



GLOBAL X INSIGHTS

Enhancing Retirement Portfolios with Global X's Options Strategies

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Historically, many Americans have sought to retire in their early to mid-60's. However, in the recent economic environment, these traditional goals have come to appear somewhat ambitious. The uphill battle stems partly from the difficulties that the traditional 60/40 equity and fixed income portfolio strategy has faced in recent years. In particular, a fixed income allocation focused on US-dollar-denominated investment grade bonds only yielded about 2.6% in aggregate over the last decade, while inflation has ticked upward with relative consistency.¹ The backdrop has likely left many retirees inclined to take on more stock market exposure as they seek to sustain their cost of living. And though the interest rate hikes made by the Federal Reserve (Fed) in 2022 and 2023 have led yields to show improvement, the value of many pre-existing bonds has fallen precipitously in response.² Although "there is no alternative (TINA)" has grown to represent a popular refrain in recent years amongst investors, we believe that Global X's options suite, which consists of a variety of covered call strategies and risk management opportunities, might provide some alternatives that can potentially boost the yield on, or reduce market and interest rate risks associated with, a retirement portfolio.

Key Takeaways

- Lagging bond performance coupled with longer life expectancies and potential adjustments to social retirement programs make harnessing a 60/40 portfolio to retire at 65 less feasible than in the past.
- Global X's Covered Call suite offers retirees the potential to introduce a total return solution into their portfolio that is designed to produce option premiums which tend to carry a general positive correlation with volatility.
- Global X's Collar and Tail Risk strategies may help keep retirees invested amid extreme market downturns, as they offer long equity exposure and a degree of downside protection.

The 60/40 Portfolio Loses Its Luster as the Gold Standard Retirement Strategy

Since economist Harry Markowitz developed modern portfolio theory in 1952, the 60/40 portfolio has largely been the prototypical risk-adjusted portfolio return benchmark for most retirees.³ However, with year-over-year U.S. inflation averaging approximately 4.3% in 2023, and aggregate bond yields only yielding about a half-percentage point more, the 60/40 portfolio's inflation adjusted yield and total returns have lagged.^{4,5}



BONDS HAVE STRUGGLED SINCE THE COVID-19 SHUTDOWN, DRAGGING DOWN THE 60/40 PORTFOLIO

Sources: Global X ETFs with information derived from: Bloomberg L.P. (n.d.) [Data set]. S&P 500 Index Total Return and Bloomberg U.S. Aggregate Bond Index Total Return from February 28, 2020 to November 30, 2023. Retrieved December 20, 2023 from Global X Bloomberg terminal. 60/40 Performance calculated by taking the daily weighted average returns of a hypothetical portfolio consisting of 60% S&P 500 Total Return Index and 40% Bloomberg US Aggregate Bond Index Total Return.



Past performance is not a guarantee of future results.

Historically low bond yields in 2020 and 2021, followed by commencement of the Fed's interest rate hiking cycle in 2022 and 2023, created significant challenges for bond holders. As a result, fixed income investors have likely been forced to take on interest rate risk with little to no return in recent years. The potential implications of conditions like this are significant, not just for investors, but also for their governments. For one, people are living longer than in Markowitz's day, which requires building portfolios that can last longer. Also, longer life expectancies will pressure government social retirement programs, so much so that many developed countries are already re-thinking retirement eligibility ages or reducing payment amounts to better conform with adjusted actuarial standards.⁶

Covered Call ETFs Can be A Bond Alternative for Retirees

Retirees typically pursue exposure to bonds because they offer a profile that can potentially provide a steady stream of income and a hedge against market downturns. They do so under the assumption that they will receive a fixed coupon payment and that their principal will be returned if the instrument is held until maturity. Of late, however, these characteristics that denote the perceived more predictable nature of fixed income investing have become a bit less predictable with the (Fed) rapidly increasing interest rates and hurting the value of existing bonds. The undertaking has left investors with a difficult choice to either sell their bonds, potentially at a loss, or hold the assets until maturity to regain their principal while they garner a low yield. With the Fed maintaining the ability to raise or lower rates essentially on a whim, the bond market can represent less of a potential hedge when the equity portion of the 60/40 portfolio is turning sour.

