

**For Immediate Release**

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**WESTERN ASSET ANTICIPATES BELOW TREND GROWTH IN NEXT PHASE OF BUSINESS CYCLE;  
CONTINUES TO OVERWEIGHT CORPORATE BONDS**

**Hong Kong – 18 September 2009** – Despite reasonable potential for a few quarters of above trend growth, Western Asset believes that the next phase of the business cycle will be characterized by below trend growth and subtle disinflationary pressures. While central banks debate exit strategies from quantitative easing, these are less of a concern as long as there is no premature removal of monetary accommodation. Global trade imbalances are likely to re-emerge after temporarily shrinking during the financial crisis. Given the importance of global trade to economic recovery, this could become a renewed source of tension and concern. Western Asset is also skeptical of fears about incipient inflationary pressures, in part because it is skeptical that labor will be able to wrest away corporate profits in the form of higher wages.

The global fixed income manager's investment thesis since early 2008 has been underpinned by the belief that liquidity provision by major central banks would be sufficient to break the negative feedback loop between collapsing private sector credit extension and deteriorating economic conditions. This led to a large overweight to non-government sectors, including high-yield and investment-grade financial issues.

While the recovery in these sectors is well advanced, Western Asset does not believe the thesis has fully run its course. "Only a fraction of the cash that had fled to either government bonds or low-risk money market funds has returned to riskier asset classes. Cash should continue to return, with occasional interruptions, as risk aversion falls further and systemic risk premiums continue to fade. Nevertheless, as spread sectors such as corporate bonds approach valuations that we believe are closer to fundamentals, our long standing thesis could be nearing maturity. We are analyzing other fundamental themes and sources of value in markets that will help form the foundations of our investment decisions during the upcoming phase of the business cycle," said Mike Zelouf, Director of International Business at Western Asset.

While remaining overweight to the corporate sector, Western Asset is selectively improving the ratings profile and moving up the capital structure within the financial allocation. Even though credit markets have staged an historic comeback in 2009, valuations based on fundamentals broadly remain lower than current market pricing. Spreads are still above nearly every prior month in 2008 across the U.S., U.K. and European investment-grade corporate indices.

"Although the economy has endured the most severe contraction since the Great Depression, we believe credit fundamentals are historically compelling, interest coverage ratios and balance sheet liquidity are all much better than in previous, milder recessions," Zelouf continued.

Western Asset is also holding additional duration relative to benchmarks, and has a bias toward flatter yield curves, particularly in Europe. As the recovery process gains momentum, it will look to reallocate duration toward select peripheral markets such as Australia or Norway, where markets may become overaggressive on rate hike expectations. Remaining cautious on its currency strategies, the firm is maintaining a modest long U.S. dollar, short euro stance and tactically using a long position in

the Canadian dollar as a hedge against potential commodity price rises.

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Note to Editors

**About Western Asset**

Western Asset is one of the world's leading fixed income managers with over US\$485 billion (June 30, 2009) under management. With offices in the United States, London, Tokyo, Singapore, Hong Kong, Melbourne and Sao Paulo, the company offers clients a full range of local and cross-border fixed income products. By devoting all of its resources to fixed income, Western Asset can provide a full commitment to clients in every area. This focused approach has generated positive long-term returns in a variety of products with varying risk disciplines. Western Asset's long performance track record and global presence has positioned the company to continue its commitment to excellence in fixed income investment management and client service.

**About Legg Mason**

Legg Mason, Inc., headquartered in Baltimore, USA, is a global investment management firm with assets under management totaling US\$656.9 billion as of June 30, 2009. Serving clients in 180 countries, Legg Mason is the 10th largest asset manager in the world<sup>1</sup>. Legg Mason's wholly-owned, independently-operated investment subsidiaries manage equity and fixed income assets across the world's major markets. Collectively, they offer a broad spectrum of asset management styles.

<sup>1</sup> *Legg Mason is the 10<sup>th</sup> largest asset manager in the world based on worldwide assets under management as of 31 December 2008. Source: Pensions & Investments May 2009 ranking.*

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