



GLOBAL X ETFs RESEARCH

Introducing the Global X Dow 30 Covered Call ETF (DJIA)

On February 24th, 2022, we listed the [Global X Dow 30 Covered Call ETF \(DJIA\)](#) on the New York Stock Exchange (NYSE). DJIA is designed to provide exposure to the approximately 30 companies in the Dow Jones Industrial Average, while simultaneously writing covered calls on the Dow Jones Industrial Average Index in an attempt to generate income. DJIA now represents the sixth fund in the Global X covered call suite of ETFs that currently has over \$8 billion in assets under management.¹

DJIA brings an at-the-money covered call strategy to the Dow Jones Industrial Average Index through the ETF structure. The fund gains exposure to equities in the Dow Jones Industrial Average Index and writes a call option on the index as well. DJIA collects premiums from selling the call option in exchange for forfeiting the upside potential of the Dow Jones Industrial Average Index.

In this blog post, we explore the history of the reference Dow Jones Industrial Average Index, how DJIA is constructed, and how investors can use DJIA in a portfolio. We believe that covered call strategies like DJIA can serve a variety of objectives for investors, particularly with its income potential in the rising rate environment we are seeing today.

The Dow Jones Index, Explained

The Dow Jones Industrial Average Index (DJI) is one of the most popular stock market indexes in the US, and often used as a barometer of US market health in tandem with S&P 500. It's the second oldest U.S. equity index in existence, founded in 1896. The DJI is fairly unique compared to other major indexes though. The index is price weighted, unlike most broad market indices, which are market cap weighted. The Nikkei 225 Index covering the Japanese equity market may be the most prominent example of a price weighted index aside from the DJI. Below is a visual representation of how the DJI is constructed.

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Related ETFs

Please click below for fund holdings and important performance information.

[DJIA- Dow 30 Covered Call ETF](#)



Dow Jones Industrial Average Index Basics



For a comparison on how the DJI compares in sector construction to other broad market indexes like the S&P 500 and Nasdaq 100, we can see below DJI is underweight Technology sector names and overweight sectors like Industrials and Financial Services. These sector differences can be attributed to the price weighting aspect of the DJI.



Description	DJI	S&P 500	NASDAQ 100
Basic Materials %	1.12	2.20	0.00
Comm Services %	3.68	10.04	18.54
Consumer Cyclical %	14.53	11.72	15.54
Consumer Defensive %	6.78	6.52	5.28
Healthcare %	18.82	13.15	5.71
Industrials %	14.49	8.15	3.97
Real Estate %	0.00	2.67	0.00
Technology %	17.94	25.97	48.49
Energy %	2.46	3.35	0.00
Financial Services %	20.18	13.67	1.46
Utilities %	0.00	2.55	1.01

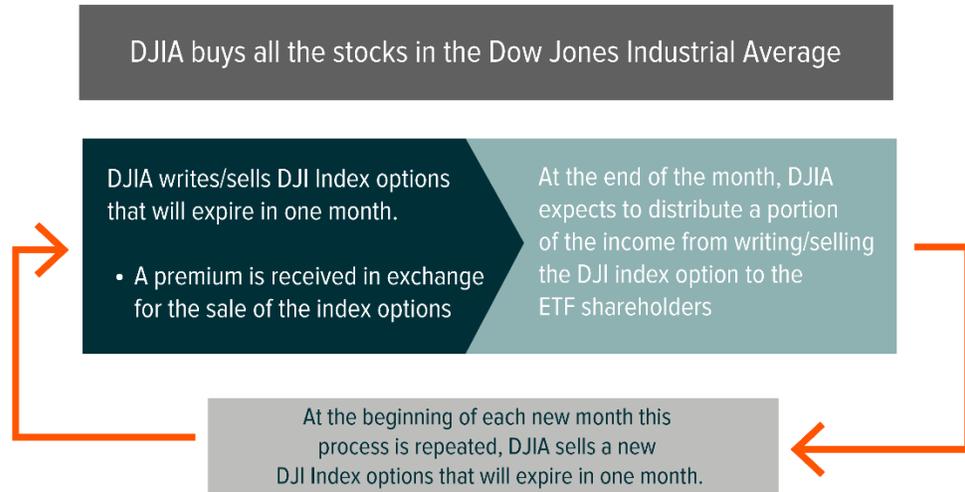
Source: Morningstar Direct. Data as of 1/31/2022.

