

Economic review

Fourth quarter 2008

The economy

The slowing economy and the concerns over the stability of global financial systems have been the primary economic themes during the fourth quarter of 2008. Previous concerns about inflation have shifted to uneasiness about possible price deflation. There were significant ups and downs in the price of equities, fixed income investments, commodities and currencies during the quarter.

Index	Fourth quarter 2008 returns	Annual returns Dec. 31, 2008
S&P/TSX	-22.71	-33.00
S&P 500 (C\$)	-9.81	-21.92
MSCI EAFE (C\$)	-7.51	-29.83
DEX Univ Overall Bond TR *	4.50	6.41

*Previously ScotiaMcLeod Universe TR

Canada

The global economic situation affected Canada during the fourth quarter of 2008 and caused declines in demand for most commodities, including oil. The price of oil declined significantly to US\$44 from its summer peak of \$147. The string of fiscal surpluses run by the Canadian government appears to be coming to an end, as the stimulus plans introduced will put the government in a deficit position for the first time since 1996/1997. The government agreed to provide financial assistance to the ailing automotive sector, a significant employer in Southern Ontario. The decline in energy and other commodities put downward pressure on the Canadian dollar, which fell 13.5 per cent during the quarter to end the period at \$0.8166. The Bank of Canada lowered interest rates in December to 1.5 per cent, the lowest interest rate in over 50 years.

The DEX Bond Universe posted a 4.5 per cent return during the fourth quarter, while the S&P/TSX declined 22.71 per cent during the fourth quarter. Nine out of 10 sectors had negative performances; the best-performing sector was Consumer Staples. Meanwhile, Energy and Financial Services were the weakest-performing sectors in the quarter.

United States

The fourth quarter saw the official proclamation that the U.S. has been in a recession since December 2007. Concerns about the financial sector were front and center during much of the quarter. Government assistance was a major theme in 2008, with bailout packages created for a number of U.S. financial firms as well as the auto sector.

The U.S. unemployment rate rose to 7.2 per cent with the loss of 2.6 million jobs during 2008. The U.S. Federal Reserve reduced its key lending rate during the quarter to 0.25 per cent. The U.S. housing market continued to weaken; in October house prices fell 18 per cent year over year, according to the benchmark Case-Shiller home price index.

The S&P 500 posted a -9.81 per cent (C\$) decline during the fourth quarter. All ten sectors posted negative returns in U.S. dollars. The best-performing sectors were Telecommunications and Utilities, and the worst-performing were the Financial and Material sectors.

Globally

The worldwide credit crunch was the key factor that affected the slumping global economy. Global trade slowed significantly due to difficulties obtaining trade credit. China announced a large stimulus plan to help jump-start its slowing economy and Japanese automakers saw significant declines in sales due to a slowdown in consumer spending.

Final words

A disciplined and diversified approach to investing that's consistent with personal objectives should be a consideration when developing an investment strategy. This strategy should reflect the risk characteristics of each investment option within a portfolio as well as personal overall risk tolerance. Great-West Life provides tools and information to help with these choices. For information about specific investments available in your group retirement plan, visit www.grsaccess.com.

Sincerely,



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National Investment Services
Great-West Life

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