July 2019 | Product Commentary

WESTERN ASSET MACRO OPPORTUNITIES FUND

Team-managed

Market review

Easier monetary policy expectations around the world drove markets in July. Even though the Federal Reserve ("Fed") cut interest rates by 25 basis points and ended its balance sheet reduction, the moves were interpreted as being on the hawkish end of expectations—Fed Chair Jerome Powell was noncommittal on further easing this year. Economic data over the month were stronger than expected, and with U.S. Treasury yields ending the month relatively unchanged, Western Asset continues to believe nominal spending is not increasing quickly enough to generate meaningful inflation. In Europe, the European Central Bank left rates unchanged but published a dovish policy statement that included "or lower" wording in its forward rate guidance language, and it announced that work was under way to examine a system for tiered reserve remuneration and options for potential new net asset purchases. Spreads between the yields of semi-core and peripheral European government bonds and those of German bunds tightened as more deeply negative yields and the prospect of a new asset purchase program led investors to seek higher-yielding alternatives.

Contributors/detractors

Emerging markets debt was the largest contributor to performance, with Brazilian, Russian and Indian spreads all tighter. Long positions in the Brazilian real and Mexican peso also contributed, as those currencies strengthened versus the U.S. dollar. Peripheral Europe contributed to performance mainly as a result of long 10-year Italian Treasury and financial exposures. Exposures to investment-grade and high-yield credit added to performance as both spreads tightened.

Average annual total returns and fund expenses (%)

As of July 31, 2019	3-mo	1-yr	5-yr	10-yr	Since Fund's Incept. Date (8/30/13)	Gross	Net
Class A Excluding sales charges	2.96	7.71	4.76	N/A	6.33	1.59	1.59
Class A Including effects of maximum sales charges	-1.37	3.17	3.86	N/A	5.56	1.59	1.59
Benchmark*	0.69	2.61	1.16	N/A	1.02		

As of June 30, 2019	3-mo	1-yr	5-yr	10-yr	Since Fund's Incept. Date (8/30/13)	Gross	Net
Class A Excluding sales charges	4.34	9.79	4.82	N/A	6.50	1.59	1.59
Class A Including effects of maximum sales charges	-0.09	5.10	3.91	N/A	5.72	1.59	1.59
Benchmark*	0.70	2.59	1.12	N/A	N/A		

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than the original cost. Class A shares have a maximum front-end sales charge of 4.25%. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would have been lower if fees had not been waived and/or reimbursed in various periods. Returns for less than one year are cumulative. For the most recent month-end information, please visit www.leggmason.com.*

Effective June 1, 2017, the Fund changed its security pricing methodology to now use the mean value of the bid and ask prices (of underlying fund holdings) to calculate the NAV. Funds may show a one-time increase of the NAV, which is due to this change in pricing methodology.

Gross expenses are the Fund's total annual operating expenses for the share class(es) shown. **Net expenses** are the Fund's total annual operating expenses for the share classes indicated and would reflect contractual fee waivers and/or reimbursements, where these reductions reduce the Fund's gross expenses. These arrangements cannot be terminated prior to December 31, 2020 without the Board's consent. * Benchmark definition on page 3.

Duration and curve positioning was negative for performance overall, as rates in Europe continued to fall and short German duration exposures detracted.

Definitions and other terms:

Duration is a measurement that signals how much the price of a bond is likely to fluctuate when there is a change in interest rates. The higher the duration number, the more sensitive a bond will be to interest rate changes.

The **Federal Open Market Committee (**FOMC) is the branch of the Federal Reserve Board that determines the direction of monetary policy.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

An **investment grade** is a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

Sector Allocation - Notional exposure as of July 31, 2019 (%)*	
Foreign Exchange	47.4
Investment Grade Credit	43.5
Emerging Markets	40.4
Peripheral Europe	10.0
High Yield Credit	8.3
MBS/ABS	7.4
Municipal	0.4

* Emerging Markets exposure is denominated in both USD and local currency. Local-currency exposure is reflected in both Emerging Markets and Foreign Exchange. Foreign Exchange represents gross currency exposure. Percentages are based on notional values of the portfolio as of month end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security. Negative allocations and allocations in excess of 100% are primarily due to the Fund's unsettled trade activity.

Top currency exposure as of July 31, 2019 (%)**	
US Dollar	65.9
Brazilian Real	8.6
Russian Ruble	7.3
Mexican Peso	6.7
Indian Rupee	4.7
Argentine Peso	3.1
Indonesian Rupiah	2.2
Australian Dollar	1.4
Colombian Peso	1.2
South African Rand	1.1
Swedish Krona	0.9
Egyptian Pound	0.9
Peruvian Nuevo Sol	0.7
British Pound	0.7
Chilean Peso	0.6
Canadian Dollar	0.3
Japanese Yen	0.1
Turkish Lira	0.1
China Offshore Renminbi	0.0
Polish Zloty	0.0

**Percentages are based on notional values of the portfolio as of month end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security. Negative allocations and allocations in excess of 100% are primarily due to the Fund's unsettled trade activity.

Brandywine Global
Clarion Partners
ClearBridge Investments
EnTrustGlobal
Martin Currie
QS Investors
RARE Infrastructure
Royce & Associates
Western Asset

leggmason.com
1-800-822-5544

LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason is a leading global investment company committed to helping clients reach their financial goals through long-term, actively managed investment strategies.

- A broad mix of equities, fixed income, alternatives and cash strategies invested worldwide
- A diverse family of specialized investment managers, each with its own independent approach to research and analysis
- Over a century of experience in identifying opportunities and delivering astute investment solutions to clients

What should I know before investing?

The Fund's investment strategies and portfolio investments differ from those of many other mutual funds. The manager may devote a significant portion of the Fund's assets to pursuing an investment opportunity or strategy, including through the use of derivatives that create a form of investment leverage in the Fund. This approach to investing may make the Fund a more volatile investment than other mutual funds and cause the Fund to perform less favorably than other mutual funds under similar market or economic conditions. The Fund makes significant use of derivatives, for both hedging and non-hedging purposes, which could result in substantial losses and greater volatility in the Fund's performance. 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. High yield bonds are subject to greater price volatility, illiquidity, and possibility of default. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks. Potential active and frequent trading may result in higher transaction costs and increased investor liability. The manager's investment style may become out of favor and/or the manager's selection process may prove incorrect, which may have a negative impact on the Fund's performance. As a non-diversified Fund, it is permitted to invest a higher percentage of its assets in any one issuer than a diversified fund, which may magnify the Fund's losses from events affecting a particular issuer.

*The ICE BofA Merrill Lynch US Dollar 3-Month LIBOR Constant Maturity Index is designed to track the performance of a synthetic asset paying LIBOR to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day fixing rate) and rolled into a new instrument. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. The Macro Opportunities Strategy is not managed against a benchmark. The ICE BofA Merrill Lynch US Dollar 3-Month LIBOR Constant Maturity Index is used for reference only.

Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, a forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional.

Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time.

Western Asset Management Company, LLC and Legg Mason Investor Services, LLC are subsidiaries of Legg Mason, Inc.

BEFORE INVESTING, CAREFULLY CONSIDER A FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES. YOU CAN FIND THIS AND OTHER INFORMATION IN EACH PROSPECTUS, AND SUMMARY PROSPECTUS, IF AVAILABLE, AT WWW.LEGGMASON.COM. PLEASE READ THE PROSPECTUS CAREFULLY.