For instance, when the Federal Reserve raises interest rates to temper a robust economy, stocks often decline in value due to increased borrowing costs for companies and consumers. Bond prices tend to fall as well because new bond issuances are then generally offering higher yields.

If I own a bond initially yielding 1% with a \$1,000 value, and the Fed raises rates to 5%, the value of my bond decreases significantly. This occurs because investors can purchase new bonds with a higher yield. To offset this difference, my 1% bond must be sold at a steep discount from its original \$1,000 value to entice a potential investor.



Conversely, if I own a 5% bond and rates decrease due to an economic slowdown, I can sell my bond at a premium from its purchase value. However, I now encounter reinvestment risk because the new instrument I purchase will yield less than the bond I originally held. This effect is generally even stronger for bonds with longer durations because there is more time for the value of these bonds to be hurt by interest rates increasing further. Taking these risks into consideration, we believe today's bond market may represent a less-efficient means by which to acquire a steady stream of income and hedge against market downturns.

BOND PRICES HAVE FALLEN AMID THE CURRENT RATE HIKING CYCLE

Source: Global X ETFs with information derived from Bloomberg L.P. (n.d.) [Data set]. US Federal Funds Effective Rate versus Bloomberg U.S. Treasury 20+ Year Index Price Return and Bloomberg U.S. Aggregate Bond Index Price Return from March 16, 2022 to November 30, 2023. Retrieved December 8, 2023 from Global X Bloomberg terminal.



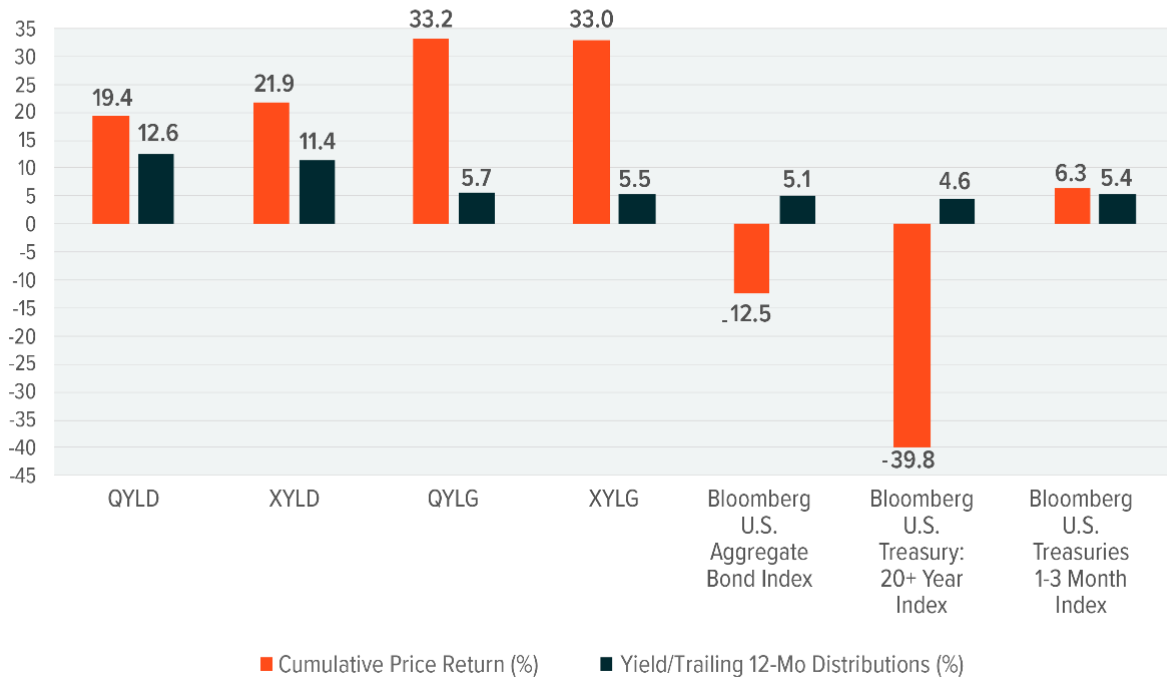
An alternative to traditional bond allocations is Global X's Covered Call ETFs like the Global X Nasdaq 100 Covered Call ETF (QYLD) and the Global X S&P 500 Covered Call ETF (XYLD), which may be able to provide retirees with a source of premium distributions. These strategies seek to generate income by writing at-the-money index call options on 100% of their equity portfolios. While writing at-the-money calls foregoes the upside price potential associated with the underlying equity investments, the total returns that these funds can provide can act as a compelling alternative to bonds for retired individuals.

