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Topic: Income, Options

Related ETFs

Please click below for fund holdings and important performance information.

DYLG – Global X Dow 30 Covered Call & Growth ETF

QYLG – Global X Nasdaq 100 Covered Call & Growth ETF

XYLG – Global X S&P 500 Covered Call & Growth ETF

DJIA – Global X Dow 30 Covered Call ETF

QYLD – Global X Nasdaq 100 Covered Call ETF

XYLD Global X S&P 500 Covered Call ETF

RYLD – Global X Russell 2000 Covered Call ETF

RYLG – Global X Russell 2000 Covered Call & Growth ETF

GLOBAL X ETFs RESEARCH

Introducing the Global X Dow 30 Covered Call & Growth ETF (DYLG)

On 7/26/2023, we listed the Global X Dow 30 Covered Call & Growth ETF (DYLG) on the New York Stock Exchange. DYLG is the latest addition to Global X's covered call ETF suite, which is designed to offer investors both income and upside potential (though some may cap that potential). DYLG is our newest addition to the Global X covered call & growth lineup, which includes the Global X Nasdaq 100 Covered Call & Growth ETF (QYLG), the Global X S&P 500 Covered Call & Growth ETF (XYLG), and the Global X Russell 2000 Covered Call & Growth ETF (RYLG) in addition to our sector-based covered call and growth solutions. These covered call and growth funds write covered calls on 50% of the value of the underlying indexes or sector funds.

Recent market performance within the United States has been driven in large part by interest rate decisions from the Federal Reserve (Fed), economic data surrounding inflation, and the ebbs and flows of the labor market. These forces have prompted elevated levels of volatility for equities and fixed income instruments alike. The rate environment has lent support to income-driven accounts, which have long been mired by an unfavorable backdrop. However, with the Fed's path to tame inflation potentially reaching a plateau, and the jobs market proving fairly resilient, investors may well want to start leaning into potential changes in implied volatility by gaining exposure to options and the underlying market concurrently.

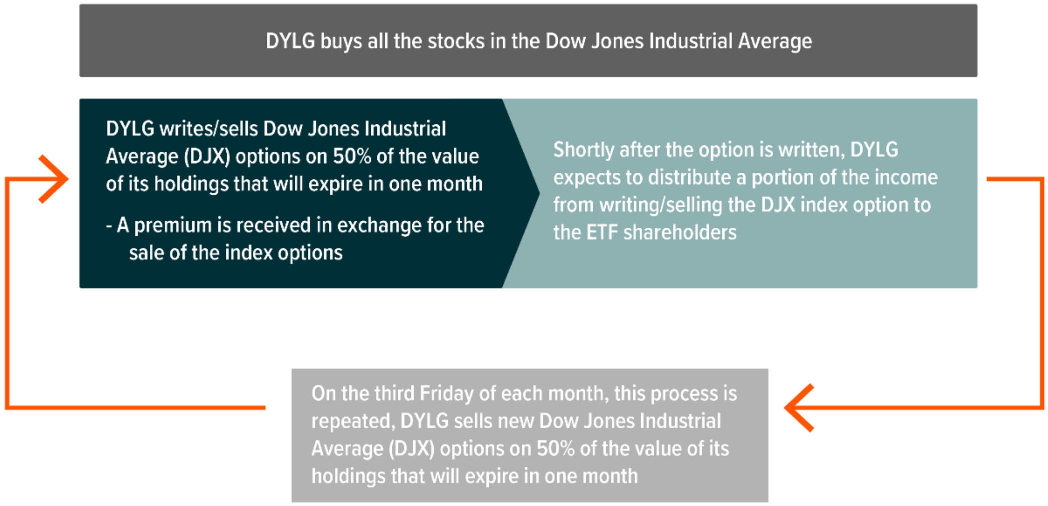
DYLG: A Covered Call ETF Designed for Income and Growth Potential

- The Global X Dow 30 Covered Call & Growth ETF (DYLG) buys the securities in the Dow Jones Industrial Average at the respective weights of that index, providing a differentiated exposure relative to other major domestic indices.
- By writing at-the-money (ATM) index call options on 50% of the value of the stocks owned in the fund, investors are able earn premium income and benefit from roughly half of the upside potential of the underlying index.
- Specific trading environments cater themselves well to the covered call & growth strategy. Elevated volatility can boost the fund's yield by providing increased potential to receive better option premiums.

