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Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals with our actively managed family of mutual funds.

We hope you enjoy this edition of the [VLFAlert](#) and thank you for your continued support.

## Were the First Months of 2026 More Volatile in the Stock Market than Usual or Did It Just Seem that Way?

The answer is yes. By some measures, the stock market has been more volatile and “noisy” than usual. The worst single-day session since October 2025 for the S&P 500 Index occurred on January 20, 2026.<sup>1</sup> March 2026 was the worst month for the S&P 500 Index since September 2022.<sup>2</sup> The CBOE Volatility Index (VIX), or fear gauge, reached its highest levels since April 2025.<sup>3</sup> Then, in mid-April, the S&P 500 hit a series of fresh record highs.<sup>4</sup> If you’ve been feeling a bit dizzy when following the stock market during the last several months, it’s perfectly understandable. However, looking at volatility from a historical perspective shows that much of what happened in the early months of 2026 was not so unusual. Let’s take a deeper look.

### What Were the Key Factors Driving 1st Half 2026 Volatility?

- Geopolitical and Energy Shocks** Venezuela, Greenland, a new import tariff, a delayed U.S./China summit, and fresh supply chain disruptions all made headlines. But the first half of 2026 was marked most by a new war in the Middle East that caused energy prices to surge, with U.S. gasoline prices rising above \$4.00/gallon nationally for the first time since August 2022<sup>5</sup> and Brent crude oil prices up more than 60% in March, the largest monthly percentage increase in its history.<sup>6</sup>
- Shifting Fed Policy** Surging energy prices, in turn, and the heightened inflation that sparked put a temporary hold on U.S. Federal Reserve interest rate cuts, following its three cuts in the last months of 2025. Investors subsequently priced in zero interest rate cuts in 2026—a sharp change from the start of the calendar year.
- Asset Class Shifts** As yields on cash-like instruments faded, the search for income moved back toward the broader markets. This transition created short-term volatility, as trillions of dollars shifted from CDs, for example, into dividend-paying equities and other asset classes.
- Tech Sector Concerns** After driving gains in 2024 and 2025, technology stocks experienced pressure in the early months of 2026 on concerns around AI earnings. With a handful of mega-cap technology firms representing an outsized portion of the S&P 500 Index’s total market capitalization, a modest earnings miss from a single leader could have significant impact on the entire market. Further, concerns led to bifurcation within the sector, wherein the dispersion between true winners and those merely riding the broad brush of the AI trend grew wider.
- Midterm Election Year Trends** Midterm election years historically bring higher-than-average intra-year drawdowns in the U.S. equity market in large part because of election results uncertainty—

approximately 19% declines on average as compared to 12-13% in the other three years of a presidential cycle.<sup>7</sup>

- Heightened Vulnerability** After a three-year-plus rally, some investors feared the U.S. equity market was overvalued, making it especially vulnerable to negative headlines.

### Appearances vs. Reality

- Highs and Lows** In March 2026, major U.S. equity markets fell 8% to 10% from earlier-year peaks. The S&P 500 Index fell nearly 5% in March alone. In April, the S&P 500 Index reached a record high, ending the month up 10.4% since March 30, a best since November 2020.<sup>8</sup> Historically, the S&P 500 Index has averaged a 14.1% drawdown at some point in every calendar year since 1980 but has gained an average of 10.7% per year.<sup>9</sup> In other words, while feelings of unease may seem higher, the ups and downs were actually well within the normal range.
- VIX Levels** By late March 2026, the S&P 500 Index’s 30-day implied volatility, which measures the market’s forward-looking expectation of price fluctuations, rose to more than 23%, nearly double the level at the start of the year. This signaled higher than usual fear—even if the market was only seeing a moderate decline. Indeed, equity implied volatility diverged sharply from realized, or actual, volatility, as the S&P 500 Index’s 30-day realized volatility for the same time period remained below 14%—the largest gap between these two measures in recent years and a more sustained elevation in implied volatility that marked a departure from the rapid spike-and-reversion pattern observed over the prior year.<sup>10</sup> So, the first months of 2026 were genuinely more volatile than the scenario of 2025. But we quickly forget that VIX level spikes were higher in 2025 than in any year since the outbreak of COVID-19 in 2020.<sup>11</sup> And, the realized volatility during the first half of 2026 remained within normal historical boundaries, especially for a midterm election year.