Naturally, the DJI's underweight to technology sector names and overweight in sectors like Industrials and Financial Services will also lead to differences in performance amongst these major indexes. The Nasdaq 100, a growth-oriented index, outperformed the S&P 500 and Dow Jones Industrial Average Index, by an annualized 10.16% and 13.10%, respectively, in the five-year period from 2017-2021.² However, the construction of the DJI can also benefit the index when growth or large caps are out of favor, such as the start of 2022. Year to date, the DJI has outperformed the S&P 500 by 2.11 percentage points and the Nasdaq 100 by 7.47 percentage points through February 22nd.³

Explaining the Global X Dow 30 Covered Call ETF (DJIA)

The Global X Dow 30 Covered Call ETF (DJIA) is the sixth ETF in our covered call suite. This ETF follows a similar process as the [Global X Nasdaq 100 Covered Call ETF \(QYLD\)](#), [Global X S&P 500 Covered Call ETF \(XYLD\)](#), and [Global X Russell 2000 Covered Call ETF \(RYLD\)](#). The equities in the Dow Jones Industrial Average Index (DJI) are purchased and weighted accordingly as in the index. An index call option is written at-the-money (ATM) on the DJI on 100% of the notional value of the portfolio. This process is repeated once a month, with the index option maturing on the third Friday of each month and a new option opened shortly after, known as the monthly 'roll' process. Shortly after the roll process, DJIA expects to make a monthly distribution to investors. Below is a visual representation of this process.

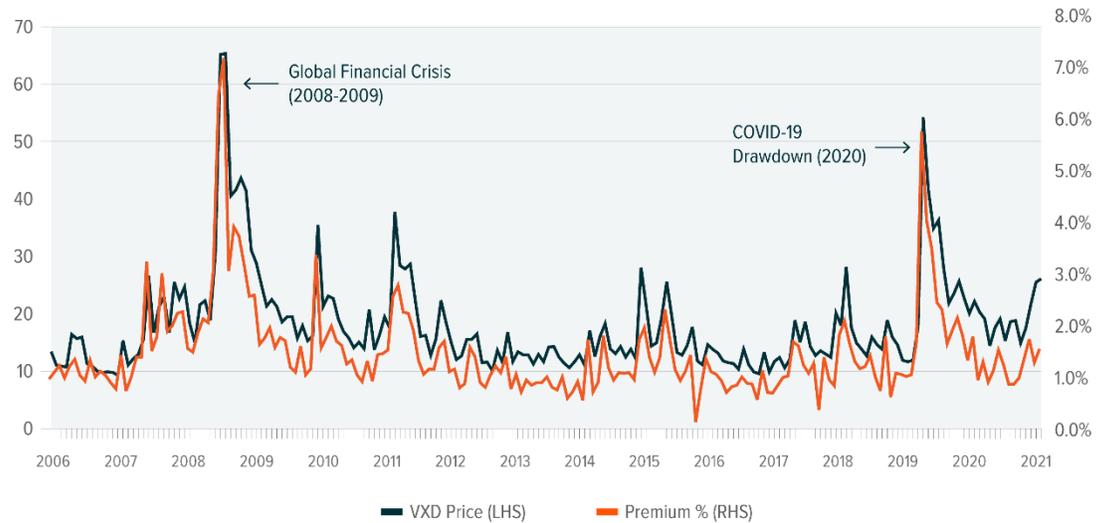




For investors, the premiums generated through writing the call options are an attractive potential source of income. Premiums from writing options historically are positively correlated to the volatility levels of the asset the option is written on. Historically, in higher volatility environments this means more premiums for the option writer, and vice versa in a lower volatility environment.

DJI IMPLIED VOL (VXD) VS. BXD PREMIUMS

Source: VXD Price levels from Morningstar Direct and BXD Premiums from CBOE Markets.
Data from 1/20/2006 to 2/18/2022 using data from the 3rd Friday of each month, when the options are written. CBOE DJIA Buywrite Index (BXD) represents the performance of a theoretical portfolio that sells DJI call options against a portfolio of the stocks included in the DJI. Premiums are a hypothetical measurement since it is an index. *Past performance does not guarantee future results.*



The nature of the premiums can also potentially mitigate in the case of lack of upside on the DJI, given that the call options are written at-the-money (ATM), meaning the strike price equals the current price of the underlying security. Historically, BXD’s premiums resulted in the below total annual levels. Bolded in the below chart, we can see key years where premiums received as a percent of the index price were at high-points due to the implied volatility in the market (VXD). The tradeoff of potential upside return for income could be attractive for an income investor.

