

Peripheral Europe Update

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- **Threat of another referendum looms in Italy**
- **Spanish opposition tries to roll back labor market reform**

Main market events

Peripheral bond markets recovered this week from the widening seen in the run-up to the Italian referendum. Portugal is the only exception as spreads remained more or less unchanged. The risk positive sentiment continued this week, despite the much anticipated FED meeting on Wednesday where the FED increased the central bank rate and sounded more hawkish than the market expected. German 10y yields remained unchanged this week, but shorter maturity German bonds rallied significantly as result of collateral shortage. Italian bonds have returned 0.41% this year, Spanish bonds 3.59%, Portuguese bonds -3.25% and Irish bonds 2.53%.

Italy

Chances are that Italy will hold another referendum in the near future as a labor union successfully gathered the 3 million signatures to organize the referendum. At stake are the recently implemented labor market reforms, which the unions would like to repeal. In case the Constitutional Court approves the referendum on January 10, the president can officially announce the referendum. The ruling party PD is contemplating to change the Jobs-Act or to organize early elections in the first half 2017; either of these would postpone the referendum.

Spain

The socialist party (PSOE) successfully passed a motion to roll back the in 2012 introduced labor market reforms. These reforms were a key part in the macro-economic tailwind that Spain currently enjoys. Although the motion is non-binding and the government can veto the initiative, it does show that the minority government will have difficulties to pass further reforms.

Greece

The ESM announced this week that the planned debt relief measures will be put on hold for the time being. The Eurozone ministers of finance decided to this measure, after Greece announced measures increasing spending, which were not agreed with the EU.

Robeco Euro Government Bonds

This week we moved back to an underweight position in Italian government bonds, as Italian spreads have declined while political risks have increased again. 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.

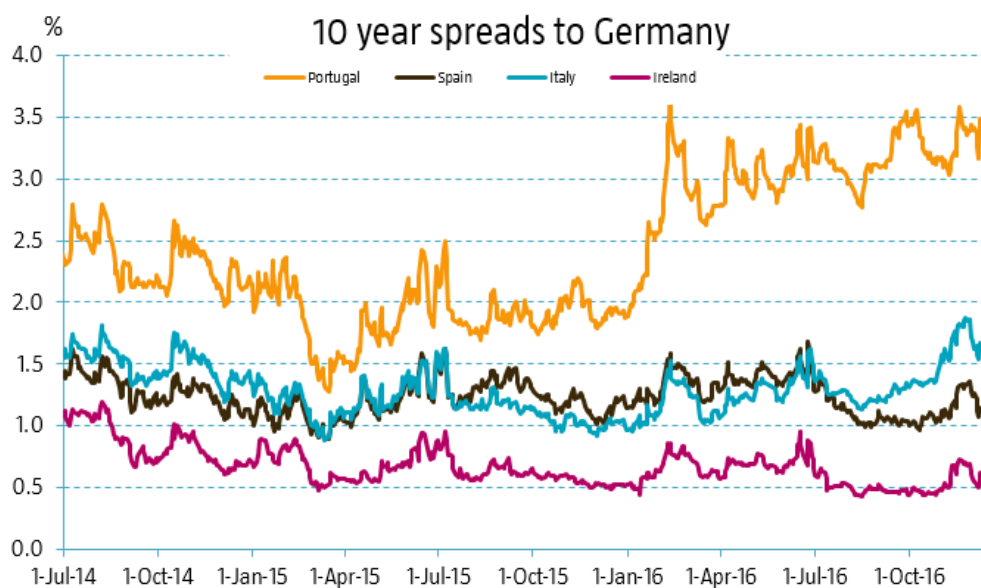
Currently the fund is 33% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 2.49%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD December 15th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

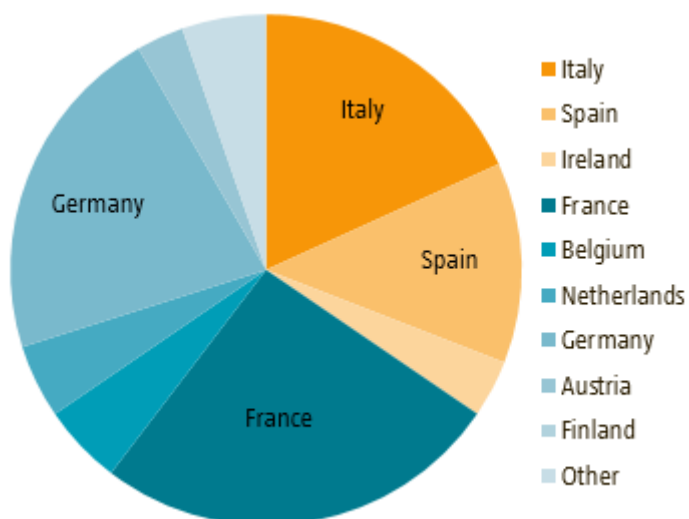
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.80	0.06									
2	-0.79	0.16	0.65	0.54	0.07	0.14	0.16		0.26	0.13	1.04
3	-0.76	0.32	0.75	0.61	0.06	0.19	0.21	9.1	0.28	0.09	1.51
4	-0.62	0.36	0.92	0.69	0.01	0.12	0.16		0.29	0.15	2.25
5	-0.47	0.39	1.10	0.75	0.16	0.13	0.15		0.47	0.08	2.55
6	-0.32	0.28	1.24	0.97	0.05	0.13	0.19		0.32	0.13	2.96
7	-0.19	0.29	1.38	1.02	0.11	0.13	0.17		0.37	0.25	3.33
8	-0.02	0.36	1.47	1.15	0.15	0.23	0.22			0.15	3.47
9	0.13	0.47	1.48	1.20	0.18	0.30	0.25		0.54	0.24	3.49
10	0.32	0.44	1.54	1.12	0.14	0.28	0.25	6.98	0.54	0.15	3.47
15	0.58	0.56	1.62	1.33		0.50	0.45	7.08	0.67	0.29	3.70
20	0.84	0.57	1.64			0.30	0.28	6.94			3.58
30	1.06	0.60	1.90	1.67	0.08	0.60	0.36			0.08	3.64

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (December 16, 2016)



Source: Robeco

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