

For Immediate Release

Legg Mason Global Asset Management

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Western Asset: Global GDP to Slow towards Equilibrium Growth Rates in Next Six Months; Asian Economies the Biggest Beneficiary of Yuan Revaluation

London – 31 August 2010 – Global fixed income manager Western Asset expects global gross domestic product (GDP) growth to slow toward equilibrium growth rates in the next six months as inventory restocking cycle concludes and fiscal stimulus fades. A second recession would require a second shock. While this is unlikely, potential shocks include a second banking panic and premature fiscal consolidation.

“Those who predict a double-dip recession often invoke the U.S. experience in the early 1980s. We find this an invalid inference, as the Volcker Federal Reserve purposefully engineered the second recession in US in 1981. The funds rate doubled, reaching 20% for a second time just months after the first of the double-dip recessions ended. It took 24 months of economic contraction to break the cycle of inflationary expectations that had solidified during the preceding decade. In contrast, monetary authorities today are engaged in unprecedented reflationary policies in a focused effort to stimulate growth,” said Mike Zelouf, director of international business at Western Asset.

Zelouf pointed out that today’s global financial system is flush with central bank liquidity, benefits from government guarantees on liabilities and it has access to unlimited dollars via official currency swap lines. Solvency has been bolstered by more than US\$1.5 trillion of capital injections. While further deleveraging is necessary, particularly in Europe, future liquidity crises should be minor and short-lived.

As for premature fiscal consolidation, the pendulum has recently swung in favour of those who advocate an accelerated pace of deficit reduction. This is somewhat concerning for risk assets but monetary stimulus should be able to offset the scaling back of fiscal support. However, monetary authorities will have to remain supportive for some time.

Western Asset continues to maintain an overweight to the financial subsector with a clear emphasis on globally diversified banks that are large and benefit from multiple sources of funding.

The firm believes that small regional banks with concentrated assets and single business lines will struggle and continues to avoid those issues. It is also maintaining neutral to slightly underweight positions in the industrial and utility sectors.

On yuan revaluation, Zelouf said the appreciation of China’s currency will continue and even gain momentum in the years to come. China’s trading partners will continue to pressure China for further revaluation, and China itself will increasingly benefit from the revaluation.

“The biggest beneficiaries should be the handful of highly competitive Asian economies that trade extensively with China. They are in a strong position to capitalize during this phase as China

transitions toward a more consumption-driven economic growth model. Against this, we continue to be pessimistic on the euro and view bouts of euro strength as selling opportunities,” he concluded.

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Notes to Editors

About Legg Mason Global Asset Management

Legg Mason is a global asset management firm with \$659 billion in assets under management as of July 31, 2010. 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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About Western Asset

Western Asset is one of the world's leading global fixed income managers. 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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