

For Immediate Release

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Legg Mason's Bill Miller bullish on US Growth prospects

Singapore –12 Jan 2010 – Bill Miller, the Chairman and CIO of Legg Mason Capital Management believes the market is underestimating potential US GDP growth in 2010. Indeed, he thinks a major restocking of inventories will help drive a recovery in the US that will see the stock market rise by up to 20% this year.

The fall in industrial output seen in the US has far exceeded the actual drop in demand, the shortfall having been made up from inventories, and Miller fully expects to see a rapid restocking by US companies that will stimulate a sharp rise in economic growth over several quarters.

While the consensus view is for a 2.6% GDP rise in 2010, and the Federal Reserve has predicted 2.7%, Miller says there is a good chance that economic growth will exceed these estimates, possibly reaching as high as 8%. A rise in the stockmarket of up to 20% on the back of this recovery would not be beyond the realms of possibility.

US stocks are delivering earnings that are consistently above expectations and Miller points to the fact that since 1871 there have been 14, 10-year periods when stockmarket returns have been negative, including the last 10 years.* In every one of the previous 13, the subsequent 10-year returns have exceeded 10% after inflation, or much higher than the long-term average real return of 6.66% and more than double the return of government bonds. So every time stocks have performed poorly for 10 years, they have performed better than average for the next 10 years and have beaten bonds every time by an average of two to one. Miller's view is that equities are extremely undervalued versus bonds, yet investors continue to favour bonds over equities.

Miller believes technology and financials are the two sectors most likely to benefit from any upturn, and has positioned his portfolio to reflect this. Technology is the portfolio's largest weighting due to the strength of corporate balance sheets and the number of companies delivering record earnings.

Miller's second biggest weighting is in financials. Miller believes that financials are at their most liquid since the 1930s and those companies left after the fallout of the last two years are well placed

to exploit substantial market share, while the banks are looking increasingly healthier, having reported their losses to be half or less than that predicted in their stress tests.

Mega-cap stocks are best-placed to exploit growth in emerging markets in coming years, especially those that carry favoured big brand names, Miller says. Their non-US earnings mean that they will grow faster than their smaller counterparts while rising consumer demand in China, which the Chinese government is encouraging, will also provide some support for the dollar if it translates into higher demand for US exports

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*Source: Jeremy Siegel, University of Pennsylvania

Note to Editors

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¹ Legg Mason is the 10th 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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