VLFAlert

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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.

Why Inflation May Be Poised to Increase…and What You Can Do to Prepare

After years of Consumer Price Index (CPI) readings well below 2%, financial markets are pricing in both a post-COVID economic recovery and the potential for inflation to increase through the second half of 2021 and beyond. Already, in April 2021, headline CPI rose 4.2% on a year-over-year basis, the biggest jump since September 2008, and core CPI, which excludes food and energy, was up 3.0% on a year-over-year basis, the largest increase since January 1996.[1] Here is how you might consider tilting your investment portfolio to position for higher inflation across different asset classes. It's not just TIPS and commodities. Think small!

Why are inflation expectations higher?

- **Fed Strategy –** In August 2020, Federal Reserve officials adopted a new, flexible form of average inflation targeting wherein they would aim for an inflation rate moderately above 2% following periods when inflation has run persistently below 2%, seeking an average of 2% over time. As the Fed has indicated it intends to keep short-term interest rates near zero for some time, this strategy will likely support higher inflation.
- **Massive Fiscal Stimulus –** In March 2021, President Biden signed an additional $1.9 trillion in fiscal relief, bringing COVID-19 fiscal stimulus dollars provided in the U.S. to a total of close to 25% of 2020 GDP.[2] While such stimulus should help boost economic recovery in the near term, the additions to the U.S. budget deficit could lead to higher inflation longer term.
- **Pent-Up Demand –** With COVID-19 lockdowns and restrictions, consumer spending declined and personal savings soared from a low of 8% pre-pandemic to a peak of 27.7% in March 2021. As the U.S. economy continues to open with more people vaccinated and unemployment rates declining, these savings are expected to shift to spending, as evidenced by a personal savings rate of 14.9% in April 2021[3] and a consumer spending rate that rose from -0.6% in December 2020 to 4.7% in March 2021, before slowing to 0.5% in April 2021.[4] Hard-hit areas of the economy—such as restaurants, airlines, hotels, and rental cars—are likely to rebound…with prices at or higher than pre-pandemic levels.
- **Rising Input Costs –** A weaker U.S. dollar, supply chain delays, increased shipping costs and higher energy prices and other production costs may well mean inflation in certain end-products in the months to come.

Why might small-cap equities be a smart way to position your investment portfolio for higher inflation?

Treasury inflation-protected securities are bonds specifically designed to pay more as inflation increases. Commodities, including energy, metals and agriculture, also historically perform well in inflationary times. Gold in particular is often hailed as an inflation hedge, increasing in value as the purchasing power of the dollar declines—though some, who look at the years 1980 through 2000, question the precious metal's efficiency. But an increased allocation to equities, especially small-cap equities, might be a way to tilt your investment portfolio to position for higher inflation, too. Here's why small-cap equities tend to perform well when inflation is rising.

- **More Economically-Sensitive –** When the COVID-19 pandemic first struck, the Russell 2000 Index, a common measure of U.S. small-cap stocks, significantly underperformed the S&P 500 Index, a broad proxy for U.S. large-cap stocks. Investors appeared to view small-cap equities as being more negatively impacted by the lockdowns and more closely tied to U.S. economic conditions than their larger peers. The underperformance coincided with a plunge in inflation expectations. However, since equities bounced back from their March 2020 lows, the Russell 2000 Index has significantly outperformed the S&P 500 Index. The relative outperformance of small-cap stocks coincided with a sharp rise in inflation expectations.

  Notably, since Russell 2000 Index data history began in 1979, small-cap stocks have outperformed large-cap stocks in the early stages of economic recovery, acceleration and expansion.[5] Small-cap stocks tend to feel the impact of a renewed economic growth cycle earlier and disproportionately. Supporting the trend now is that much of the fiscal stimulus enacted since March 2020 is directly aimed at helping smaller companies.

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- **More Domestically-Focused –** Small-cap companies generally perform well during periods of inflation because their revenue is usually generated primarily from the U.S., and thus they are less impacted by a strong or weak U.S. dollar. Larger companies hedge against fluctuations in prices of inputs more often.

- **More Niche Products/Services –** Small-cap companies typically offer more niche, or specialized, products or services with fewer competitors, so they usually have more leeway to raise prices than larger firms.

- **More Nimble –** With simple, direct and flexible decision-making processes, small-cap companies are often able to adapt to changing conditions and to adjust pricing faster than large-cap companies run by centralized management under the mandate of a long-term plan.

- **Dividend Opportunities –** Small-cap stocks that pay dividends are not as common as their large-cap counterparts, but some small-cap companies pay sizable dividends that can increase with inflation, especially in sectors that can quickly pass on inflation moves via their dividends, such as energy and materials.

- **Attractive Earnings Yield –** As of March 31, 2021, the Russell 2000 Index's earnings yield was 4.69%, as compared to 3.46% for the S&P 500 Index.[6] While both indices' earnings yield levels may be low historically, they are each well above the rate of inflation.

We do not believe inflation will soar in the coming months or sustainably return to levels of the 1970s, held in check by an older U.S. population, competitive online shopping trends, still-elevated unemployment levels, wealth gaps and other factors. But we do believe inflation will be more of a factor than we have seen in quite some time, so being complacent may not be the best choice. We are not suggesting you rotate out of your large-cap equity funds; but you might consider re-balancing your investment portfolio after the sizable market moves of the past year or so and allocating a portion to U.S. small-cap equities as a potential hedge against inflation.

The Value Line Small Cap Opportunities Fund Has Stood the Test of Time

It is true that smaller company stocks may be more volatile than larger cap stocks and that past performance is no guarantee of future results. But, to us, smaller company investing is a careful blend of both offense and defense. At Value Line, we offer investors a smaller company fund that, since 1993, has stood the test of time.

A Historically Smoother Ride – In addition to their inflation hedging benefits, smaller companies are generally deserving of meaningful asset allocations because of their growth characteristics. Generally, the Value Line Small Cap Opportunities Fund's holdings have at least a 10-year history of achieving solid growth in both earnings and their stock price. We believe these companies possess proprietary products and services that give them strong market positions and make them less vulnerable to swings in economic conditions. In our experience, the underlying stocks of these companies tend to be less volatile than the average small-cap stock, and therefore the Fund has historically provided a smoother ride to investors than its peer group average.

Seeking Steady-Eddy Companies – Equally important, we seek to avoid the high risk, high-flyers and headline grabbing companies. We invest instead in steady-eddy companies that methodically produce results, with the intention of keeping them in the portfolio for many years if their performance stays on course.

Distinguishing Stock Selection Process – With this diversified portfolio, our disciplined, repeatable stock selection process drives the Value Line Small Cap Opportunities Fund's overall results, rather than the performance of any particular company or industry sector. This important distinction, we believe, reduces the Fund's risk profile relative to other smaller company funds.

For more information about the Value Line Small Cap Opportunities Fund, we invite you to contact your investment representative or visit us at www.vlfunds.com.

Check out our News & Commentary at vlfunds.com for the latest on the Value Line Funds.

For more mutual fund information, call today: 800.243.2729 or visit our website at www.vlfunds.com

[1]*https://www.bls.gov/news.release/pdf/cpi.pdf* [2]*"Investor guide to higher inflation," iShares Market Insights, March 20, 2021.*
[3]*https://www.bea.gov/data/income-saving/personal-saving-rate* [4]*https://www.bea.gov/data/consumer-spending/main*
[5]*"What Should We Expect from Small-Cap Stocks?," Erik Norland, January 18, 2021.* [6]*EULAV Securities LLC.*

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.