

**For Immediate Release**  
**Legg Mason Global Asset Management**  
Alison Merrigan - 0207 070 7379  
[amerrigan@leggmason.com](mailto:amerrigan@leggmason.com)

**Citigate Dewe Rogerson**  
Jo Skinner - 0207 282 1092  
[Jo.skinner@citigatedr.co.uk](mailto:Jo.skinner@citigatedr.co.uk)

***End European stubbornness or face further turmoil, says Legg Mason affiliate, Brandywine***

- Time is running out on ‘muddle through’ strategy
- Improve competitiveness of EU through wage and price deflation
- Disillusionment of German taxpayer could add to Euro woes

**London – 1 March 2011** – Legg Mason affiliate, Brandywine Global Investment (“Brandywine”), believes that the European Union (“EU”) must put an end to the defensive coping strategies employed by its leaders. The current strategy is to ‘muddle through’ and buy time for the EU economies to recover. The EU and International Monetary Fund (“IMF”) provided loans to both Greece and Ireland and set up the Emergency Financing Stabilization Facility (EFSF). This may provide operational liquidity but does not address the problem of too much debt and insolvency, according to David Hoffman, Portfolio Manager on the Legg Mason Brandywine Global Fixed Income Fund.

So far the authorities have rejected the mechanisms which could work to overcome this crisis, Hoffman explains, “There are no provisions to boost growth for problem countries. Usually governments that embrace severe fiscal austerity can fall back on a weak currency to help stimulate growth – this is not possible for Greece, Ireland and other countries as they are tied to the euro. The only way to get competitive is through wage and price deflation. The stress on the political economy from this strategy only raises credit default swap (“CDS”) rates, boosts bond yields and perpetuates the probability of default.

**Hoffman adds**, “Time is running out on the “muddle through” approach. So far the authorities have rejected the mechanisms which could work to overcome this crisis. The European Central Bank (“ECB”) has continued to take the orthodox line that purchasing the debt of insolvent member

countries is inherently inflationary. Yet, the issue is that if they do not, they could end up in deflation. This is the same thinking which caused Europe to stay in Depression far longer than other regions of the world in the 1930s. None of the EMU members seem willing to go down the road of expelling a member from the union, and none of the problem countries want to leave”.

The world as a whole is improving but the steady advance in global GDP conceals considerable regional diversity. None could be more extreme than the comparison between the economic profile of China-- which is growing so fast that inflation has become a problem---and Southern Europe-- which to all intents and purposes is in a deflationary depression. There is foreign demand for European manufactured goods, but Europe's internal growth dynamic is weak. In China retail sales are up by 50% since 2008 while they have re-bounded to pre-crisis levels in the U.S. China, for the first time, is the locomotive of global growth with its influence most present in the rebound in world trade and production. In the US, efforts to heal fast are being made.

**Brandywine** believes that the authorities need to check the rise in peripheral rate increases with a credible plan or markets may lose patience completely and force a resolution. The obvious credit event that would force a change would be a debt default, an outcome markets have priced in for some time.

The Legg Mason Brandywine Global Fixed Income Fund is currently heavily underweight European currencies, concentrated almost entirely in an underweight in the euro. Whilst a lot of negative sentiment towards the euro has already been priced into the market, we suspect it would be even weaker were it not for the US Federal Reserve expanding its balance sheet again. The fund's European exposure to currency is via other European countries such as the Swedish and Norwegian currencies, Polish Zloty, Hungarian Forint and the British Pound. Although Brandywine prefers non-G3 currencies compared to the G3, its exposure within the G3 remains underweight the Japanese Yen and significantly overweight the US Dollar.

With regards to duration and Government Bonds, the fund has overweights to US, Australia, Poland, Malaysia, South Korea as well as Sweden and Norway in peripheral Europe.

**- Ends -**

**Notes to editors**

**About Legg Mason Global Asset Management**

Legg Mason is a global asset management firm with assets under management of \$672 billion as of January 31, 2011. The Company provides active asset management in many major investment centres throughout the world. Legg Mason is headquartered in Baltimore, Maryland, and its common stock is listed on the New York Stock Exchange (symbol: LM).

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