

Economic review

Third Quarter 2008

The economy

The global economic slowdown and concerns over the availability of credit are the primary economic themes during the third quarter of 2008. A secondary theme began to emerge in the third quarter – the decline of the commodities market.

Index	Third quarter returns	One year returns September 30, 2008
S&P/TSX	-18.22	-14.40
S&P 500 (\$C)	-4.66	-17.00
MSCI EAFE (\$C)	-17.34	-26.07
DEX Univ Overall Bond TR*	-0.37	4.62

*Previously called ScotiaMcLeod Universe TR

Canada

The Canadian economy continues to show signs of slowing. The demand for commodities has slowed along with the global economy. The reduced demand for commodities has impacted the Canadian dollar, which declined 3.9 per cent during the quarter to end the period at 0.9435 USD. The price of oil fell 22.24 per cent in the quarter to close at \$104. Concerns over the Canadian economy have shifted from inflationary to slowing economic growth.

The DEX Bond Universe posted a -0.4 per cent decline during the third quarter while the S&P/TSX fell 18.22 per cent. Only one out of 10 sectors had a positive performance – financials and consumer discretionary. Information technology and materials were the weakest performing sectors in the quarter. The negative performance of the Canadian stock market is due in large part, to the heavy weighting of the TSX toward the energy and materials sectors, which fell 26.9 and 33.6 per cent respectively this quarter.

United States

The third quarter saw inflation concerns subside, with the focus shifting to the faltering economy and the stability of the U.S. financial system. The unemployment rate in the U.S. continued to rise, ending the quarter at 6.1 per cent and a loss of over 294,000 jobs. The S&P/Case-Shiller housing index fell by a record 16.3 per cent in July from one year ago. Concerns over the stability of the U.S. financial system dominated economic news in the quarter including news of the bankruptcy of Lehman Brothers Holdings Inc., the bailout of American

International Group Inc. (AIG) by the U.S. Federal Reserve, and the conservatorship of Fannie Mae and Freddie Mac by the U.S. government. Investors around the world are seriously concerned about the stability of U.S. financial markets after witnessing a partial nationalization of the U.S. financial system and the change in ownership of some major financial institutions.

The S&P 500 Canadian dollar posted a -4.66 per cent return during the third quarter. Six of the 10 sectors had negative performances for the quarter. The best performing sector was consumer staples and the worst performing sectors were energy and materials

Globally

Markets overseas were just as volatile as North American markets. Emerging markets drove the overseas markets lower with the IFC emerging market index down 24.7 per cent for the quarter. Resource-rich Russia dealt with the volatile markets by closing its index for two days in September. The financial systems in many foreign countries have been affected by U.S. market volatility, with various financial institutions looking for help from their respective governments.

Final words

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

Sincerely,



Robbin Dichter
Director
National Investment Services