

For Immediate Release

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Legg Mason's Western Asset underweights gilts on UK concerns

London – 4 February 2010 – Legg Mason Global Asset Management's affiliate, Western Asset – one of the world's leading fixed income managers is underweighting gilts on concerns they are too expensive and that yields will most likely rise.

Western believes that several factors point to negative returns for gilts this year. Firstly, support for prices is likely to come to an end as the Bank of England begins to remove the emergency levels of liquidity provided by the Asset Purchase Facility. Secondly, inflation has been persistently higher than expected, partly as a result of the weaker currency and inflation is likely to face increased levels of volatility as moderate growth returns. Thirdly, the UK faces a General Election by June 3 at the latest and there is increasing political uncertainty surrounding its outcome.

Despite the strong gains generated in 2009 Western believes outstanding opportunities can still be found in non-government bonds, especially high yield corporate bonds and those issued by financials, as economic conditions continue to strengthen. It continues to hold a higher degree of risk in portfolios.

Mike Zelouf, Director of International Business at Western Asset Management, commented:

"As default rates begin to recede, the riskier bond sectors will continue to perform relatively well, outperforming government bonds at a minimum. Should the economic recovery gain a degree of durability, prices of risky assets could rise further.

"The global economy passed through its worst point last summer and we would not be surprised to see a few quarters of above-average growth going forward, particularly in the US. Indeed, the current economic rebound is driven largely by the inventory cycle. However, we are cautious about the economic growth past 2010."

- Ends -

Notes to editors

About Legg Mason

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Notes to Editor

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