VLFAlert

ValueLine*funds*

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Mitchell Appel
President
Value Line Funds

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 Fed Pivot: Ways to Approach Falling Interest Rates

From March 2022 through July 2023, the U.S. Federal Reserve (Fed) raised interest rates, providing both challenges and opportunities for investors and savers. The Fed then kept rates high, pivoting in late 2023, and finally began cutting in September 2024, seemingly achieving the soft landing it sought for the U.S. economy, as inflation has decelerated, the labor market remained strong, and growth resilient. More rate cuts—whether implemented gradually or aggressively is yet to be seen—are widely expected for 2025. What does the cutting of the federal funds rate mean for investors? Will it be a more positive backdrop for equities, as many believe? What about fixed income? What has history shown us about this phase in the monetary policy cycle? Should you be making changes in your investment portfolio…or not? Let's take a look.

Interest Rate Cuts Bolster the Case for Investors to Remain Bullish on Equities. U.S. equities may be tested in the fourth quarter of 2024 by corporate earnings reports and heightened political uncertainty, but the prospect and actual implementation of near-term interest rate cuts may be reason for investors to remain bullish even after a strong run in U.S. stocks. Why? Because interest rates and the stock market broadly have historically had an inverse relationship, such that when interest rates fall, share prices rise… and vice versa. Interest rate cuts usually boost companies' earnings per share and profits as borrowing becomes less expensive. For similar reason, interest rate cuts also serve as a catalyst for broad economic growth and encourage higher business and consumer spending. Businesses feel confident to open lines of credit and invest in their growth. Individuals feel more confident inflation is coming under control, freeing up households to begin spending more on discretionary items and major purchases, such as cars and homes. With lower interest rates, more people are able to qualify for a mortgage or other consumer loans. The influx of new capital expected as investors are prompted to move money from their savings accounts in search of higher returns could in and of itself support a rising equity market as interest rates are cut.

U.S. stocks have typically risen in the six- to 18-month period following the Fed's first interest rate cut, as long as inflation is falling and the cut is neither triggered nor followed by an economic recession. One study shows that in the 12 months after the Fed starts cutting interest rates, the average return from U.S. stocks has been 11% ahead of inflation and 9% ahead of cash.[1] Another study indicates the performance of the S&P 500® Index during the 12 months after the first rate cut averaged 14.2%, a higher number compared to the average 12-month return.[2] Yet another study has found that after a first rate cut, S&P 500® Index stocks have generated an average return of 12.6% over the following 12 months in a non-recessionary environment.[3] Time frames analyzed differ; results similarly show first rate cuts have historically been good for stocks.

Lower interest rates could also help broaden the equity rally, which has been led for nearly two years by a small group of mega-cap companies, known as the Magnificent Seven. Rate cuts may particularly benefit:

- Small-Cap Companies, which have been struggling with higher financing costs. Small-cap companies tend to be more sensitive to interest rates because of their greater reliance on debt. For example, during the first half of 2024, the Russell 1000® Index, which measures large-cap companies, was up 14.24%, while the Russell 2000® Index, which measures small-cap companies, was up only 1.73%. A lower cost of capital amid lower interest rates would likely help these companies.
- Dividend-Paying Sectors, such as utilities, financials and real estate, which become more attractive to income-oriented investors seeking higher returns than short-term bonds can offer as interest rates get cut.
- Large-Cap Companies, particularly those with stable cash flows and strong balance sheets that may be better able to finance operations, acquisitions and expansions at a cheaper rate and invest in research and development, thereby increasing their future earnings potential.
- Growth Stocks, which historically outpace inflation, but are often heavily reliant on capital for future business expansion. These stocks may perform well, as that capital can be obtained less expensively, enhancing their growth potential. Lower interest rates also typically increase the present value of future earnings, making them more attractive. Traditionally growth-oriented sectors, such as consumer discretionary and information technology, may particularly benefit from lower interest rates.

Interest Rate Cuts May Make Fixed Income More Attractive. Higher interest rates made the returns on CDs and money market funds attractive of late, boosting savers' accounts and promoting

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the stashing of cash. But now, as interest rates are being cut, so will those opportunities to make money from interest. So, if you think you might be overallocated to cash or cash equivalents and underallocated to fixed income, now may be a good time to consider an investment in an actively-managed high quality, low risk core bond mutual fund that can help diversify your portfolio and target specific goals, such as income, yield or total return.

Remember, there is an inverse relationship between bond prices and interest rates, such that as interest rates fall, bond prices rise… and vice versa. In turn, as interest rates fall, market demand for previously-issued, higher-coupon bonds—offering starting yields higher than seen for some time—will likely increase, causing their prices to rise. Newer bond issues will offer less interest, but existing bonds should trade at a premium, especially longer-term bonds, as their payout is fixed at the higher rates that have prevailed until now. As example, the average 12-month performance for investment grade corporate bonds after the Fed's first rate cut—in each Fed rate cycle going back to 1995—was 5.3%. To compare, the Bloomberg U.S. Corporate Bond Index returned -0.49% for the first half of 2024.[4] Economic conditions and changing monetary policy are currently combining to create an environment wherein investment grade bonds may well be able to deliver higher interest payments than they have in decades, while still offering lower volatility than stocks along with capital appreciation potential.

How the Value Line Funds Can Fit into Your Lower Interest Rate Investment Strategy

Of course, there is no guarantee as to how the markets will react to any given interest rate change, and past performance is no guarantee of future results. But understanding the relationship between interest rates and your investments can help you be better prepared to make better financial decisions.

Investors should expect some volatility as markets assess how economic and inflation trends may impact Fed policy, including the frequency and magnitude of interest rate cuts. For long-term investors, volatility is normal. Falling interest rates may be an opportunity to make modest shifts in your portfolio allocations, but staying invested throughout often best defines success in meeting financial goals. Given the meaningful developments in the Fed's strategy, taking this time to consider investing in a more diversified portfolio of mutual funds with a proven track record of results may be the most compelling way to take advantage of changing monetary policy.

It is important to know that regardless of market conditions, we intend to stay true to our time-tested investment discipline going forward, seeking to invest, in the Value Line equity funds, in companies that have demonstrated a solid history of consistent growth in both their earnings and stock price. In our view, these companies possess attractive portfolios of proprietary products and services that give them strong market positions and make them less vulnerable to swings in national and international economic conditions. And in our core bond fund, we regularly monitor Fed policy, adjusting duration and yield curve positioning as well as fixed income sector allocations, as we seek to maximize current income.

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.

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.

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]Schroders. Analysis of investment returns during 22 U.S. interest rate cutting cycles since 1928. [2]Bloomberg Finance L.P., Julius Baer. Analysis of investment returns since 1980. [3]Haver Analytics, FactSet, Fidelity Investments. Analysis of investment returns since July 1954. [4]Bloomberg.

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