

Economic review

Fourth Quarter 2009

The economy

There are signs of life in the global economy. Recent economic reports point to a turnaround in global economic activity. Consumer confidence is on the rise and has created optimism in financial markets.

Index	3 months	1 year Dec. 31, 2009
S&P/TSX	3.86	35.05
S&P 500 (\$C)	4.12	9.27
MSCI EAFE (\$C)	0.36	14.42
DEX Univ Overall Bond TR *	-0.17	5.41

*Previously ScotiaMcLeod Universe TR

Canada

The Canadian economy posted positive economic growth in recent months. While the unemployment rate remains an issue, the Canadian dollar saw some resurgence, rising 2.4 per cent during the quarter to end the period at US\$0.9555. The Bank of Canada maintained its historically low interest rate of 0.25 per cent and has signalled that interest rates will remain low for the first half of 2010. The Canadian residential housing market continued to show its strength, fuelled by very low interest rates. Some cautionary comments were issued from the Bank of Canada warning consumers to be mindful of debt in the event of a rise in interest rates.

The DEX Bond Universe posted a -0.17 per cent return during the fourth quarter, while the S&P/TSX gained 3.86 per cent. Eight out of 10 sectors had positive performance; the best-performing sectors were Utilities and Industrials. Meanwhile, the Health Care and Financials sectors were the weakest performers in the quarter.

The S&P 500 (\$C) posted a 4.12 per cent return during the fourth quarter. Nine out of 10 sectors had positive performance; the best-performing sectors were Information Technology, Consumer Discretionary and Health Care. The Financials and Consumer Staples sectors were the weakest performing in the quarter.

United States

At the moment, the U.S. economy's greatest challenge is the creation of new jobs. The unemployment rate is now at 10 per cent, the highest in a generation. The U.S. dollar continues to struggle, relative to other currencies around the world. The decline in value of the U.S. dollar is partly responsible for the rise in the value of gold. India recently

purchased 200 tons of gold, which is viewed as a U.S. currency hedge and U.S. dollar replacement for central banks around the world. Continued trade deficits and budget deficits of historic proportions put downward pressure on the U.S. dollar against all major global currencies.

The Federal Reserve continued its policy of very low interest rates of 0.25 per cent. The low interest rates helped stimulate the economy as planned, but the concern now is how the Federal Reserve could start raising interest rates and reverse other policies without crippling the U.S. economy. If interest rates remain low for too long, they may cause high inflation in the near future.

Global

Stock markets around the world continued their upward march in the fourth quarter of 2009. Countries like Australia and Canada have weathered the economic downturn quite well. Both countries share many similarities, including strong banking systems and an abundance of natural resources. Australia has also benefited from its close proximity to China, which continued its fast-paced economic growth through the end of 2009.

Final words

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



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