

For Immediate Release

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Western Asset favours financial bonds; expects spread tightening to continue

Singapore – 24 August 2010 – Western Asset continues to favour the non-government bond sector, in particular, corporate bonds issued by financials, which it believes will be a significant driver of outperformance over coming months. In terms of European banks, the fixed income manager believes that the stress tests provided greater transparency of bank balance sheets, which seems to have led to a more sober assessment by markets of the risks involved and, in turn, a narrowing in spreads. With fundamentals remaining robust, the firm believes that spread tightening will continue.

However, as market pricing improves, Western Asset is looking to trim the amount of risk in its financials positions by shifting exposure from lower rated bonds into more senior issues. As a further balance against its overweight exposure to financials, the firm is holding underweight positions in industrial and utility issues that it believes offer insufficient concessions for downside risks to growth.

Elsewhere, Western Asset aims to maintain an underweight position to U.S. agency mortgage-backed securities, preferring to hold an allocation to non-agency issues, which it believes offer better valuations.

Regarding concerns over a double-dip in the U.S. economy, the firm notes that corporate earnings data remain strong and that the recovery so far has been driven by business spending rather than by consumers. Overall, it believes the recovery remains on track, though at a slower pace than seen in the first half of 2010.

Mike Zelouf, director of international business at Western Asset, said, "Given the array of uncertainties, we will have to continue to look through the short-term swings in sentiment and remain focused on underlying valuations. That said, we will continue to adjust the size of our strategies and positions following swings in market pricing."

Within currency markets, Western Asset has been adjusting its short position in the euro, which was initiated as a hedge against further turmoil in the European bond markets, in response to currency movements. As the euro weakened over the second quarter, it reduced the short position. However, following strength in the currency in recent weeks, it is looking to reintroduce a more meaningful short position.

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Notes to Editors

About Western Asset

Western Asset is one of the world's leading fixed income managers with over US\$482.2 billion (December 31, 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.

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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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