

Cash Flow and Carey



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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The CBOE S&P 500 BuyWrite Index (BXM) is designed to track a hypothetical buy-write strategy on the S&P 500. It is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option.

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An Update on Covered Call Returns

S&P 500 Index vs. CBOE S&P 500 BuyWrite Index (Annual Total Returns)

Year	S&P 500 Index	CBOE S&P 500 BuyWrite Index	Winner
2024 (YTD thru 11/29)	28.06%	17.51%	?
2023	26.26%	11.82%	S&P 500
2022	-18.13%	-11.37%	BuyWrite
2021	28.71%	20.47%	S&P 500
2020	18.40%	-2.75%	S&P 500
2019	31.49%	15.68%	S&P 500
2018	-4.38%	-4.77%	S&P 500
2017	21.83%	13.00%	S&P 500
2016	11.96%	7.07%	S&P 500
2015	1.38%	5.24%	BuyWrite
2014	13.69%	5.64%	S&P 500
2013	32.39%	13.26%	S&P 500
2012	16.00%	5.20%	S&P 500
2011	2.11%	5.72%	BuyWrite
2010	15.06%	5.86%	S&P 500
2009	26.46%	25.91%	S&P 500
2008	-37.00%	-28.65%	BuyWrite
2007	5.49%	6.59%	BuyWrite
2006	15.79%	13.33%	S&P 500
2005	4.91%	4.25%	S&P 500

Source: Bloomberg. Past Performance is no guarantee of future results.

View from the Observation Deck

Total assets invested in covered call strategies have been growing rapidly over the past several years. Data from Morningstar Direct revealed that net assets in the "derivative income" asset class totaled \$70.7 billion in May 2024, up from \$44.5 billion over the same period the year before, according to Reuters. In a signal of continued interest, investors funneled a record \$3.5 billion into the asset class in October 2024 alone.

Covered call strategies tend to be most beneficial when the stock market posts negative returns, or when returns range from 0%-10%.

The S&P 500 Index posted negative total returns just three times in the table above. The CBOE BuyWrite Index outperformed the S&P 500 Index in two of those three years (missing the third year by 0.39 percentage points in 2018). For comparison, there are four years in the table where the S&P 500 Index posted returns between 0% and 10%. During those time periods, the CBOE BuyWrite Index outperformed the S&P 500 Index in three of the four years (missing the fourth year by 0.66 percentage points in 2005).

Covered call options can generate an attractive income stream and serve as a hedge against negative price movement, but they may limit the potential for capital appreciation.

There were 12 years in today's table (not including 2024) where the S&P 500 Index notched total returns of 10% or more. The CBOE BuyWrite Index underperformed the S&P 500 Index in every one of them. Perhaps unsurprisingly, a similar story has played out so far in 2024. The S&P 500 Index's total return totaled 28.06% year-to-date through 11/29. For comparison, the CBOE BuyWrite Index increased by 17.51% on a total return basis over the same period.

Takeaway

Covered call strategies may serve as a unique alternative to the S&P 500 Index. That said, while the income they provide has generally led to outperformance during negative or moderately positive periods, returns are often capped during periods where the market is performing exceedingly well. As a recent example, the S&P 500 Index surged by 26.26% in 2023, outperforming the CBOE BuyWrite Index by 14.44 percentage points. So far this year (thru 11/29/24), the S&P 500 Index has exceeded the CBOE BuyWrite Index by 10.55 percentage points on a total return basis. Unless something dramatic occurs in December, we expect the S&P 500 to be the winner again this year. We will report back as updates require!