

## Media Release

9 August 2017

### Western Asset says Fed could be more cautious about future hikes

Western Asset, a Legg Mason affiliate and one of the world's leading fixed income specialists, in a recent global outlook says that despite unspectacular global growth and cautionary signs in many economies they remain optimistic that global growth of around 3% is sustainable.

Ken Leech, Western Asset Chief Investment Officer noted that "The slowing in overall growth will soon be apparent to the Fed and could lead it to be more cautious about further rate hikes. We continue to favour long US government bonds, while we are less keen on European, UK and Japanese sovereigns."

Leech added "Global inflation appears to have stopped declining as the extraordinary monetary policy effort seen in developed nations finally seems to be bearing fruit. Our view, however, remains that this will be a very slow process, taking many years and continuing to require meaningful monetary and even fiscal support."

"This view suggests that spread sectors will continue to be preferable to holding developed market government bonds. It also suggests, however, that any meaningful or swift increase in inflation or interest rates is not imminent."

"We have downgraded our outlook for US growth based on recent lack of growth in capital spending, export activity and related flattening out in US factory sector activity."

Speaking about Europe Leech expects "the Eurozone to grow at around 1.7% to 2.0% in 2017, notwithstanding the uncertainty caused by the UK's decision to leave the European Union (EU). With deflation risks in the Eurozone dissipating, however, the market's focus has shifted to when and how the European Central Bank (ECB) will normalize its monetary policy stance. While underlying measures of core inflation remain subdued, we believe the ECB will continue to keep interest rates low and we expect asset purchases to continue into 2018."

"In Japan, we expect growth to improve to around 1% to 1.5% in the context of the current fiscal and monetary policy mix, the delay in the consumption tax increase and the improving global economy. Inflation remains low although it should increase gradually due to a tighter labor market. We expect the Bank of Japan (BoJ) to continue with its accommodative monetary policy for some time to meet its inflation goal. With 10-year nominal yields capped around 0% by the BoJ, we expect real yields to decline further and maintain exposure to Japanese inflation-linked bonds. We still expect the yen to continue its weakening trend versus the US dollar."

"Our base case view for credit spreads remains a modestly tighter destination in the near-to-midterm, but the aggressive move tighter in spreads over the past several months has valuations nearing what can only be described as fair."

Leech concluded "We continue to be constructive on emerging market (EM) debt and believe there is room for further spread compression versus developed markets."

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## **About Western Asset Management**

Western Asset Management is one of the world's leading fixed income managers. From offices in Pasadena, Hong Kong, London, Melbourne, New York, São Paulo, Singapore, Tokyo and Dubai, the company provides investment services for a wide variety of global clients, across an equally wide variety of mandates. Western Asset's long performance track record and global presence have positioned the company to continue its commitment to excellence in fixed-income investment management and client service. With a focus on long-term fundamental value investing that employs a top-down and bottom-up approach, the firm has nine offices around the globe and deep experience across the range of fixed income sectors.

- *Established 1971*
- *Head office Pasadena, USA*
- *Funds managed AUD\$559 billion as at 30 June 2017*

## **About Legg Mason**

Legg Mason is one of the world's largest funds management groups, with a history that dates back to 1899. The firm is listed on the New York Stock Exchange and employs approximately 3,400 employees in 40 offices worldwide. One of Legg Mason's most distinguishing characteristics is its global multi-affiliate model. Legg Mason provides a global platform and centralised business and distribution support for its nine affiliated fund managers that include: Brandywine Global, Clarion Partners, ClearBridge, EntrustPermal, Martin Currie, RARE Infrastructure (in addition to its own domestic distribution), Royce & Associates, QS Investors and Western Asset. Each affiliate operates independently under its own brand and investment process, and is considered an industry expert in its asset class. Legg Mason offers a diverse set of investment solutions across institutional, wealth management and direct investor channels, covering a range of asset classes including Australian equities, global equities, fixed income, real assets, income, alternatives, emerging markets, direct lending and multi-asset products.

- *Established 1899*
- *Head office Baltimore, USA*
- *Australia operations started in 1954*
- *Local offices in Melbourne and Sydney*
- *Funds managed globally AUD\$975 billion as at 30 June 2017*

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