

Economic review

First Quarter 2008

The Economy

The concern over the health of the financial system continues to spook the capital markets. Aside from these worries, Canada continues to generate positive economic results. There've been a number of themes over the last couple of years that persisted during the first quarter of 2008, including a strong Canadian dollar, high oil prices, and U.S. real estate and sub-prime mortgage issues.

Index	3 Months	1 year March 31, 2008
S&P/TSX	-2.84	4.00
S&P 500 (\$C)	-5.81	-15.37
MSCI EAFE (\$C)	-5.25	-13.25
TSX DEX Univ Overall Bond TR *	2.96	5.78

*Previously called ScotiaMcLeod Universe TR

Canada

The prevailing Canadian economic story continues to be the strength of the energy sector. The price of a barrel of oil rose 15 per cent in the first quarter to close at an all-time high of \$105. The continued strength in the energy sector has been fuelling economic activity in Western Canada. The Canadian dollar declined 3.8 per cent during the quarter to end the period at 0.9729 per U.S. dollar. The benefit to Canadians of the strong dollar has been a tempering impact on inflation rates, which was 1.4 per cent in March, and the stronger Canadian dollar makes it cheaper to import goods from abroad. The Bank of Canada lowered interest rates in January and again in March, lowering the Bank Rate to 3.50 per cent. The Canadian economy still continues to post positive results with a strong housing market.

The TSX DEX Bond Universe posted a three per cent return during the first quarter, while the S&P/TSX declined 2.84 per cent during the first quarter. Only two out of 10 sectors had positive performance, with the best-performing sectors being Materials and Energy. Meanwhile, the Consumer Discretionary and Telecom sectors were the weakest-performing sectors in the quarter.

United States

The first quarter was the worst for the U.S. market in more than five years. Concerns over stability of the financial system weighed on the equity and bond markets during the first quarter. U.S. unemployment rate continued to rise to 5.1 per cent, and during the quarter, the economy shed over 230,000 jobs. The U.S. Federal Reserve had aggressively reduced their key lending rate three times during the quarter with it sitting at 2.25 per cent. It also assisted in the bail out of the potential bankruptcy of Bear Stearns. The U.S. housing market continued to weaken with new house construction starts falling to 11.9 per cent from a year ago, signaling its lowest level in 17 years.

The S&P 500 Canadian dollar posted a -5.8 per cent return during the first quarter. All 10 sectors had negative performance on the quarter. The best-performing sectors were Consumer Staples and Materials while the worst were Financials and Information Technology.

Globally

The North American capital markets were not the only region to experience a setback in 2008. In fact, the once red-hot Chinese market was down 34 per cent in the first quarter of 2008. Despite the weak stock market, the Chinese economy continued to grow at a rapid rate with the GDP growth in the first quarter at a rate of 10.6 per cent. In January, the results of a rogue trader at Societe Generale cause some anxiety in the European markets as the trader was responsible for \$5 billion euros in losses to the large European financial institution. Inflation fears have been rising around the world, most recently manifesting itself in a rise in food prices. The prices of corn, wheat and rice have risen to record highs. The high prices have caused riots and unrest in a number of countries including Egypt, Philippines, Haiti and Yemen. These staple crops have been in high demand because they're used in fuel, and because of an increase in the global demand for meat, which requires greater use of feed crops.

A prime example of how what was once a poor-performing asset class can reverse course to become the best-performing asset class is global bonds. The small fall in value of the Canadian dollar in the first quarter of 2008 and strong bond markets around the world has made the once beleaguered global bond asset class the best-performing asset class in the quarter. The volatility in the equity markets prompted investors to look for the security of government bonds.

Final words

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

Sincerely,



Robbin Dichter
Director
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