

Peripheral Europe Update

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- **Italian economy slides back into recession**
- **Banco Espírito Santo split into bad bank and new 'Novo Banco'**

Main market events

Globally yields dropped as, mainly due to increased geopolitical risk, investors shifted towards 'safe havens'. Equities, high yield and emerging market debt came under pressure. Peripheral bonds were no exception in this change in sentiment. Spanish bonds have returned 10.4% year to date, Italian bonds 9.5% and Irish bonds 9.1%.

Italy

Italian GDP fell by 0.2% in the second quarter of 2014. As the first quarter showed a contraction of 0.1%, the Italian economy is officially back in recession. The government will need to find additional resources to avoid the fiscal deficit to overshoot the current 2.6% target, as this was made under a 0.8% growth assumption.

Issuance

As both Italy and Spain have already accomplished over 75% of their 2014 funding needs, both countries decided to skip their mid-August auction. This means no bond supply until August 28. Spain last week issued only EUR 3bn of bonds, which were easily taken up by the market.

ECB

The ECB left all policy rates unchanged at its meeting. President Draghi downplayed the weakness in recent growth and inflation data. Asked about the weak Italian growth, Draghi pointed to the lack of reforms in some countries causing the 'uneven recovery' in Europe.

Portugal

The Portuguese central bank had to rescue Banco Espírito Santo by splitting it into two entities, a bad bank and a new institution called Novo Banco. Novo Banco will be recapitalized with EUR 4.9bn (3.0% of GDP) from the Portuguese bank resolution fund.

Robeco Euro Government Bonds

We remain positive on peripheral bond markets as these bonds are attractive given the current low yield environment and the supportive stance from the ECB and the EU. We used this week's spread widening to increase our position in Italy. We had reduced our position tactically after the rally in June, creating room to add now at more attractive levels. The recent geopolitical turmoil does not affect our view on the periphery. Spanish, Italian, Irish and Portuguese debt make up 56% of the fund, more than half of which is Italian. Year to date the fund's absolute performance is 8.52%*, helped by the strong performance of periphery bonds.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD August 7, 2014. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

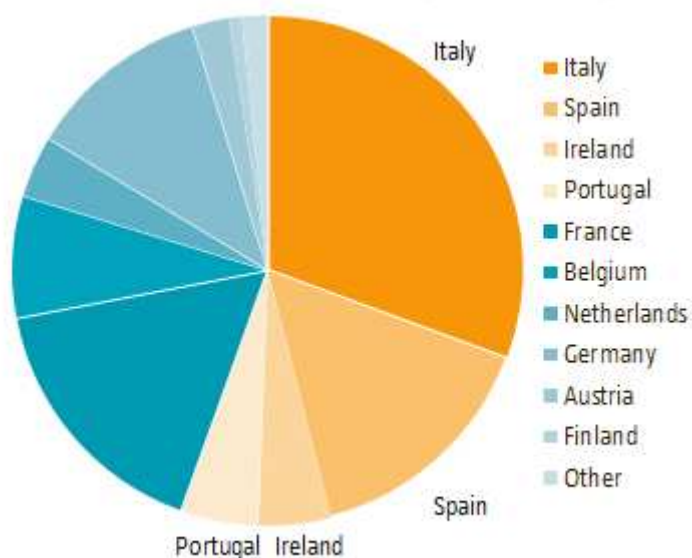
maturity	German yields	Spreads										
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal	
1	0.00	0.03										
2	0.01	0.06	0.44	0.28	0.03	0.04	0.03		0.04	0.02	0.74	
3	0.02	0.13	0.74	0.58	0.07	0.09	0.11	3.89	0.37	0.03	1.18	
4	0.11	0.20	0.96	0.79	0.05	0.11	0.14		0.55	-0.01	1.61	
5	0.26	0.24	1.06	0.89	0.04	0.11	0.13	4.63	0.60	0.00	2.10	
6	0.38	0.16	1.17	1.07	0.14	0.26	0.18		0.80	0.01	2.33	
7	0.55	0.19	1.44	1.18	0.18	0.30	0.22		0.71	-0.01	2.50	
8	0.74	0.21	1.50	1.25	0.19	0.22	0.15			-0.03		
9	0.90	0.27	1.69	1.56	0.21	0.37	0.25		1.11	0.08	2.77	
10	1.06	0.40	1.76	1.50	0.19	0.41	0.26	5.47	1.18	0.15	2.77	
15	1.43	0.58	1.88	1.80		0.40	0.04	5.82		0.15		
20	1.78	0.38	1.88			0.46	0.07	5.55				
30	1.92	0.50	2.05	1.95	0.07	0.55	0.12	5.02				

Source: Bloomberg



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Country allocation Robeco Euro Government Bonds (August 8, 2014)



Source: Robeco

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