Weakening European Currencies Was the Story of the First Quarter

On January 22, the European Central Bank (ECB) announced a 60 billion euro-a-month bond purchase program to shore up the Eurozone economy. Bond yields in European countries fell, pushing some bonds into negative territory. Investors sold the euro and the currency fell 12.7% relative to the dollar during the first quarter. Other European currencies also fell; the Denmark krone, the Norwegian krone, and the Swedish krone were down 13.1%, 8.2%, and 10.5% respectively against the U.S. dollar. The WSJ Dollar Index rose 5.9% against a basket of 16 currencies in the first quarter. The price of the dollar changed little against the Japanese yen.

Stocks: European Stocks Sizzled

The ECB's bond purchase program appeared to have had the impact that was intended. Bond yields dropped and the euro fell. Investors believe that these factors, combined with lower oil prices, should help struggling Eurozone economies. European stocks were the big winners in the first quarter. The Stoxx Europe 600 rose 16% in the first quarter. MSCI indices for Germany and France showed gains of 22.1% and 18.0% respectively in local currency.

In the U.S., stock returns were muted by concerns of the impact of the strong dollar on profits of large multinational companies. The Standard and Poor's 500 index of U.S. stocks delivered a total return of 1.0%. Health care was the best performing sector, gaining 6.5% while utilities succumbed to profit taking and lost 5.2% Smaller and more U.S.-focused

Index Performance 1Q 2015

Global Equity Markets 1Q 2015

Source: Wall Street Journal

Source: J.P. Morgan Asset Management
MSCI Gross Index (Official) Data 2015

S&P Equity Sectors 1Q 2015

Source: J.P. Morgan Asset Management
stocks did better since their earnings were impacted less by the strengthening dollar. In the first quarter of 2015, the Russell 2000 stock index of small companies returned 4.3%.

**Bonds: Negative Yields in Europe**
The ECB’s bond purchase program, announced in January 2015, caused yields to fall across the Eurozone with yields on some bonds falling into negative territory. This has had an impact on global debt markets. Low yields in the Eurozone and Japan have made U.S. bonds relatively attractive to investors. For example, at the end of the quarter the 10-Year Treasury note yielded 1.93% compared to the 10-Year German government bond at 0.183%. The stronger dollar also helped money flow into U.S. debt markets.

The Barclays U.S. Aggregate bond index returned 1.6% in the first quarter. The longer duration Barclays U.S. Gov./Credit Long index did better with a return of 3.4%. Corporate high yield bonds posted a return of 2.5% as investors took advantage of higher yields caused by a sell-off in energy company bonds last year.

Factors that continue to help the bond market include: subdued inflation in the U.S., falling deficits resulting in a reduced supply of Treasurys, lower rates in the Eurozone due to recessionary conditions, and purchases of U.S. Treasurys by foreign central banks and investors.

**Commodities: Continued Pain**
A stronger dollar and excess supply hit commodity prices in the first quarter. The Bloomberg UBS commodity index, which tracks 22 commodities, fell 5.9% in the first quarter of 2015. U.S. crude oil storage rose to its highest level in 80 years, according to the EIA. Prices fell 10.6% in the first quarter and settled at $47.6/barrel. Natural gas prices also fell 8.6%.

Sources: Wall Street Journal, Bank of America Merrill Lynch, Goldman Sachs, Northern Trust, Bloomberg, Factset

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