

Peripheral Europe Update

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- **EC cancels fines Portugal and Spain**
- **Market waits for publication banking stress test**

Main market events

This week peripherals bonds rallied together with Germans bonds, while peripheral bond spreads remained relatively stable across the week. Italian bonds have returned 4.00% this year, Spanish bonds 5.94, Portuguese bonds -0.53% and Irish bonds 4.93%.

EC

The European Commission decided to cancel the fines for both Portugal and Spain for not meeting fiscal targets. Spain is given up to 2018 to cut their annual fiscal deficit to below the 3% threshold, while Portugal gets a one year extension. With the decision not to fine both countries, the EC is trying to avoid further tensions and fragmentation within the Eurozone. Canceling the fines shows the limited credibility of the Eurozone's fiscal framework, according to Fitch rating agency.

Banking stress test

Today the European Banking Authority will publish the banking stress test for the largest 51 banks within the EU. The Italian banking sector is in the spotlight, given its large exposure to non-performing loans. A solution to recapitalize the banks, via private or public funds, have to thus far not succeeded.

Spain

Rajoy has accepted the mandate from King Felipe to form a government coalition. Both PSOE and Podemos repeated their stance that they won't support a PP led government. If PSOE indeed decides to vote against a Rajoy led government, he can't be elected as PM and government formation is very unlikely. After the first vote for PM, there are 2 months left to form a government. If that fails, a third round of elections will be called.

Robeco Euro Government Bonds

We maintain our cautious stance towards euro periphery debt, despite the ECB's QE program. The lack of further reforms and the failure to improve public finances sufficiently in the current benign environment makes the periphery vulnerable. The Brexit will have ramifications for the peripheral countries, since it will result in further uncertainty and lower economic growth. Consensus positioning is overweight in the periphery and valuation is not really compelling.

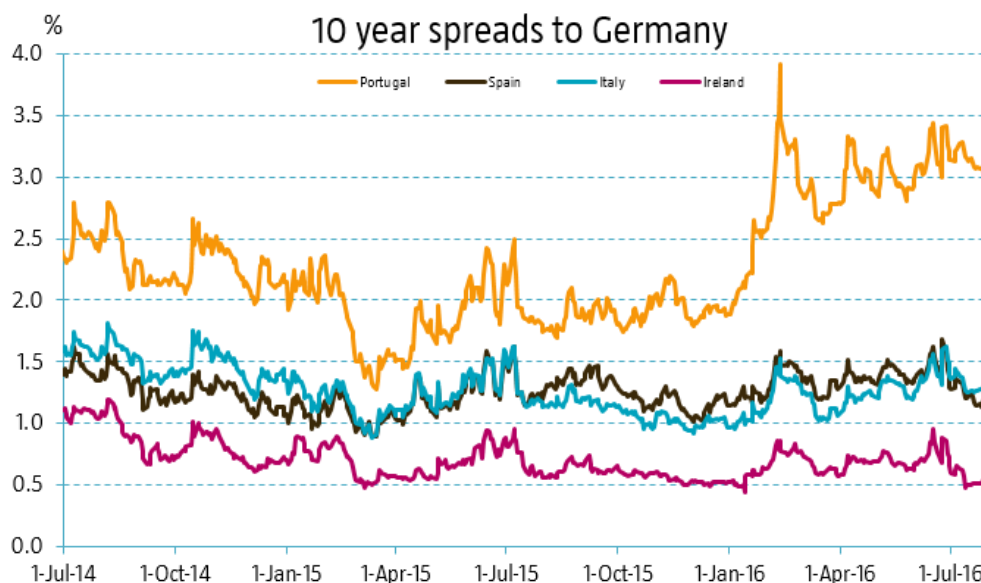
We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. The holdings of peripheral bonds are unchanged at 24%, versus 39% in the benchmark. Year-to-date the fund's absolute return is 6.42%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD July 28, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

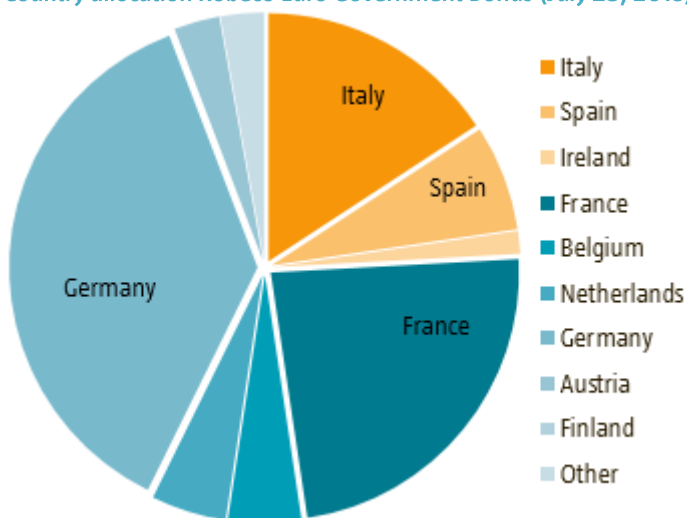
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.60	0.05									
2	-0.61	0.08	0.56	0.45	0.03	0.05	0.09		0.18	0.06	1.08
3	-0.64	0.13	0.65	0.57	0.06	0.12	0.15	9.8	0.29	0.09	1.65
4	-0.59	0.14	0.69	0.61	0.03	0.10	0.11		0.33	0.11	2.02
5	-0.49	0.13	0.79	0.68	0.06	0.06	0.08		0.49	0.05	2.22
6	-0.48	0.16	0.95	0.74	0.06	0.12	0.11		0.39	0.13	2.17
7	-0.42	0.20	1.08	0.88	0.09	0.14	0.07		0.48	0.12	2.66
8	-0.31	0.19	1.18	1.09	0.11	0.21	0.01				0.12
9	-0.19	0.21	1.23	1.09	0.12	0.23	0.17		0.58	0.11	2.97
10	-0.07	0.22	1.27	1.13	0.11	0.24	0.17	8.22	0.53	0.14	3.03
15	0.03	0.43	1.54	1.36		0.45	0.02	8.01	0.69	0.26	3.28
20	0.21	0.50	1.66			0.34	0.29	7.65			
30	0.39	0.49	1.82	1.74	0.08	0.58	0.33			0.08	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (July 28, 2016)



Source: Robeco

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