LEGG MASON
GLOBAL ASSET MANAGEMENT

News Release

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IF THE HISTORIC BULL RUN IS ENDING, U.S. INVESTORS DID NOT PREDICT IT

ANNUAL LEGG MASON GLOBAL INVESTMENT SURVEY SHOWS INVESTORS EXPECT EQUITY MARKETS TO KEEP RISING IN U.S., EUROPE AND CHINA

New York, New York — November 5, 2018 — Legg Mason, Inc. (NYSE: LM) Stock markets have climbed upwards for almost 10 years, repeatedly setting record highs in the U.S. and elsewhere, yet most respondents to the annual Legg Mason Global Investment Survey (LMGIS) believe equity markets will keep rising.

Almost half of respondents said they plan to increase active fund allocations over the next five years. The survey also found that many Millennials feel pain from the Global Financial Crisis of the previous decade, although it is unlikely they had significant investments at that time.

Among the 1,000 U.S. investors surveyed, each with portfolios exceeding $50,000, 66% expected U.S. equity markets to rise over the next 12 months, with 29% predicting a significant increase. The U.S. was viewed as the best market for return opportunities, at 73%, despite concerns over health care costs, trade wars and potentially rising U.S. and global inflation.

Investor optimism was geographically diversified, with 57% of respondents believing that global equity markets will also increase. Europe (excluding the U.K.) and China followed the U.S. as favored markets. In terms of asset classes, 42% of respondents favored domestic stocks, followed by real estate (29%) and international stocks (26%).

Income is important: 87% of investors reported having income-producing investments, including dividend stocks (47%), bonds (22%) and property rentals (13%).

Overall, among the U.S. investors surveyed, 69% said they are “confident” about their investments over the next 12 months, and 28% reported being “very confident.”

“A substantial majority of investors expected the U.S. equity bull market to continue, coming into October,” said Thomas K. Hoops, Legg Mason’s Head of Business Development. “For the most part, this enthusiasm reflected investors feeling good about today – and who could blame them?”

“With a decade of rising stock prices, higher GDP growth, historic lows in unemployment and lower taxes, current conditions in the U.S. are very strong,” Mr. Hoops added. “While much has been written about increasing trade tensions, rising U.S. interest rates and slowing global growth, retail investors seemed to be looking past the wall of worry.”

“The question is, what will they do now that markets have shown signs of volatility?”

ALLOCATIONS DIVERSE BUT FAVOR EQUITIES

When it comes to overall portfolio allocations, survey respondents (whose average age is 53) reported owning:

- 27.6% equities

- 22.2% cash
- 21.2% fixed income
- 12.6% real estate
- 10.7% alternatives
- 5.7% gold/metals

It is worth noting that not one investor – 0% – reported owning crypto-currencies. This is the first year of the LMGIS that this option was offered.

"For growth over the long term, equities need to be the dominant asset in investors' portfolios," said Adam Petryk, President of Legg Mason affiliate QS Investors. "However, diversification is critical, particularly as volatility rises, as we saw in October. Different drivers occur at different times in different markets, creating a much larger opportunity set. Growth in the U.S. has been very robust, and the U.S. Federal Reserve has started tightening. We see opportunity for growth to expand globally."

"Investors should consider portfolios diversified across the U.S., developed international markets and emerging markets – and across low volatility, momentum and value assets."

"We also urge investors to consider lower cash and fixed-income allocations," Mr. Petryk added. "As rates rise, they should also consider more flexible fixed-income strategies that have the ability to manage duration and invest opportunistically. Modest allocations to real estate that are liquid and diversified, and to alternatives, can provide low or negative correlations to traditional assets."

INTERNATIONAL AND EMERGING MARKETS BECKON. WILL U.S. INVESTORS GO?

Asked what the most important considerations were when making investment decisions, country or region came in at the very bottom, at 8%. Investors seeking better growth opportunities could do well to investigate opportunities outside the U.S. that they do not yet appear to be considering.

"Investors in the U.S. already have a high exposure to U.S. equities, yet the survey shows they still favor their home market," said Mr. Hoops. "Adding more is not consistent with both their time horizon and their risk profile. They need to look for both income and return in places and asset classes that they normally have not looked. It is incumbent on us to help clients think about taking different risks, not necessarily more risks."

"Investors also should bear in mind that 75% of global GDP comes from outside the U.S.," said Elisa Mazen, Portfolio Manager of the Legg Mason-affiliated ClearBridge International Growth Fund. "We can access great minds, technology innovation, attractive demographics, growth rates and valuations in many regions. This can bring opportunity for sustainable long-term growth."

"Emerging markets are growing much faster than developed markets," said Andrew Mathewson, Portfolio Manager of the Legg Mason-affiliated Martin Currie Emerging Markets Fund. "They won't be derailed by one quarter of poor market performance or weak foreign exchange rates. The rise of human capital, urbanization and reform are long-term trends. There has been huge improvement in the quality of emerging market asset classes over the last decade."

INVESTORS TIP BALANCE TO ACTIVE OVER PASSIVE

Despite an almost straight line move upward in U.S. equity markets for the past decade, actively-managed funds remain a key component in investors' current portfolios: 58% reported being invested in active funds. Millennials report the highest allocation to active strategies (60%).

Almost half of respondents (47%) say they plan to increase allocations over the next five years to active funds, while only 39% will increase allocations to passive. Those more likely to invest in active include 74% of Millennials, 64% of Gen X, and 58% of self-identified “expert” investors.

“Well-chosen active products have the potential to deliver strong value for investors, particularly in high active share, small caps, international, emerging markets, alternatives and global fixed income – all increasingly important investment areas,” Mr. Hoops observed.

MILLENNIALS REPORT BEING FEARFUL

One surprising finding of the LMGIS is that many Millennials still feel pain from the Global Financial Crisis: 56% said their decision-making remains affected by that period. They are less invested in equities (17.9% of portfolios) and more in cash (25.4%) than other cohorts.

“Millennials came of age during the Financial Crisis,” Mr. Hoops said. “Even if they were not deeply invested then, they faced difficult job markets and limited opportunities. If they can get past their fears, owing to their age, they are well-positioned to meet their long-term investment needs.”

“Given their conservative nature, Millennials could consider diversification and down-side risk management to avoid emotional over-reactions to the all-too-inevitable market dips, and stay the course for the long-term,” he added. “They should consider going outside their home markets, finding proven long-term managers and consider putting part of their equity allocations in low-volatility strategies.”

About the 2018 Legg Mason Global Investment Survey

The sixth annual Legg Mason Global Investment Survey was conducted by Research Plus Ltd. among 1,000 U.S. investors who plan to invest a minimum of $50,000 in the next 12 months. Fieldwork was conducted via an online survey between July 26 and August 24, 2018. To learn more about the survey findings, go to https://www.leggmason.com/global/campaigns/gis-2018.html.

About Legg Mason

Guided by a mission of Investing to Improve Lives,™ Legg Mason helps investors globally achieve better financial outcomes by expanding choice across investment strategies, vehicles and investor access through independent investment managers with diverse expertise in equity, fixed income, alternative and liquidity investments. Legg Mason’s assets under management are $755 billion as of September 30, 2018. To learn more, visit our website, our newsroom, or follow us on LinkedIn, Twitter, or Facebook.

*Due to rounding, asset allocation percentages might not equal 100%.

All investments involve risk, including loss of principal.

Fixed-income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls. International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

Diversification and active management do not assure a profit or protect against market loss.