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WESTERN ASSET: NON-AGENCY MORTGAGE-BACKED SECURITIES TO TRADE HIGHER

Singapore – 17 November 2009 – When and how the Fed restores financial intermediation in the private sector will have implications for mortgage originations, says Western Asset. Agency pass-throughs led the fixed income rally in November 2008 and have been heavily supported by the Fed's purchase program ever since. While default risks are obviously minimal, the global fixed income manager no longer believes that pass-through yields compensate for uncertainty over the future of the Fed's buying program. Non-agency mortgage-backed securities, on the other hand, have begun to perform quite well. As liquidity continues to improve on the back of the TALF program, Western Asset expects these issues to continue to trade higher.

Mike Zelouf, Director of International Business at Western Asset, said the firm is maintaining an overweight position to the investment-grade corporate sector, which continues to compensate investors for a default rate higher than anything experienced this century but he expects price appreciation to be much less monotonic than it has during the past two quarters as spreads compress.

"The most compelling valuations are in the financial subsector. We also like select high-yield issues, primarily in more defensive industries such as telecommunications and utilities," added Zelouf.

On currencies, Western Asset is holding a long U.S. dollar versus a short euro based both on the position's fundamental and hedge value. "The dollar has been highly inversely correlated with riskier assets since Lehman Brothers collapsed late last year. We believe that negative surprises would be met with dollar strength as has been the case for the past year," Zelouf 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\$506.4 billion (September 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.

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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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