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WESTERN ASSET SEES BUYING OPPORTUNITY IN LONG-TERM GREEK GOVERNMENT BONDS

- Global mid-term economic growth remains constrained by household deleveraging and restricted credit flow
- Gilt yields to rise relative to US treasury and German bund yields
- Premium available within Greek government bonds relative to other peripheral eurozone markets

Singapore – 18 February 2010 – Western Asset continues to expect medium-term economic growth to remain constrained by ongoing household deleveraging and a restricted flow of credit. As a result, inflation should remain subdued in most major economies and may not trough for quite some time. As growth remains below trend and spare capacity is only being slowly absorbed, central banks are more likely to hold policy rates at current low levels for an extended period. And should fiscal constraints become binding as investors focus on rising debt-to-GDP ratios, the policy burden will shift to interest rates for policy support. The UK is an exception to Western's comfort with extra duration.

"With the upcoming UK general election and the dire state of UK public finances, we feel that risk premiums on real gilt yields are likely to rise relative to equivalent maturity US Treasury and German bund yields," said Mike Zelouf, Director of International Business at Western Asset Management. The global fixed income manager is therefore shifting duration away from gilt markets toward the US and Europe, and looking to maintain a short position for the time being.

Following the significant spread widening in recent months, Western Asset is targeting a modest position in Greek government bonds. Although public finances are in a very weak position and sovereign credit quality has come under pressure from the major rating agencies, Zelouf believes that the premium available within Greek government bonds relative to their other eurozone counterparts makes them an attractive long-term proposition despite likely near-term volatility. The firm is targeting an underweight exposure to other peripheral European markets such as Spain, Portugal, Italy and Ireland in anticipation of spreads increasing over German bunds

"While the fundamentals are clearly challenged across peripheral Europe, we find the current relative value opportunity offered by Greek debt compelling," Zelouf commented.

Despite its cautious stance over the strength of the global economic rebound, Western Asset continues to hold a substantial overweight position to investment-grade corporate debt and high-yield corporate debt with a focus on select financial issuers of large European and US banks.

The recent announcements by the Obama administration and related discussions across Europe have added considerable uncertainty to the future form of financial intermediation. Zelouf said he was not surprised that regulation is on the rise but he was surprised by how the markets reacted.

"Tighter regulation should be viewed as inevitable, logical and generally bondholder-friendly, and we continue to see compelling value in large strategic institutions with expanding market share," he added. Zelouf expects the financial industry to include less risky business activities, more capital and higher liquidity as a result.

"We believe these would all be bondholder-friendly developments. They are not necessarily equity friendly and we continue to look for a gradual breakdown in correlation between debt and equity markets," he concluded.

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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\$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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