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- **Recurring Drawdowns** From another perspective, stock market declines are not anomalies in bull markets but a recurring feature. Since 1950, on a calendar year basis, nearly 70% of all trading days of the S&P 500 Index were in a drawdown of up to 5%.<sup>12</sup> Out of the first 82 trading days of 2026, the S&P 500 Index declined on 37 days, with a maximum daily drawdown of 2.06%<sup>13</sup>—discomfort perhaps but not unusual at all.
- **Fundamentals** The S&P 500 Index showed remarkable resilience overall during the first half of the year due primarily to generally strong fundamentals, including healthy corporate earnings, indicating the market pullbacks were driven more by headlines than a collapse in company value. In the last 30 years, stocks have a strong track record of gains when earnings grow double digits, with the only exceptions being 2000 and 2018.<sup>14</sup> In the first quarter of 2026, the blended year-over-year earnings

growth rate for the S&P 500 Index was 13.2%.<sup>15</sup> By the end of April, despite ongoing market stresses, consensus estimates for full-year 2026 earnings had been revised higher.

- **Sector Rotation** While some mega-cap technology stocks faltered, other sectors, such as energy and materials, occasionally rotated into leadership, suggesting a broadening of market participation rather than a new “bubble.”
- **Resilience** The Middle East remains a major source of geopolitical risk even if ceasefires and agreements take hold. The resilience of the U.S. stock market amid significant military conflicts is noteworthy. History shows stocks often recover quickly from wars and other military engagements, especially when economies are relatively healthy and corporate earnings fundamentals remain strong. Looking back to 1941, on average, the S&P 500 Index declined 7% following the event and recovered losses within an average of 55 days.<sup>16</sup>

### Staying the Course with the Help of the Value Line Funds

As we move into the second half of 2026, the investment landscape may feel unsettling. Potential disruptions are real. And certainly, the risks of volatility cannot and should not be ignored. But we believe the volatility of the first half of 2026—both real and perceived—was, above all, a reminder that stock picking selectivity and a disciplined, informed approach to portfolio construction and risk management are more critical than ever.

As many of our Value Line Fund shareholders approach or continue through retirement, we understand that equity market volatility may heighten concerns about sticking to an investing plan. That’s why the Value Line Fund managers stay true to time-tested principles, drawing on decades of experience navigating similar challenges. We closely monitor current geopolitical and economic conditions, but we do not depart from our approach. Rather, we anchor our decisions in clear-eyed assessment, historical context and a focus on the quality of our decision-making process. The Value Line Fund managers stay disciplined, maintaining a long-term perspective and adhering to a bottom-up investment strategy regardless of the market backdrop.

The Value Line Funds have built their legacy by helping to secure investors’ financial futures since 1950—based on solid fundamentals, sound investment principles and the power of disciplined and rigorous analytics relied on and trusted by generations of shareholders.

#### Value Line Equity Funds

Mid Cap Focused (VLIFX/VLMIX)  
Larger Companies Focused (VALLX/VLLIX)  
Small Cap Opportunities (VLEOX/VLEIX)  
Select Growth (VALSX/VILSX)

#### Value Line Hybrid Funds

Asset Allocation (VLAAX/VLAIX)  
Capital Appreciation (VALIX/VLIIX)

***Diversification does not ensure a profit or guarantee against a loss. Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund’s prospectus, which can be obtained from your investment representative or by calling 800.243.2729. Please read it carefully before you invest or send money.***

<sup>1</sup>The Wall Street Journal, January 21, 2026. <sup>2</sup>YCharts, April 2, 2026. <sup>3</sup>xtb.com, March 26, 2026. <sup>4</sup>AP News, April 15, 2026 and following. <sup>5</sup>AAA, April 2, 2026.

<sup>6</sup>The Wall Street Journal, March 31, 2026. <sup>7</sup>Baird Private Wealth Management, “Three Policy Themes for 2026,” January 21, 2026. <sup>8</sup>CNBC, April 30, 2026.

<sup>9</sup>LPL Research, FactSet, November 25, 2025. <sup>10</sup>Penn Mutual Asset Management, “When Fear Leads Reality: Inside 2026’s Volatility Surge,” March 26, 2026.

<sup>11</sup>Macrotrends.net, November 5, 2025. <sup>12</sup>LPL Financial, “Lessons from Past Conflicts for Today’s Stock Market,” April 6, 2026. <sup>13</sup>Investing.com, May 1, 2026.

<sup>14</sup>LPL Research, Bloomberg, March 31, 2026. <sup>15</sup>FactSet, April 17, 2026. <sup>16</sup>LPL Research, Bloomberg, CFRA, Strategas, March 31, 2026.

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