

# Economic review

Second Quarter 2010

## The economy

The rebound in the global economy from the so-called “great recession” has hit some road bumps in the form of the European debt crisis. The Canadian economy continues to be growing and has been strong relative to many other developed nations.

Index	3 months	1 year June 30, 2010
S&P/TSX	-5.52	11.95
S&P 500 (\$C)	-7.51	4.39
MSCI EAFE (\$C)	-10.17	-3.37
DEX Univ Overall Bond TR *	2.92	6.88

\*Previously called ScotiaMcLeod Universe TR

## Canada

The Canadian economy is showing signs of strength as the June unemployment rate declined to 7.9 per cent; this is the lowest level in eighteen months. The Canadian dollar declined 4.2 per cent during the quarter, as the global economic concerns saw a flight to quality, which means a flight to the U.S. dollar. Canada was the first of the G8 countries to raise the benchmark lending rate; on June 1 the Bank of Canada increased rates by 0.25 per cent to 0.50 percent. The housing market continues to be strong, influenced by home buyers rushing into the market over fears of rising interest rates or the upcoming HST in B.C. and Ontario. Housing prices in Canada have reached record levels in many different markets.

The DEX Universe Bond index posted a 2.92 per cent return during the second quarter, while the S&P/TSX declined 5.52 per cent. Four out of 10 sectors had positive performance; the best-performing sectors were Telecom and Health Care. Meanwhile, the Consumer Staples and Technology sectors were the weakest performers in the quarter.

The S&P 500 (\$C) index posted a 7.51 per cent decline during the second quarter. Eight out of 10 sectors had negative performance; the best-performing sectors were Telecommunications and Utilities. Meanwhile, the Materials and Financial sectors were the weakest performers in the quarter.

## United States

The U.S. economy is slowly emerging from recession. The primary economic challenge remains the creation of new jobs. Despite strong profit growth, hiring has been relatively slow. As business profitability improves, more job opportunities should result. Straddling both economic and environmental issues is the BP oil spill in the Gulf of Mexico. The ramifications for offshore drilling regulations remain to be seen and could influence new oil supply for years to come.

Another regulatory hurdle affecting the financial markets is the passage of financial service sector reform during the quarter. The uncertainty over what kinds of business banks and other investment firms can be in has caused some concern for investors.

The combination of European sovereign debt issues and the lack of employment growth introduces the possibility of a double-dip recession, which has made some investors nervous. This unease has caused a flight to safety, which pushed bond yields down to their lowest levels since the credit crisis. The Federal Reserve continued its policy of very low interest rates of 0.25 per cent.

## Global

During the second quarter, Greece’s debt issue has raised questions about the level of sovereign debt around the world. Consequently, investors around the world have become more risk-averse.

China announced that it would allow its currency to increase in value relative to the U.S. dollar. China continues to post strong economic growth, but even China has seen its growth rates slow as the impact of fiscal stimulus starts to wear off.

The great global economic debate in 2010 is about which economic policy will be most effective: fiscal stimulus, or fiscal austerity to curb increasing sovereign debt.

## 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.grsaccess.com](http://www.grsaccess.com).

Sincerely,



Robbin Dichter CFA  
Director  
National Investment Services