

For Immediate Release

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LEGG MASON: S&P 500 COULD REACH 1350 BY 1H10

London – 17 July 2009 – U.S. equity specialist Legg Mason Capital Management (LMCM) said the cyclical bull market that began in March 2009 could carry the S&P 500 to between 1250 and 1350 by the end of 2010 or the first half of 2011, citing recovery in corporate profits as the U.S. economy emerges from its sharpest downturn in several decades.

Unlike many other observers who are expecting a sluggish recovery, LMCM believes the severity of the previous downturn argues for a fairly sharp snapback in GDP initially, with growth leveling out at a moderate, but still attractive, rate after that. As the economy begins to improve, the massive amounts of cash on the sidelines earning next to nothing, could power a surprisingly strong advance in the market.

“Corrections will occur for sure. In our view, the combination of improving fundamentals and the boatload of cash on the sidelines should limit corrections to -10% to -15%, and thus we would be surprised to see the S&P 500 break 800 on the downside,” said Robert Hagstrom, a portfolio manager of Legg Mason Capital Management during a media briefing in Hong Kong.

The U.S. equity market rallied sharply after the outlook improved from “dreadful” to “less worse”. Hagstrom said the “less worse” phase of the market’s advance has about run its course and further sustained upside progress from here will have to be based upon actual improvement in the economy, which he believes is exactly what will happen in the second half of 2009.

He made reference to the numerous leading indicators that Ned Davis Research (NDR) has identified, all of which are now pointing to an imminent improvement in economic activity:

Financial

- S&P 500 Index turned positive in March 2009
- Yield spread between Moody’s Baa bonds and long-term Treasuries began to narrow in December 2008.

Employment / compensation

- One-month change in non-farm payrolls and one-month change in the state diffusion index turned positive in January and February 2009, respectively

Sentiment

- The University of Michigan Consumer Sentiment Index bottomed out in November 2008

Housing

- New home sales bottomed in January 2009

Spending

- Year-to-year change in personal consumption expenditures (PCE) on durable goods bottomed in October 2008.

Manufacturing / inventories

- Both the manufacturing Purchasing Manager's Index (PMI) and inventory-to-sales ratio turned positive in December 2008.

Composites

- NDR's own Economic Timing Model turned up in November 2008
- The Economic Cycle Research Institute's Weekly Leading Index turned positive in March 2009
- OECD's U.S. Composite Leading Indicator rose to 90.9 in April from March's 90.7 reading.

"One thing we would find troubling, and which could derail our generally optimistic assessment of the next year or two, is if Fed Chairman Bernanke is not reappointed when his term expires in January 2010. By all accounts, President Obama is a big Bernanke fan, but we still worry a bit about the possibility that he will find it politically expedient to appoint a Democrat—Larry Summers, most likely—to replace him," said Hagstrom.

He believes this would be a huge mistake, to which the market could potentially react quite negatively.

"Bernanke correctly understands that the "clear and present danger" for now and the immediate future is not inflation, but deflation. In view of the collapse in the velocity of money, triggered by the virtual shutdown of the shadow banking system and dramatic tightening of bank lending standards, we think Bernanke's trillion dollar-plus expansion of the Fed's balance sheet was exactly the right medicine, and likely prevented a depression from occurring," he added.

Some commentators have criticized the Fed's aggressive expansion of its balance sheet, arguing that it will trigger a surge in inflation. Hagstrom, however, believes that those criticisms are misplaced.

"Until the velocity of money starts to rise and loan growth picks up meaningfully, the chance that aggressive reserve expansion will trigger inflation is relatively minor," he concluded.

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Note to Editors

About Legg Mason Capital Management

Founded in 1982 as a wholly owned subsidiary of Legg Mason, Inc., Legg Mason Capital Management (LMCM) is a specialist in the management of US equities. Based in Baltimore, Maryland, LMCM is well-known for its distinctive value approach to investing — the firm follows a value-driven, research-intensive investment process that focuses on assessing the intrinsic business value of each company. In this way it seeks to buy stocks at significant discounts to what its research indicates the businesses are worth.

About Legg Mason

Legg Mason, Inc., headquartered in Baltimore, USA, is a global investment management firm with assets under management totaling US\$632.4 billion as of March 31, 2009. Serving clients in 180 countries, Legg Mason is the 10th largest asset manager in the world¹. Legg Mason's wholly-owned, independently-operated investment subsidiaries manage equity and fixed income assets across the world's major markets. Collectively, they offer a broad spectrum of asset management styles.

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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