Investors who are intrigued by covered call writing as a potential alternative to holding bonds and also wish to participate in some of the growth potential offered by the underlying equity index might find Global X's Covered Call and Growth strategies appealing. These strategies, like the Global X Nasdaq 100 Covered Call & Growth ETF (QYLG) and the Global X S&P 500 Covered Call & Growth ETF (XYLG), take a half-covered approach, allowing investors to maintain long exposure to major equity indices and still pursue monthly derivative income. Particularly beneficial to retirement-age investors, these products offer a mix of potential capital appreciation and distributions.



GLOBAL X'S COVERED CALL STRATEGIES HAVE OUTPERFORMED BONDS SINCE QYLG+XYLG'S INCEPTION

Source: Global X ETFs with information derived from Bloomberg L.P. (n.d.) [Data Set]. Cumulative Market Price Returns from September 18, 2020 (XYLG and QYLG inception) to November 30, 2023. Retrieved on December 20, 2023 from Global X Bloomberg Terminal. Global X Covered Call Funds are indicated by their 12-month trailing distributions relative to the most recent NAV and capital gains over the 12-month period. Fixed income index yields are indicated by yield-to-worst. These funds are not benchmarked against a bond index.



The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. High short-term performance, when observed, is unusual and investors should not expect such performance to be repeated. Performance current to the most recent month- and quarter-end is available at [QYLD](#), [XYLD](#), [QYLG](#), [XYLG](#).

A portion of the Funds' distributions are estimated to include a return of capital. For information on the breakdown of the most recent distribution, please see the 19a notices for [QYLD](#), [XYLD](#), [QYLG](#) and [XYLG](#).

Collar and Tail-Risk Strategies Offer Market Exposure, With Some Downside Protection

A major contributor to the appeal of the 60/40 portfolio is that it might be able to act as a hedge against adverse equity market events. For that potential hedge, investors typically concede the kind of returns that an all-equity investor might receive in a bull market. That hedge, however, has struggled to maintain its relevancy in recent years as noted in the first chart. Derivative-based strategies with a risk-management objective might be able to make that downside hedge more predictable.

Global X's Nasdaq 100 Collar 95-110 ETF (QCLR) and its S&P 500 Collar 95-110 ETF (XCLR) aim to limit drawdowns over the option's three-month tenor to approximately 5% in a worst-case scenario, effectively hedging the retiree's portfolio with a relatively predictable downside. The funds do so by purchasing 5% out-of-the-money protective puts on their respective underlying indexes. Additionally, by writing call options on the funds' underlying indices with strike prices that are 10% out of the money, investors may be able to reap the benefits of a 10% upside move for the index over a similar three-month period. The premiums attained by writing these call options also help to finance the put option protection. Thus, like the 60/40 investor, retirees would forgo some market upside, but would maintain a hedge.

