LEAVELL
INVESTMENT MANAGEMENT

First Quarter 2017 Commentary

Dear Clients,

Please find enclosed your March 31, 2017 Investment Reports.

Investors greeted the new year with a cautiously optimistic outlook and were rewarded with generally positive returns and low volatility in the first quarter. Emerging market stocks led the way with a double-digit return, followed by developed international and U.S. stocks. Investor optimism seemed to leave no contingency for downside surprises—as evidenced by the VIX, commonly used as the stock markets' fear gauge, ending the quarter at historic lows. Macroeconomic fundamentals were also broadly supportive to markets. In Europe, stock gains reflected a combination of bullish investor sentiment and positive economic data, including rising corporate earnings. Upward revisions to corporate earnings forecasts, GDP growth that far outstrips that of developed economies, and valuations that appear cheap compared with developed-market stocks all helped drive the strong gains in emerging-market stocks.

Benchmark Returns

	Last Quarter	Last Twelve Months	Last Five Years
US Large Cap Stocks	6.2%	17.6%	13.2%
US Mid Cap Stocks	6.2%	16.8%	13.0%
US Small Cap Stocks	3.7%	21.5%	13.0%
International Developed Stocks	7.4%	12.9%	6.0%
Emerging Market Stocks	10.2%	18.0%	1.5%
US Bonds	0.8%	0.4%	2.3%
Global Bonds	2.5%	-3.9%	-1.1%
US REITs	0.7%	1.9%	8.5%

Data source: Morningstar Direct. Past performance does not guarantee future results. It is not possible to invest directly in an index. Last five years data is annualized. Market indexes include:

US Large Cap Stocks: CRSP US Mega Cap TR USD
US Mid Cap Stocks: CRSP US Mid Cap TR USD
US Small Cap Stocks: CRSP US Small Cap TR USD
Emerging Market Stocks: FTSE Emerging TR USD
International Developed Stocks: FTSE Developed Ex US TR USD
US Bonds: Barclays US Aggregate Bond TR USD
Global Bonds: Barclays Global Aggregate Ex USD TR USD
US REITs: MSCI US REIT NR USD

Investors took the Federal Reserve's widely anticipated 0.25% increase in the federal funds rate in stride, treating it as another indicator of the U.S. economy's return to form. As Fed Chair Janet Yellen stated, "The simple message is the economy is doing well." On Friday, the Bureau of Economic Analysis released a revised GDP figure of 2.1% for the fourth quarter of 2016 versus an earlier estimate of 1.9%. Moves in Treasurys and the U.S. dollar were closely tied to investor perceptions that the Fed might be poised to take a more hawkish stance on interest rates due in part to the potential for Trump's legislative agenda to boost inflation. This view changed as the quarter drew to a close, with both the Fed and financial markets forecasting roughly two more rate hikes this year. The yield on the 10-year Treasury ended March at 2.4%, down from an intraquarter high of 2.6%. The dollar also fell, ending 2.8% lower against a basket of currencies. Traders attributed the fall to the Fed's failure to raise its inflation expectations, which would signal a potential move to a more accelerated pace of interest rate increases.

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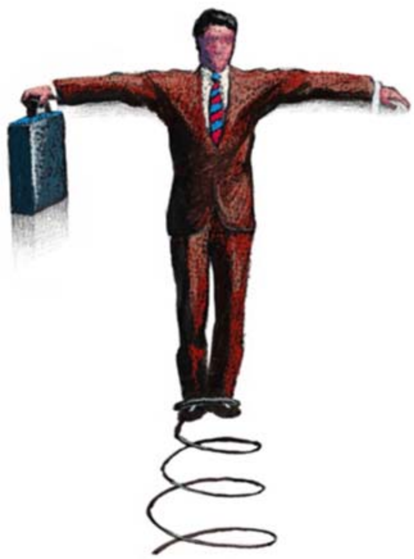
It's too soon to know how the second quarter will play out, but we remain alert to potentially policy-driven political risk in the United States. In Europe, the outcome of upcoming elections, and related developments in France (May) and Germany (September), may have unexpected impacts on markets. While to date investors have shown a remarkable degree of staying power, that does not mean they will continue to do so. We still believe that high current valuations may prove to be a headwind to U.S. stock market returns looking out longer term. We also remain concerned about the unresolved risks stemming from the global debt build-up and unprecedented central bank policies. But for the time being at least, the global macroeconomic backdrop offers some reason for optimism.



Across a wide range of measures, the global economy is in its best shape in many years. Economic growth in most countries and industries is in sync and has been accelerating, albeit modestly. Leading economic indicators suggest this trend can continue. Capital Economics expects world GDP growth to be at least 3% this year, up from 2.5% in 2016. While unexpected macro shocks can occur at any time, causing at least a short-term flight from risk assets, the likelihood of an incipient U.S. or global economic recession appears low.

Of course, there are risks in global equity markets. Among the new worries investors have is Trump's protectionist stance on international trade. There remains considerable uncertainty as to whether his stated policies on border taxes, import tariffs, etc., will actually be implemented in the manner he has proposed. There is a good chance they may not be. Trump's protectionist policies would likely disrupt global supply chains for U.S. multinationals. This ability to conduct sourcing on a global basis has driven down multinationals' operating costs and has been important in pushing U.S. corporate margins higher for the past decade-plus.

Emerging markets are better positioned today to weather protectionism, higher U.S. interest rates, and a rising dollar than they were a few years ago. Many countries are implementing reforms and undergoing political change that could be positive longer term. Recent political regime shifts and renewed fiscal constraint in Brazil and Argentina could increase foreign capital and investment, helping the region recover from its economic stagnation. In China, much needed supply-side reforms seem to be happening.

Despite a high level of volatility emanating from U.S. politics in recent months, U.S. stock market volatility has remained very low. That is unlikely to last. We remain confident in our positioning and in our investment process, both of which allow us to look past periods of uncertainty and keep our focus where it should be: on prudently managing our diversified portfolios to achieve long-term, risk-adjusted returns. Thank you for your continued support.

Timothy S. Healey
Chief Investment Officer

Janet R. Hayes
Chief Operating Officer

Please advise us if you would like copies of our annual Securities & Exchange Commission Disclosure Brochure (Form ADV), a Prospectus for The Government Street Funds or a record of how your proxy statements were voted.