

# Peripheral Europe Update

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- **Bank of Japan surprises markets by increasing bond buying**
- **AQR results hardly affect government bond markets**

## Main market events

Peripheral bonds performed in line with Bunds for most of last week. On Friday, the Bank of Japan surprisingly increased its QE and the Japanese Government pension fund announced it will increase its holdings of foreign bonds. Peripheral debt rallied as a result. Spanish bonds have returned 13.4% year-to-date, Italian bonds 11.6% and Irish bonds 11.3%.

## European Central Bank

The Asset Quality Review and stress test revealed no large capital needs. A total of 9 banks need to raise further capital, of which 4 Italian banks, 2 Greek banks, 1 Portuguese bank and no Spanish banks. Peripheral bond markets and bank stocks rallied initially on the release, but gave up their gains already after two hours.

## EU

The French and Italian governments made some amendments to their 2015 budget plans to appease the European Commission. The EC did not reject the budgets, applying some flexibility on budget deficit targets due to economic circumstances and the delivery of structural reforms.

## Spain

The Spanish State Council voted to appeal against the consultation vote on independence proposed by the Catalan government on November 9, as it does not meet the necessary 'democratic criteria'.

## Greece

Greece climbed 11 places in the World Bank 2015 Doing Business Report. Greece improved its ranking to 61<sup>st</sup> among 189 economies, which means a rise of 48 places since 2010.

## Robeco Euro Government Bonds

We remain positive on peripheral bond markets. Fundamentals are improving and the ECB's policy remains very supportive for the periphery. This week's announcement of the BoJ shows central banks will remain supportive to increase growth and fight deflation fears. The ECB has just started its asset purchase program to expand its balance sheet. Further unconventional measures from the ECB remain very well possible. This will continue to spur the search for yield. Peripheral bonds remain attractive in this environment.

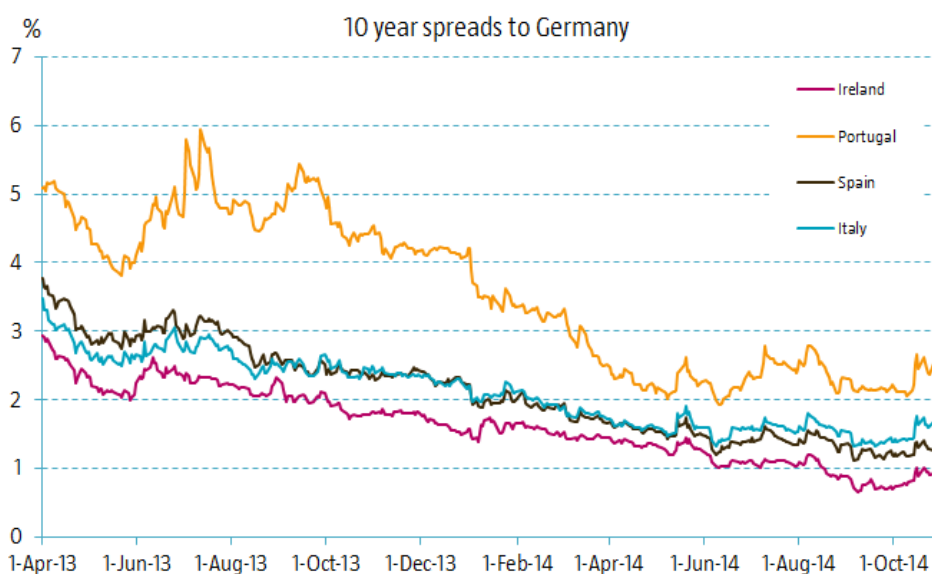
We have slightly reduced our positions in Italy and Spain on Friday, after the strong rally due to the BoJ announcement. We remain overweight Spanish, Italian, Irish and Portuguese debt. Peripheral bonds make up 55% of the fund, more than half of which Italian. Year-to-date the fund's absolute performance is 10.68%\*, helped by the strong performance of periphery bonds.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD October 30, 2014.  
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

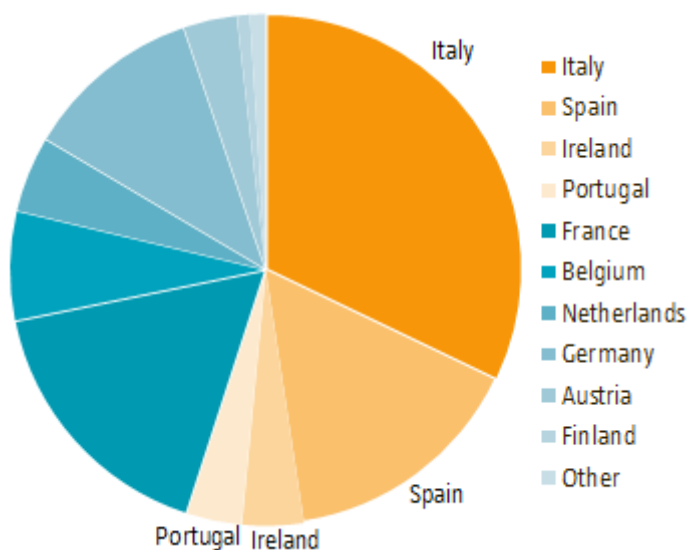
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.06	0.05									
2	-0.05	0.05	0.76	0.61	0.05	0.05	0.04		0.12	0.04	0.96
3	-0.03	0.06	0.91	0.74	0.04	0.04	0.03	7.03	0.39	0.02	1.32
4	0.02	0.14	1.01	0.84	0.10	0.08	0.06		0.48	0.08	1.56
5	0.14	0.17	1.05	0.89	0.13	0.11	0.04	7.03	0.42	0.07	1.73
6	0.23	0.21	1.18	1.00	0.10	0.17	0.11		0.57	0.10	1.91
7	0.37	0.26	1.45	0.95	0.14	0.21	0.15		0.51	0.12	2.01
8	0.55	0.27	1.47	0.94	0.11	0.23	0.09			0.17	
9	0.68	0.27	1.45	1.21	0.15	0.26	0.19		0.82	0.13	2.46
10	0.84	0.35	1.53	1.26	0.14	0.28	0.19	7.19	0.87	0.12	2.40
15	1.26	0.54	1.79	1.51		0.28	-0.03	7.35		0.12	
20	1.52	0.46	1.85			0.47	0.14	7.10			
30	1.76	0.53	2.00	1.73	0.05	0.53	0.11	6.23			

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (October 31, 2014)



Source: Robeco

**Important information**

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