GLOBAL MACRO.

Tim Drayson

Webcast Summary, 16 September 2011

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- Outlook highly uncertain and more QE in US and UK could be seen
- Euro crisis escalating and much is riding on the politicians
- Some bright spots exist and equities offer reasonable value

The situation in Europe is worrying and its effects on the UK will be damaging but there remain some glimmers of hope, Legal & General Investmentsô economist Tim Drayson believes.

Speaking in the groupös latest webcast on 16 September, Tim said Legal & General Investment Management (LGIM) is retaining its above consensus growth outlook for the US economy. He believes emerging markets may be robust enough to withstand the impact the growing European sovereign debt crisis may have on global growth. However, he also pointed out the notion the UK is a safe haven due to its separation from the Eurozone is misplaced and LGIM has lowered its growth expectations for even core Europe.

Tim said the rising sovereign crisis makes the cycle difficult to model, leading to an uncertain outlook, especially with so much riding on political decisions. The Euro crisis is intensifying, there is a mounting fear that policymakers are out of options and there is a serious risk of a meltdown, he said.

Within Europe, Tim said LGIM is concerned the actions taken to support the struggling peripheral nations are starting to erode the positives in places like France and Germany. He noted French retail sales have flattened and the housing market, previously an area of strength helping to support consumption, is starting to soften. Germany has already experienced dramatic falls in its stock market, the Dax. German corporates are being squeezed with rising labour costs and slowing global demand, he added.

"Politically it's very difficult to fully understand what's going on, both at the leadership level and within the individual countries. It's very difficult to see how all of this is going to play out and how markets will react if Greece is forced to default; and whether they can successfully ring fence other big nations like Italy and Spain, which would be much more problematic to bail out."

LGIM has not been overly positive on the UK outlook and remains so. The latest job numbers show the private sector is not creating enough jobs to offset public sector losses, calling into question the austerity drive, Tim said. The UK may have to ease back on these initiatives or risk a recessionary outcome, he added.

Tim is somewhat sanguine about the UKös inflation picture and does not believe it is a deterrent for authorities to initiate another round of quantitative easing here. He said while inflation is likely to hit 5% this year, it has not affected wages and that in turn continues to weigh on UK consumption.

He added: ñ**The UK consumer is under a lot of pressure with a very nasty real income squeeze underway. Inflation should fall back next year quite sharply as the VAT falls out but if conditions in Europe continue to deteriorate and there are no signs of a pick up in activity in**

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the UK, it could be a trigger for more quantitative easing.”

Tim is more upbeat on the US economy, despite the high profile bad news events over the summer. Calling the US debt ceiling issue over the summer a “fiasco,” and feeling the US faces a real a long-term struggle, he remains convinced the Federal Reserve will not stand idly by and watch the economy drift into recession in the short-term. As such, although consensus GDP growth estimates for the US have fallen to around 2%, LGIM’s forcast for 2012 is closer to 3%.

“The US corporate sector is in an unusually strong position. Free cash flows are very high and dividend payments continue. I think the corporate sector can withstand two to three quarters of sluggish growth without having to make the kind of cost cuts that typically precipitate recessionary dynamics.”

In addition, Tim pointed out US households are also in a reasonable position. Households have already adjusted their saving behaviours and are paying down debt. Tim feels they can continue to do so without materially cutting their consumption levels – so long as corporates do not start cutting jobs.

Tim is also relatively positive on emerging markets, although like the US, he has some reservations about the longer-term outlook for China, with the potential for a hard landing further out in 2013.

He added: **“Emerging markets are clearly not immune from what is going on in the West but I think fundamentally they are in a better place. Such economies do not have the traditional imbalances we’d normally see going into a crisis and their domestic story looks quite solid. They have been tightening policy because inflation pressures were building but the fact growth has slowed and commodity prices have eased is alleviating some of those pressures so countries are starting to loosen policies again, with Brazil and Russia both recently cutting rates.”**

With all of this going on and being watched nervously by investors, Tim said he understands investor nervousness and waning confidence. In this environment, Tim says he is negative on US Treasuries, believes commodities will continue to rise and that equities still offer relative value.

To hear a recording of the Legal & General UK Alpha Trust webcast on 16 September 2011, visit www.landginvestments.com/events