

Peripheral Europe Update

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- **Rating agency DBRS worried about Portugal**
- **Italy likely to present budget deficit in 2017 according to Italian press**

Main market events

Peripheral markets were this week dominated by headlines from rating agency DBRS about Portugal's rating. This led to significant widening in Portuguese spreads (+30bp). Italian and Irish spreads widened as well, albeit to a much lesser extent. Spain was the only exception in this regard, since spreads continued a tightening trend. Italian bonds have returned 4.86% this year, Spanish bonds 7.04%, Portuguese bonds -0.15% and Irish bonds 5.25%.

Portugal

At the beginning of the week rating agency DBRS expressed its concerns about Portugal's BBB-rating. More specific, DBRS referred to weak economic growth, problems of the domestic banking sector, high public and private debt and lastly the fragile political landscape. Later in the week DBRS mentioned that it is still comfortable with Portugal's rating. The next rating review from DBRS is scheduled October 21.

Italy

According to Italian news sources, the Italian government will revise the 2017's budget deficit to 2.4% from currently 1.8%. Delaying or cancelling the planned VAT hike, decreasing corporate tax rates and rising public investing spending are a few of the policy options that are on the table. An Italian government official mentioned that there is room to increase spending, without violating EU fiscal rules.

Spain

A deal between PP and the centrist party Ciudadanos is likely secured according to Prime Minister Rajoy. In addition, Rajoy mentioned that he will accept the conditions set by Ciudadanos. The vote to reappoint Rajoy as PM ("the investiture vote"), is scheduled for August 31. PSOE (largest Socialist Party) repeated its stance that it will not support a PP led government, and could prevent government formation in the upcoming investiture vote.

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.

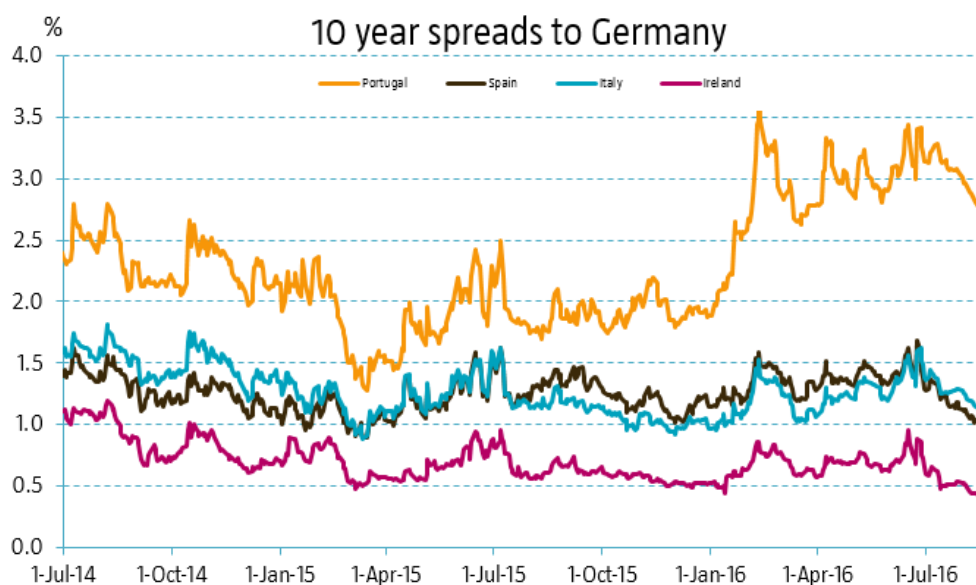
We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. The fund slightly reduced its peripheral underweighting. Current peripheral bonds holdings are set at 27%, versus 39% in the benchmark. Year-to-date the fund's absolute return is 6.66%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD August 18, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

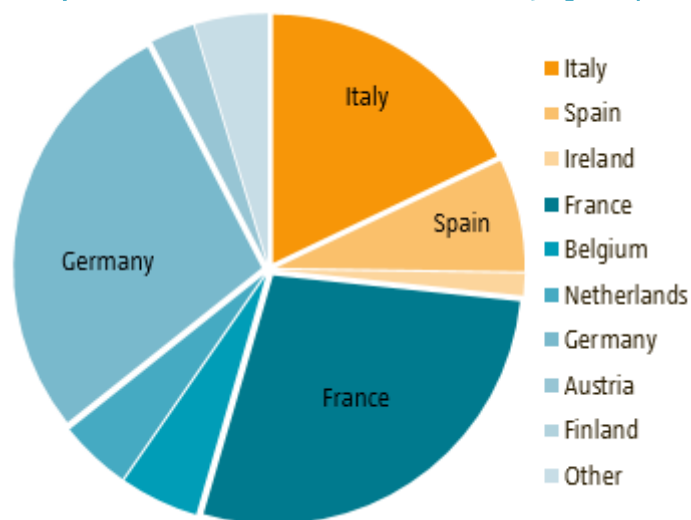
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.60	0.02									
2	-0.62	0.05	0.54	0.44	0.04	0.05	0.09		0.25	0.04	1.22
3	-0.64	0.09	0.62	0.53	0.04	0.09	0.12	9.1	0.27	0.09	1.71
4	-0.60	0.11	0.65	0.57	0.01	0.07	0.10		0.28	0.11	2.19
5	-0.52	0.11	0.75	0.60	0.07	0.07	0.07		0.52	0.06	2.39
6	-0.50	0.13	0.90	0.67	0.07	0.11	0.09		0.34	0.12	2.19
7	-0.44	0.17	1.01	0.80	0.09	0.13	0.06		0.41	0.14	2.82
8	-0.33	0.18	1.09	0.99	0.11	0.18	0.00			0.14	
9	-0.21	0.21	1.15	0.99	0.12	0.21	0.15		0.53	0.11	3.06
10	-0.08	0.22	1.19	1.01	0.10	0.21	0.17	8.11	0.49	0.13	3.07
15	0.05	0.43	1.41	1.21		0.42	-0.02	7.94	0.63	0.28	3.25
20	0.24	0.49	1.52			0.30	0.26	7.58			
30	0.42	0.48	1.71	1.58	0.08	0.56	0.32			0.11	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (August 18, 2016)



Source: Robeco

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