VLF*Alert*

ValueLine*funds*

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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.

What Do Higher Interest Rates Mean for Your Investment Portfolio

Interest rates are often overlooked by investors until they begin to rise. But now, after a long span of near-zero interest rates, the U.S. Federal Reserve (Fed) is in the news again, having raised short-term U.S. interest rates for the first time since the end of 2018 in March 2022, as inflation surged to new multi-decade highs. The Fed then hiked the targeted federal funds rate even more significantly in May and indicated an aggressive path ahead for the remainder of 2022. What do higher interest rates mean for your investment portfolio? Are they higher enough to warrant any change in your strategy…or not? Here are some thoughts to consider.

Higher Interest Rates Mean Better Savings Rates If you are like most retirees, you already hold a portion of your assets in cash and rely to some degree on interest from savings accounts, CDs and other interest-bearing instruments for supplemental retirement income. Higher interest rates are a plus for you. And if you are nearing retirement, then derisking your portfolio by holding a portion in safer investments may be a good idea. Indeed, whether you are retired or still looking forward to those years, a series of Fed rate hikes may make this an opportune time to boost your savings accounts and certificates of deposit (CDs). And if you do shift some assets to CDs, you might want to choose short-term CDs or consider CD laddering, simultaneously depositing money into, for example, a three-month and a six-month CD so that as each CD matures, you may be able to reinvest at higher interest rates.

Some Stock Sectors are Less Rate Sensitive Than Others Rising interest rates do not have a direct correlation to stock prices. However, when interest rates move higher, stocks can sometimes fall out of favor or become increasingly volatile because higher rates affect companies' ability to borrow and pay off debt. Also, when interest rates rise, consumers and companies alike typically curb their spending, which can result in lower stock prices. Notably, however, stocks have historically performed better during periods when interest rates are rising—when looked at 12 months following the first rate hike by the Fed.[1] After all, interest rates are being hiked by the Fed to slow—not stop—the rate of economic growth, and a strong economy can be good for companies.

Further, not all sectors respond to higher interest rates equally. Some high-growth technology stocks may face real pressures. But some non-discretionary segments of the U.S. equity market—such as energy, consumer goods, utilities and food—tend to hold up when interest rates are rising because consumers need them regardless. Other stock market segments, such as financial institutions and industrial companies, tend to perform well when interest rates rise as higher interest rates suggest stronger economic growth.

Bonds Still Offer Important Portfolio Benefits If you own mutual funds that invest in bonds, then a rise in interest rates will probably cause the share price of your funds to drop. At the same time, however, the interest or dividends paid out may rise as newly issued bonds that pay higher rates are added to those funds' holdings. Also, when an equity bull market begins to look bearish, bonds can offer a consistent stream of income and dampen portfolio volatility over the long term. So, there may be some short-term pain—like that caused by a vaccination, but for savers who have a mix of stocks for growth and bonds for protection in a retirement portfolio, you'll likely be healthier overall for the longer term with moderately higher interest rates.

A Balanced Perspective Remains Key Despite popular opinion, the impact of rising interest rates on retirees may actually be less than on those who are younger. Why? Social Security will remain unaffected by rising interest rates. And most retirees no longer have the need for new mortgages. The bottom line? Diversification of income sources works in your favor. And thoughtful asset allocation—meaning a mix of stocks, bonds, cash and cash equivalents (like CDs)—should likely remain largely unchanged even amidst higher interest rates. Diversification can help provide stability when interest rates rise, for even if one portion of your portfolio might be under pressure, another may be functioning as a buffer.

Consider the Value Line Asset Allocation Fund, which seeks to achieve a high total investment return (current income and capital appreciation) consistent with reasonable risk by periodically shifting the assets of the Fund among common stocks, debt securities with maturities of more than one year that are principally rated investment grade and money market instruments.

Regardless of your age, when interest rates rise, you should invest the same way you should always be investing—with diversification, discipline and a long-term view. If you are near retirement, try to dial back any interest-sensitive debt you may have but don't get

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derailed by leaving the stock and bond markets. Losses do not become actualized, or real, until you sell. Patience is your best strategy. And that same approach is valid for retirees who may feel time is no longer an asset you can count on. Current retirees actually have plenty of time in front of them, as the longer you live, the longer you can expect to live! (See our 1st Quarter 2022 *VLFAlert* at vlfunds.com for more on this.)

Some Clues about Fed Speak

As always, the more informed you are, the better decisions you make. In that spirit, here are definitions of some "Fed Speak" words often in the news of late.

Federal Funds Rate Refers to the target interest rate set by the Fed's policymaking committee, the Federal Open Market Committee (FOMC), at which commercial banks are suggested to borrow and lend their excess reserves to each other overnight. The FOMC sets a target rate eight times a year based on economic conditions. It is a key short-term interest rate that can affect savings yields and consumer loan rates.

Tightening Tightening policy occurs when the Fed raises the federal funds rate in an effort to slow down overheated economic growth, to constrict spending in an economy that is seen to be accelerating too quickly, or to curb inflation when it is rising too fast; opposite of easing.

Easing Easing occurs when the Fed lowers the federal funds rate, making borrowing cheaper, in an effort to boost economic activity; opposite of tightening.

Hawkish A hawkish stance or tone is when the Fed wants to guard against excessive inflation, tending to suggest higher interest rates; opposite of dovish.

Dovish Dovish language means the Fed favors more accommodative policy, tending to suggest lower interest rates to stimulate economic growth; opposite of hawkish.

Dot Plot The Fed's dot plot, published quarterly, shows federal funds rate projections of the FOMC members. For example, after its March 2022 meeting, the Fed's dot plot indicated a targeted federal funds rate of 1.9% at the end of the calendar year. This may change as market conditions shift.

Value Line Asset Allocation Fund

in the allocation 50% to 70% equity category among 703 funds as of April 30, 2022 based on risk-adjusted returns

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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.forbes.com/sites/kristinmckenna/2022/01/24/how-do-stocks-perform-when-interest-rates-rise/?sh=3cf2ca356928*

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