Year	BXD Annual Premiums(%)
2006	13.43%
2007	19.19%
2008	35.46%
2009	27.72%
2010	19.68%
2011	20.51%
2012	15.01%
2013	11.85%
2014	10.75%
2015	15.84%
2016	14.17%
2017	10.25%
2018	15.51%
2019	14.21%
2020	29.71%
2021	14.80%

Source: CBOE.

Potential Benefits of Covered Call Strategies in a Rising Rate Environment

Finding appropriate sources of yield can be a key challenge for income investors in rising rate environments like the one we’re seeing today. Fixed income presents duration risk, and in some higher yielding fixed income assets like long duration treasuries and corporate bonds, this duration risk can be significant.⁴ Corporate bonds offer a duration of 8.2 years currently, and long duration treasuries sit at 19.3 years.⁵ With 10-year treasury yields having moved from 1.44% at the end of November 2021 to 2.04% on 2/15/22, duration risk may start cutting into returns even further if rates continue moving higher from here.⁶



Equities haven't been immune either. Major broad market indices are struggling this year with rising rates, as the S&P 500 is down -9.65% YTD.⁷ Equity indexes like the S&P 500 tend to yield approximately 2% or less, making it challenging with inflation starting to cut into purchasing power of the income received.⁸

Covered call strategies like DJIA may be an intriguing alternative for investors, as they don't present duration risk and can diversify return streams in a portfolio given potentially different sector exposures. From a portfolio construction perspective, strategies like DJIA give investors the opportunities to scale back in riskier pockets of the credit market like high yield bonds, or duration sensitive areas like corporate bonds and may generate the income investors may need.

Covered call strategies can also offer investors higher income potential than other traditional income strategies because of the positive correlation of volatility to premiums received. Recently, rising rates have led to increased volatility in many parts of market, including growth assets. For equity investors, the reduced Technology exposure in DJIA relative to the S&P 500 and Nasdaq 100, as well as overweight to a sector like Financials that tend to benefit from rising rates through activities like lending, may be an attractive value proposition.

Related ETFs

DJIA: The [Global X Dow 30 Covered Call ETF](#) follows a "covered call" or "buy-write" strategy, in which the Fund buys the stocks in the Dow Jones Industrial Average and "writes" or "sells" corresponding call options on the same index.

Please click the fund name above for current fund holdings and important performance information. Holdings are subject to change.

Endnotes:

1. Date as of 2/22/22.
2. Bloomberg. Data from 12/31/16 to 12/31/21.
3. Bloomberg.
4. Duration risk is the sensitivity of a fixed income holding's value to changes in interest rates. Higher duration levels indicate more sensitivity to interest rates. Duration is defined as the change in a fixed income holding's value for a one percent change in interest rates.
5. Source: Bloomberg. Corporate bonds represented by Bloomberg US Corporate Bond Index, and long duration treasuries represented by Bloomberg U.S. Treasury 20 Year+ Index. Data as of 2/15/22.
6. Bloomberg. 11/30/21 to 2/15/22.
7. Data as of 2/22/22.
8. Data from 1/31/17 to 1/31/22.



DEFINITIONS

S&P 500 Index: Tracks the performance of 500 leading U.S. stocks and captures approximately 80% coverage of available U.S. market capitalization. It is widely regarded as the best single gauge of large-cap U.S. equities.

Nasdaq 100 Index: The Nasdaq-100 Index includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit or guarantee against a loss. DJIA is non-diversified. Concentration in a particular industry or sector will subject DJIA to loss due to adverse occurrences that may affect that industry or sector. Investors in DJIA should be willing to accept a high degree of volatility in the price of the fund's shares and the possibility of significant losses.

DJIA engages 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, in this case U.S. common equities, and writing a call option on that same asset with the goal of realizing additional income from the option premium. By selling covered call options, the Fund limits its 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. A liquid market may not exist for options held by the fund. 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 index's current market price.

Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

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.

Carefully consider the fund's investment objectives, risks, and charges and expenses. This and other information can be found in the fund's full or summary prospectuses, which may be obtained at globalxetfs.com. Please read the prospectus carefully before investing.

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