

# Peripheral Europe Update

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- **Draghi finally mentions government bond buying**
- **Italy cancels mid-December debt auction**

## Main market events

Peripheral markets had a strong week, helped by dovish comments from Mario Draghi on Monday and Friday. Short-dated peripheral bonds again outperformed longer-dated ones. Spanish bonds have returned 13.7% year-to-date, Italian bonds 12.7% and Irish bonds 12.5%.

## European Central Bank

ECB President Draghi said on Friday that *"the inflation situation has become increasingly challenging"* and that the ECB would *"broaden purchases if inflation risks materialize"*. On Monday he explicitly said that this broadening would mean buying government bonds as well.

## Italy

Italy cancelled its mid-December debt auction due to the current large cash position. Only 2 auctions are left now for this year: November 27<sup>th</sup> and December 31<sup>st</sup>.

## Spain

Spain will start a legal action against Catalan Premier Artur Mas for disregarding the Spanish Constitutional Court ruling which suspended the consultation vote on independence held November 9<sup>th</sup>.

## Ireland

The Irish government reduced the water charge to households after strong protests. The introduction of this charge was one of the policies agreed with the Troika as part of the bailout program. The now agreed reduction is one of the first signs of Irish austerity-fatigue.

## Robeco Euro Government Bonds

We remain positive on the peripheral bond markets as fundamentals are improving and the ECB's policy remains very supportive for the periphery. We expect further unconventional measures to be needed to reach the ECB's balance sheet expansion target. This will continue to spur the search for yield. Peripheral bonds remain attractive in this environment.

We have closed our overweight in longer-dated Spanish bonds. We maintain overweight in shorter-dated Italian and Portuguese peripheral bonds, where we feel most potential for further spread contraction exists. Investors are becoming more reluctant to add to peripheral exposure with year-end getting closer, but ECB support like the upcoming TLTRO will continue to be beneficial for shorter-dated bonds. Furthermore we remain overweight longer-dated Irish debt as Ireland has the best fundamentals among the peripheral countries.

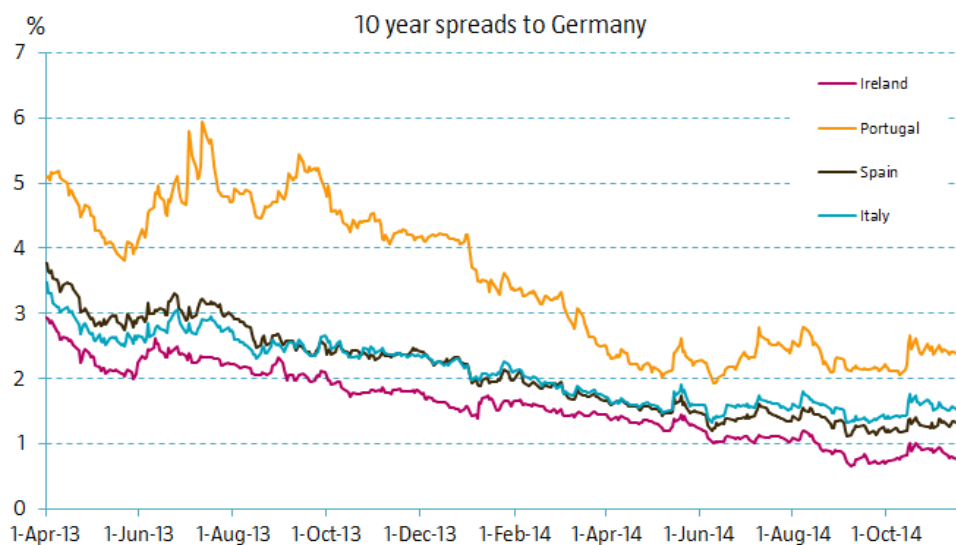
Peripheral bonds make up 50% of the fund, more than half of which Italian. Year-to-date the fund's absolute performance is 11.31%\*, helped by the strong performance of periphery bonds.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 20, 2014. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

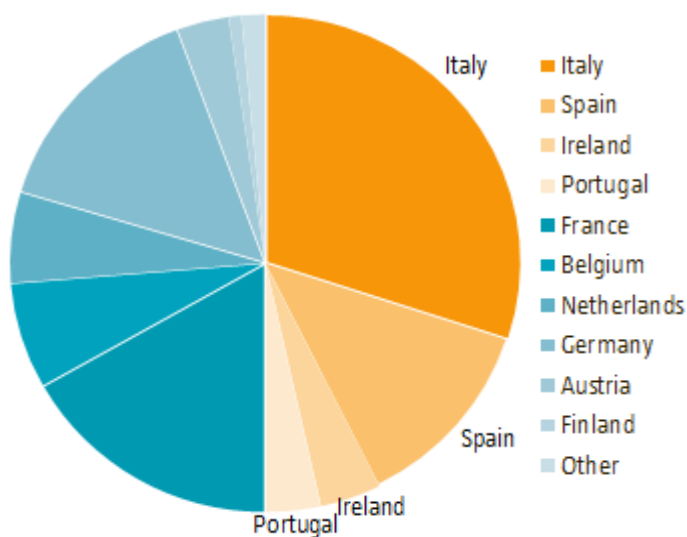
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.05	0.05									
2	-0.03	0.04	0.59	0.44	0.04	0.03	0.04		0.08	0.03	0.63
3	-0.03	0.06	0.78	0.61	0.05	0.05	0.04	7.19	0.32	0.03	1.11
4	0.02	0.14	0.90	0.77	0.10	0.09	0.05		0.40	0.04	1.32
5	0.12	0.17	0.94	0.84	0.12	0.13	0.04	7.22	0.35	0.05	1.52
6	0.19	0.21	1.08	1.00	0.10	0.18	0.11		0.46	0.09	1.78
7	0.31	0.24	1.37	0.98	0.13	0.22	0.14		0.38	0.12	1.94
8	0.47	0.27	1.41	0.97	0.13	0.26	0.10			0.18	
9	0.61	0.27	1.40	1.23	0.16	0.27	0.19		0.71	0.12	2.34
10	0.78	0.34	1.49	1.28	0.14	0.28	0.17	7.46	0.74	0.11	2.27
15	1.21	0.52	1.79	1.57		0.28	-0.05	7.72		0.12	
20	1.47	0.44	1.88			0.46	0.13	7.49			
30	1.70	0.52	2.04	1.85	0.06	0.53	0.10	6.44			

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 21, 2014)



Source: Robeco

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