VLFAlert

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.

Are Growth Stocks Still a Good Place to Be?

Growth stocks took a pummeling in 2022, as value stocks grew in favor among investors amid a high inflation, rising interest rates, recovering economic growth backdrop. But growth stocks then came roaring back in 2023. Indeed, large-cap growth stocks recorded their second-biggest advantage over large-cap value stocks in 25 years.[1] Over time, growth and value stocks have taken turns leading and lagging during different markets and economic conditions. So, are growth stocks still a good place to be? While past performance does not guarantee future results, here are just a few reasons why we believe the answer is yes.

Economic Growth is Softer but Still Positive. Moderating economic growth historically helps growth stocks relative to value stocks. This is because, typically, when economic growth slows, growth companies become more valuable, as they are historically able to continue to post sales and earnings growth given the secular rather than cyclical nature of their products and services. In early 2024, the consensus appeared to believe the U.S. Federal Reserve (the Fed) would reach its goal of a soft landing for the U.S. economy, meaning there would be slower economic growth but no recession. S&P Global Market Intelligence forecast 2024 U.S. real GDP growth at 2.4%[2]; a variety of large financial institutions had U.S. real GDP growth forecasts for 2024 in a range between 0.6% and 2.9%.[3] This compares to 2.5% U.S. real GDP growth for 2023.[4]

Inflation is Normalizing. Growth stocks often outperform when inflation is modest, as high inflation tends to reduce the future value of their expected earnings. Since peaking in June 2022, U.S. headline inflation, as measured by the Consumer Price Index, fell from 9.1% to 3.1% year over year in January 2024.[5] While still above the Fed's target of 2%, Fed Chair Powell has reiterated that "inflation keeps coming down."[6]

Interest Rates are Being Cut. Falling interest rates have historically served as a tailwind for growth stocks. When capital is less expensive, investors tend to invest in the future, i.e., growth stocks, which often derive a bigger portion of their value from cash flows farther out in time. Why? When interest rates are lower, investors take longer duration equity risk, meaning they are willing to look to companies with more distant cash flows. As the Fed is widely expected to cut interest rates, with a leaning toward the second half of 2024, growth stocks may well be the place to be.

A New Bull Market Has Likely Begun. Growth stocks more typically excel during a sustained bull market. Several historical patterns suggest that 2024 will be another good year for the U.S. equity market. First, since the introduction of the S&P 500 Index in 1957, it has averaged a 9% annualized return in the year following a 20%+ gain. Second, since 1928, the third year following a bear market, such as that seen in 2022, has an 80% win rate, with the only exception being at the dawn of World War II.[7] Third, history shows that bull markets generally last longer than bear markets. Since 1957, the average S&P 500 Index bull market has lasted nearly five years and generated an average total return of more than 169%—the current bull market began in mid-October 2022.[8]

Secular Trends are Strong and Staying. Secular trends can dominate a cycle and determine long-term performance of growth vs. value. In 2023, growth stocks were propelled by two significant trends—the emergence of artificial intelligence (AI) and the mainstream launch of weight loss drugs. The "Magnificent Seven" stocks familiar to most investors (NVIDIA, Tesla, Meta Platforms, Apple, Amazon.com, Microsoft and Alphabet) dominated in 2023, and will almost surely continue to play major roles in 2024. After all, the Magnificent Seven represented approximately 30% of the S&P 500 Index's market value at the end of 2023.[9] At the same time, growth stock outperformance broadened in late 2023, and we believe will continue to do so this year. As innovation and disruptions accelerate, AI technology and digital uptake ripples across sectors and industries, companies increasingly focus their capital spending on productivity-enhancing investments, the shift to decarbonization gains recognition, hybrid home/work scenarios normalize, and e-commerce, streaming entertainment and electric vehicles increasingly dominate, growth stocks across the capitalization spectrum are poised to benefit.

Fundamentals are Supportive. History shows us that growth stocks generally have the potential to perform better when company earnings are rising. Amid a backdrop of moderate economic growth, cooling inflation and interest rate cuts in 2024—what some term a "Goldilocks" scenario, most analysts foresee solid corporate earnings growth for S&P 500 Index companies. While forecasts

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vary, the consensus appears to be year-over-year earnings growth of 11.2% for 2024. Importantly, analysts expect all sectors of the S&P 500 Index, except energy, to show growth in earnings—led by communication services, health care and information technology.[10] It is also true that growth stocks generally carried a premium following their strong performance in 2023. However, even value investing guru Warren Buffett said, "growth is part of the value equation," indicating that, when well researched, sometimes paying a bit more for a growth business is the wise decision.

It's an Election Year. The November 2024 election potentially adds another layer of support for growth stocks. Stocks tend to climb in election years. Since 1952, the U.S. equity market has never had a down year during a presidential re-election year. The only down years were in 1960, 2000 and 2008 when both parties offered new presidential candidates.[11] Even looking back to 1928, the U.S. equity market gained ground 83% of the time in presidential election years, with an average return for those years of 11.58%.[12]

What the Value Line Fund Portfolio Managers Look For in Growth Stocks

Although U.S. equity market returns may be more modest compared to 2023's outsized gains, we see a constructive backdrop for growth stocks through 2024. That said, in a richly-valued market, identifying impactful growth opportunities can be challenging, making disciplined stock-picking all the more critical.

Regardless of market conditions, the qualities we seek in new investments include a demonstrated favorable and consistent history of both strong earnings and stock price growth. 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 economic conditions. At the same time, we believe the underlying stocks of these companies tend to be less volatile than the average stock in the S&P 500 Index. Equally important is selling positions when we believe they are no longer delivering the consistent long-term earnings growth we seek.

By maintaining our time-tested discipline, the Value Line Funds have historically provided a smoother ride to investors than their peer group averages. Putting aside short-term ebbs and flows in the equity market, we remain committed to our focus on longer-term growth investing as a compelling way to create long-term growth of capital for investors. Whatever unfolds, we firmly believe growth equities have a key place in a well-diversified portfolio.

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. w

[1]"Will Value Stocks Take the Lead in 2024?," Sarah Hansen, January 11, 2024. [2]"S&P Global Market Intelligence lifts U.S. GDP growth forecast to 2.4% in 2024," William Watts, MarketWatch, February 6, 2024. [3]"What to expect in 2024: Fed pivot, cooling inflation, easing growth," Reuters, February 5, 2024. [4]Bureau of Economic Analysis, January 25, 2024. [5]Bureau of Labor Statistics, February 13, 2024. [6]U.S. News & World Report, January 3, 2024. [7]Dow Jones Market Data and DataTrek Research, "Stock Market Forecast 2024," Scott Lehtonen, January 4, 2024. [8]"Stock Market Forecast for the next six months," Wayne Duggan and Farran Powell, November 28, 2023. [9]Goldman Sachs Global Investment Research, "Stock Market Forecast 2024," Scott Lehtonen, January 4, 2024. [10]Earnings Insight, FactSet, February 2, 2024. [11]Presidential Election Year Chartbook, Comerica Wealth Management, November 13, 2023. [12]First Trust, December 2023.