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GLOBAL ASSET MANAGEMENT

News Release

For Immediate Release

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WESTERN ASSET: RECOVERY LIKELY TO PEAK IN 2010 AS INVENTORY RESTOCKING LOSES IMPETUS

Singapore – 19 January 2010 – The global economy is set for two or three quarters of above average growth but this trend will likely fade later in the year as the inventory restocking cycle driver begins to lose steam, says Western Asset. Fiscal stimulus should begin to fade around the same time, hampered by concerns over sovereign solvency.

"As the positive influences of inventory restocking and fiscal stimulus wane and in the absence of any obvious growth substitutes, we remain suspicious over the durability of any above trend growth past 2010," says Mike Zelouf, Director of International Business at Western Asset Management.

There are several positive signs in the short term. Economic activity continues to rebound, with most Purchasing Managers' Index (PMI) series suggest that manufacturing activity is set for above-average expansion in the next few quarters. While lending remains restricted, the banking system is steadily rebuilding its capital base and weaning itself from government support facilities.

Despite this, however, Western Asset does not expect a long period of recovery, given that the economic rebound has to date been driven largely by the inventory restocking cycle, which is expected to lose momentum later in the year. At the same time, existing fiscal stimulus measures will begin to lose their effect, while concerns over sovereign solvency will deter any future stimulus measures.

These factors will impact rates by forcing central banks to continue with an extended phase of monetary accommodation, barring any substantial improvement in employment conditions.

"We have positioned for bull flattening yield curves. Long forward rates in the U.S. and Europe have risen above what we expect to be terminal levels. On a relative value basis, we find the best opportunities in the U.S. versus Europe and Japan, where optimism and expected rate hikes have risen past levels we find most probable. We are most concerned with the situation in the UK. Uncertainty surrounding the up-and-coming election combined with rising debt levels and a heavy dependence on foreign funding make for an unstable environment," says Zelouf.

Western Asset has reduced duration in the gilt market and has a bias to short the GBP should opportunities arise, as well as favouring the US dollar against the EURO and YEN.

Despite caution over the strength of the economic rebound, an overweight to non-government markets seems the best strategy. Western Asset continues to hold a substantial overweight position to investment-grade corporate debt and, where permitted, high-yield corporate debt. Issue selection continues to focus on select financial issues of large European and U.S. banks. The firm also looks to maintain a modest underweight to agency mortgage-backed issues.

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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$506.4 billion under management (September 30, 2009). 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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