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.

The 2024 Presidential Election is Just One Year Away: What Might Be Its Effect on the U.S. Equity Market?

The pundits, prognosticators and pollsters have already been filling the airwaves and social media platforms. The candidates themselves have been seeking as much publicity as they can. But, as investors, we ask the question, do presidential elections influence the stock market? While past performance is no guarantee of future results and there have been exceptions to every pattern observed, the stock market is cyclical, making it possible for us to look to history to see some interesting and noteworthy trends.

What's the Prominent Theory? A number of presidential election investment theories exist, but the most prominent of these is the "Presidential Election Cycle Theory," initially developed by Yale Hirsch, market historian and founder of the *Stock Trader's Almanac*. His theory states that stocks are weakest in the year immediately following the presidential election, then go up over the next three years, with the third year of a president's term typically the strongest of the four and the fourth year the second strongest of the four—no matter who wins the election.

Hirsch's "Presidential Election Cycle Theory" is predicated on the view that a shift in presidential priorities is a primary influence on the stock market and that markets perform best in the second half of a presidential term because the sitting president tries to boost the economy and adopt popular policies to get re-elected.

What Has Historically Happened? The U.S. equity market, as measured by the S&P 500® Index, has been favorable overall in 20 of the 27 election years from 1916 through 2020, only posting negative total returns five times.[1] The first of those negative years was in 1920 amid prohibition and a depression. The next two negative years were during the Great Depression and WWII years of 1932 and 1940, respectively. The fourth was in the Supreme Court-decided election year of 2000, and the fifth was in 2008, when the Great Financial Crisis shocked the economy. The average total return of the S&P 500® Index during a presidential election year during those 100+ years was just under 11%,[1] and the average price return of the S&P 500® Index during a presidential election year for the same time frame was approximately 6.6%.[2] (Price returns do not take into account dividends.)

Does Political Party Make a Difference? Many believe the Republican party is more pro-business and the Democrat party hinders economic growth, and thus the U.S. equity market performs better under a GOP president. However, studies show that neither is true and that neither party can claim to deliver better market performance.[3] Indeed, what appears more consequential is consistency. For example, a review of market data going back about 90 years shows when a new party comes into power, the stock market gains averaged 5%. When the same president is re-elected or if one party retains control of the White House and Congress, returns were slightly higher, at 6.5%.[4] The reason, most believe, is fairly simple—markets do not like uncertainty.

All that said, certain U.S. equity market sectors, such as health care and energy, are subject to increased volatility leading up to presidential elections given the more significantly differing views between the two parties on policies related to these sectors. Policy shifts tend to impact specific equity sectors and companies more than the overall equity market.

Do Presidential Elections Cause or Correlate with Returns? While the pattern posited by the Presidential Election Cycle Theory holds merit, Jeffrey Hirsch, son of the theory's architect and current editor of the Stock Trader's Almanac, recently acknowledged that the theory is susceptible to unique events in a given cycle that can influence the mood of investors.[5] Where the economy is in the business cycle—expansion or recession, rising or declining unemployment, higher or lower inflation—affects not only stock market performance at any given time but also who the next president may be. Further, in any given year, U.S. equities may be influenced by any number of factors that have little or nothing to do with the president or the year of the election cycle, such as natural disasters, geopolitical events in other parts of the world, or a global pandemic. Indeed, some believe it is actually the stock market that determines the winner of the presidential election, and not the presidential election that dictates the direction of the stock market—especially equity market returns in the three months prior to the election itself. But averages are just that, averages, and correlation should not be confused with causation. As one theorist put it, "…just when you think that you have figured it all out, you find another pattern that can suggest different possibilities."[6]

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Thoughts to Consider in the Upcoming Election Year

Wondering whether any of these theories and trends will hold true in 2024? Should you do anything differently with your investment portfolio based on the upcoming election year?

While such a discussion can be illustrative…and even entertaining, it is not a sound way to make investment decisions. As with any market timing strategy, the Presidential Election Cycle Theory should not be depended upon. No investor should jump in and out of the market or change his or her investment portfolio based on the latest predictions, polls or even election day results. In the months leading up to November 5, 2024, volatility may heighten, but market volatility has become more integral to the investment landscape in recent years even without the impact of elections.

Ultimately, investors should consider theories about the relationship between presidential elections and the stock market as only one of many factors influencing economic and market conditions. Indeed, when combined with other information, such patterns may well provide important insights investors can use to improve their investment decisions.

But whether your preferred election outcome is realized or not, your well thought-out investment plan should be focused on the same sound strategies as it has been all along—that is, assuming your individual goals, time horizons and risk comfort level have not changed. As always, sticking to the basic principles of investing remains the best plan—stay invested, stay diversified and stay informed. It might not be as exciting as watching election drama, but it's a wiser long-term strategy.

How the Value Line Funds Can Fit into Your Election Year Investment Strategy

Combine the major world events and resulting stock market volatility of the past several years with the diametrically-opposed philosophies being put forth by the two political parties on how to resolve our country's long-term fiscal problems—let alone the heightened rhetoric from all sides—and it is no surprise that many investors get more risk-averse in election years. As we end one newsworthy calendar year and look forward to what will no doubt be another eventful year, clearly, the good old rule of diversification among different asset classes, including equities, is more important than ever today.

Presidents come and presidents go, but 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. Just as we remain focused on long-term, strategic investing through all market conditions, we encourage you to do so as well.

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)

Value Line Fixed Income Fund

Core Bond (VAGIX)

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.
Value Line Mutual Funds are distributed by EULAV Securities LLC.

Check out our News & Insights 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://static1.squarespace.com/static/5a29de13e5dd5b5fb7021e6c/t/645e5f124644cd2b57964f39/1683906326686/matrix-book-2023_usd-us.pdf and https://advisor.visualcapitalist.com/historical-stock-market-returns/*

[2] *https://docs.aamlive.com/fisdocuments/marketing/resources/PresElections_SPPerformance.pdf*

[3] *https://www.investopedia.com/us-election-and-stock-market-6822056*

[4] *https://www.usbank.com/investing/financial-perspectives/market-news/how-presidential-elections-affect-the-stock-market.html*

[5] *https://www.wsj.com/articles/what-stock-market-investors-should-know-about-presidential-cycles-11572837000*

[6] *https://gbr.pepperdine.edu/2010/08/presidential-elections-and-stock-market-cycles/*

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