0.14	0.10		0.25	0.09	0.78
3	-0.69	0.34	0.80	0.49	0.09	0.20	0.16	7.7	0.38	0.11	1.38
4	-0.57	0.37	0.87	0.60	0.04	0.18	0.16		0.34	0.17	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 26, 2017)



Source: Robeco

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