

# Peripheral Europe Update

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- **Majority Italian lower house prefers early elections**
- **Euro area inflation coming closer to ECB target**

## Main market events

This week the trend of widening peripheral bond spreads continued. Also French bond spreads increased further this week and touched the highest spread levels in three years. The widening in spreads all comes back to the same theme, which is an increase in political risks as result of the upcoming elections in France, the Netherlands and likely early elections in Italy. In addition, the market theme of a further reduction in the monthly purchase volume of the ECB bond buying program is also not supportive for country spreads. Italian bonds have returned -2.50% this year, Spanish bonds -1.53%, Portuguese bonds -1.49% and Irish bonds -2.03%.

## Spain

This week's inflation print for Spain was much higher than expected, which also moved the euro area inflation number above expectations. The market expected 2.2% for Spain, but for January the inflation number came at 3.0%, which is the fastest rate in four years. Euro area inflation came at 1.8% versus an expectation of 1.5%. The inflation numbers are currently relevant as they determine market expectations of future ECB monetary policy changes.

## Italy

On February 27, the Italian government will discuss if further changes to the electoral law are required. Last month the Italian constitutional court determined that the electoral law is ready-to-use, which puts pressure on the government and the president to call out early elections. Currently a majority of the lower house and the electorate is in favor to organize early elections. Problematic is that the governing Democratic Party (PD) is rather divided to organize early elections which causes tensions within the Democratic Party.

## Portugal

The Portuguese debt to GDP increased slightly in 2016 to 130.5%, an increase from 2015 where the ratio stood at 129%. Although the increase is rather small, it does show that the combination of low growth and the lack of austerity measures result in issues related to debt affordability.

## 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.

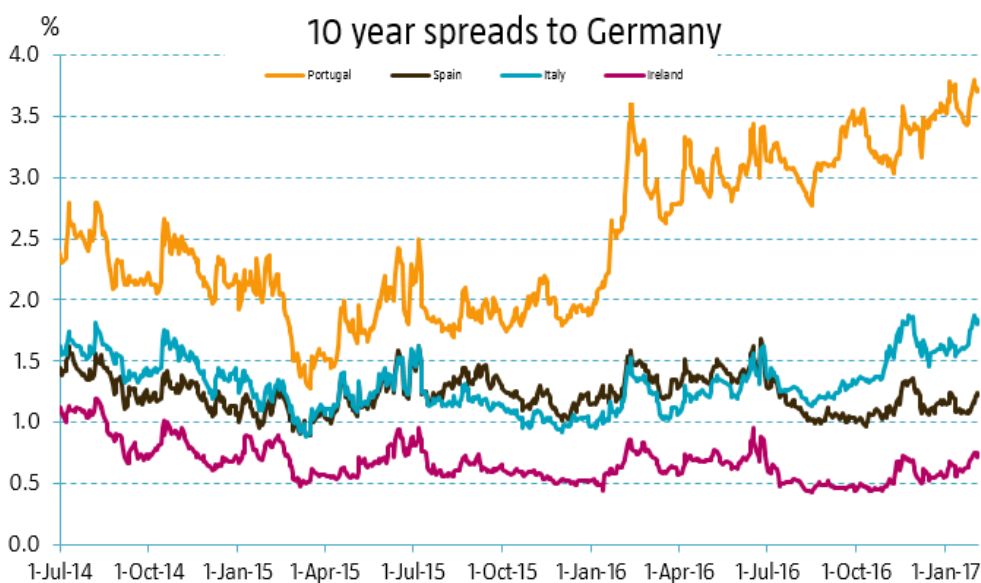
We maintain our overweight position in Ireland. Irish bond spreads are attractive given the improved Irish fundamentals and its strong ESG scores. Currently the fund is 31% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is -1.69%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, February 2, 2017.  
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

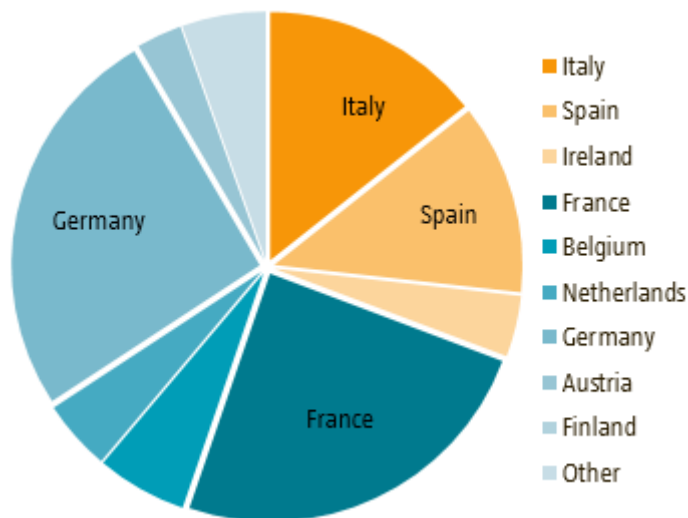
maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	-0.71	0.15										
2	-0.74	0.19	0.74	0.46	0.05	0.20	0.13			0.27	0.11	0.81
3	-0.67	0.29	0.91	0.54	0.01	0.25	0.09	7.7	0.35	0.05		1.34
4	-0.51	0.37	0.98	0.63	-0.04	0.26	0.05		0.32	0.09		1.91
5	-0.35	0.44	1.22	0.67	0.10	0.30	0.04		0.47	0.00		2.38
6	-0.22	0.35	1.40	0.98	0.01	0.33	0.13		0.63	0.11		3.01
7	-0.08	0.41	1.59	1.05	0.08	0.47	0.14		0.80	0.20		3.47
8	0.09	0.53	1.74	1.21	0.11	0.55	0.19			0.12		3.60
9	0.25	0.63	1.74	1.27	0.16	0.57	0.22		0.43	0.23		3.70
10	0.41	0.65	1.84	1.25	0.16	0.57	0.24	7.11	0.75	0.19		3.72
15	0.64	0.85	1.99	1.49		0.71	0.48	7.31	0.98	0.41		4.01
20	0.91	0.87	2.01			0.50	0.32	7.07				3.93
30	1.17	0.89	2.21	1.81	0.11	0.79	0.38			0.14		3.90

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (February 2, 2017)



Source: Robeco

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