Conversely, Global X's Tail Risk products, the Global X Nasdaq 100 Tail Risk ETF (QTR) and the Global X S&P 500 Tail Risk ETF (XTR), don't sell call options. Thus, investors have unlimited exposure (minus the fund's fees and the expense of acquiring protective puts) to the three-month upside potential of the respective index. Both ETFs purchase 10% out-of-the-money put options to mitigate the total downside risk over the life of each option. The Tail Risk funds aim to protect from significant drawdowns, while likely underperforming the reference index when it rises, due to the costs associated with purchasing put protection.



A combination of Global X's Tail Risk and Collar products can serve as core equity allocations within a portfolio, balancing price appreciation and capital preservation. In that vein, they might also be able to help investors stay invested. Indeed, it's natural to feel pressure to sell during the worst periods of a down market, and this is especially true for retirees who want to preserve their portfolios. However, these strategies can potentially help alleviate some of those fears. The next chart highlights how QTR and QCLR have done when markets take a turn for the worse, while they tend to lag when markets turn around, due to the cost of hedging their bets against subsequent market downturns.

COLLAR AND TAIL-RISK STRATEGIES MIGHT HELP MITIGATE INVESTMENT LOSSES AMID DOWNTURNS

Source: Global X ETFs with information derived from Bloomberg L.P. (n.d.) [Data set]. Cumulative total return of the Global X Nasdaq 100 Collar 95-110 ETF (QCLR), the Global X Nasdaq 100 Tail Risk ETF (QTR), and the Nasdaq 100 Index from August 25, 2021 (Inception of QCLR and QTR) to November 30, 2023. Data retrieved on December 1, 2023 from Global X Bloomberg terminal. Fund returns are based on Market Price returns.



Past performance is not a guarantee of future results.

Conclusion: Derivative-Based Strategies Can Provide Premium Distributions and Risk Mitigation

We believe that the investment strategies used to position investor portfolios appropriately for retirement require a bit more creativity today than they once did. Market conditions dictate that view, but so do longer life expectancies and their social impacts. With inflation denting yields, Global X's Covered Call suite and Risk Management products can offer retirement-age investors an alternative to taking on more equity risk within their portfolios. Markets often take the escalator up and the elevator down. For retirees, the latter can be particularly unnerving and life-altering in their golden years, but these derivative-based strategies can add diversification and risk management characteristics to their portfolio, potentially encouraging them to stay invested.

Related ETFs

[QYLD - Global X Nasdaq 100 Covered Call ETF](#)

[XYLD - Global X S&P 500 Covered Call ETF](#)

[QYLG - Global X Nasdaq 100 Covered Call & Growth ETF](#)



[XYLG - Global X S&P 500 Covered Call & Growth ETF](#)

[QCLR – Global X Nasdaq 100 Collar 95-110 ETF](#)

[XCLR – Global X S&P 500 Collar 95-110 ETF](#)

[QTR – Global X Nasdaq 100 Tail Risk ETF](#)

[XTR – Global X S&P 500 Tail Risk ETF](#)

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Bloomberg L.P. (n.d.) [Data set]. Based on the Bloomberg U.S. Aggregate Bond Index Yield to Worst from November 30, 2013 to November 30, 2023. Retrieved December 28, 2023 from Global X Bloomberg terminal.
2. The Wall Street Journal. (2023, October 30). Higher Bond Yields Could End the Fed's Historic Rate Rises.
3. The New York Times. (2023, June 27). Harry Markowitz, Nobel-Winning Pioneer of Modern Portfolio Theory, Dies at 95.
4. U.S. Bureau of Labor Statistics. (2023, November 10). Consumer Price Index For All Urban Consumers (CPI-U) Percent Change from 12 Months Ago.
5. Bloomberg L.P. (n.d.) [Data set]. Bloomberg US Aggregate Bond Index Total Return from January 03, 2023 to November 30, 2023. Retrieved December 20, 2023 from Global X Bloomberg terminal.
6. CNN. (2023, May 01). May Day protest erupts in Paris as France seethes about a hike in the retirement age.

Glossary

Call Option: A call option gives the buyer the right, but not the obligation to buy a security at a pre-determined strike price within a given time frame or on a specific date.

Covered Call: A covered call (call write) strategy involves purchasing securities, such as equities, and then simultaneously selling a call option on those securities.

12-Month Trailing Distribution: The distribution as a percentage an investor would have received if they had held the fund over the last twelve months, assuming the most recent NAV. The 12-month Trailing Distribution (%) is calculated by summing any income, capital gains and return of capital distributions over the past twelve months and dividing by the sum of the most recent NAV and any capital gain distributions made over the same period.

Yield to Worst: A measure of the lowest possible yield that can be received by a bond that could potentially possess an early retirement provision.

Protective Put: A put is an option where the entity holding the option has the right but not the obligation to sell at a predetermined price. Typically, a fee is paid for this right. A put is most likely to be used when the price of a security declines. In the case of a protective put, this is when an investor, or fund proactively purchases a put to help protect their portfolio, or possibly a single position from a market downturn.

Tenor: The length of time remaining before an option contract expires.

S&P 500 Index: The S&P 500 Index includes 500 of the largest public companies listed on the stock market.

Bloomberg U.S. Aggregate Bond Index: The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-through), ABS and SMBS (agency and non-agency).

Bloomberg U.S. Treasury 1-3 Months Index: This index is designed to measure the performance of U.S. Treasury bills maturing in 1 to 3 months.

Bloomberg US Treasury: 20+ Year Index: An index engineered to measure fixed-rate, nominal debt issued by the US Treasury with 20+ years to maturity.

Duration: Is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed in years.

Nasdaq 100 Index: The NASDAQ 100 index includes 100 of the largest non-financial companies listed on its stock market.

At-the-money: An option contract is considered to be "At the Money" when its strike price is equivalent to the current price value of its underlying asset.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information is not intended to be individual or personalized investment or tax advice and should not be used for trading purposes. Please consult a financial advisor or tax professional for more information regarding your investment and/or tax situation.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit nor guarantee against a loss. Concentration in a particular industry or sector will subject the funds to loss due to adverse occurrences that may affect that industry or sector. Investors in the funds should be willing to accept a high degree of volatility in the price of the fund's shares and the possibility of significant losses.



The funds engage in options trading. An option is a contract sold by one party to another that gives the buyer the right, but not the obligation, to buy (call) or sell (put) a stock at an agreed upon price within a certain period or on a specific date. A covered call option involves holding a long position in a particular asset and writing a call option on that same asset with the goal of realizing additional income from the option premium. A collar strategy involves holding shares of the underlying stock while simultaneously buying put options and selling call options against that holding.

By selling covered call options, QYLD, XYLD, QYLG, XYLG, QCLR and XCLR limit their opportunity to profit from an increase in the price of the underlying index above the exercise price, but continues to bear the risk of a decline in the index. While the fund receives premiums for writing the call options, the price it realizes from the exercise of an option could be substantially below the indices current market price.

By purchasing put options, in return for the payment of premiums, QCLR, QTR, XCLR and XTR may be protected from a significant decline in the price of the reference Index if the put options become in the money (reference index closes below the strike price as of the expiration date); but during periods where the reference index appreciates, the respective Fund will underperform due to the cost of the premiums paid. A liquid market may not exist for options held by the Funds. QYLD, QYLG, QCLR and QTR are non-diversified. Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share, and do not represent the returns you would receive if you traded shares at other times. NAVs are calculated using prices as of 4:00 PM Eastern Time. Indices are unmanaged and do not include the effect of fees, expenses or sales charges. One cannot invest directly in an index.

This material must be accompanied by the current funds' [prospectus](#). Read it carefully before investing.

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