Global X has broadened its suite of covered call-based options products significantly over the last few years, to a total of 12 funds that help service investors' income needs through a lens of various risk exposures. The Global X Dow 30 Covered Call & Growth ETF (DYLG) follows a passively managed rules-based methodology similar to other products in that suite in that it writes European style options that are cash settled and cannot be exercised until expiration. The calls are written at-the-money against half of its notional exposure on the third Friday of every month. This practice gives the fund a running potential income component as well as exposure to 50% of the upside potential of the option's reference asset, the Dow Jones Industrial Average.

COVERED CALL & GROWTH PROCESS EXPLAINED

Sources: Global X ETFs.

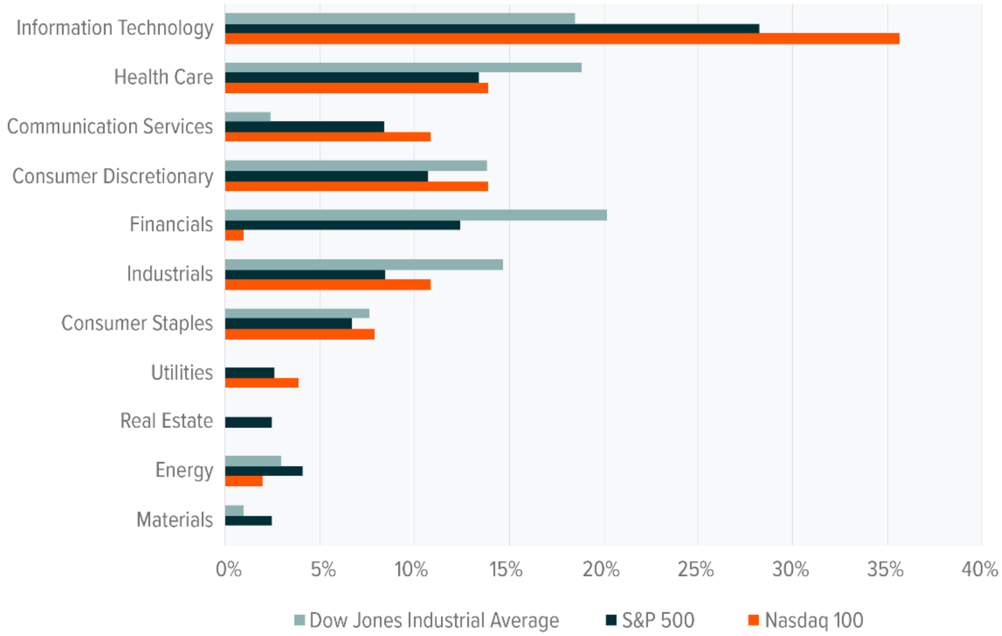


Choosing the Dow Jones Industrial Average as a Reference Asset

The Dow Jones Industrial Average is a price-weighted index, which is made up mostly of financial, healthcare, and industrial companies. Its constituency is not selected based on many formal specific quantitative rules. Selections need only be of the large-cap variety, trade on the S&P 500, and conduct business outside the realms of the transportation and utility sectors. From this pool, an index committee determines 30 highly reputable companies for inclusion that have exhibited sustained growth and dubs them “Blue Chips”. This differentiates it from the other major domestic indices like the Nasdaq 100 and S&P 500, which are market-cap weighted and tend to lean heavily toward businesses that operate in the communications and technology sectors.

DOW JONES INDUSTRIAL AVERAGE VS. S&P 500 VS. NASDAQ 100 SECTOR COMPARISON

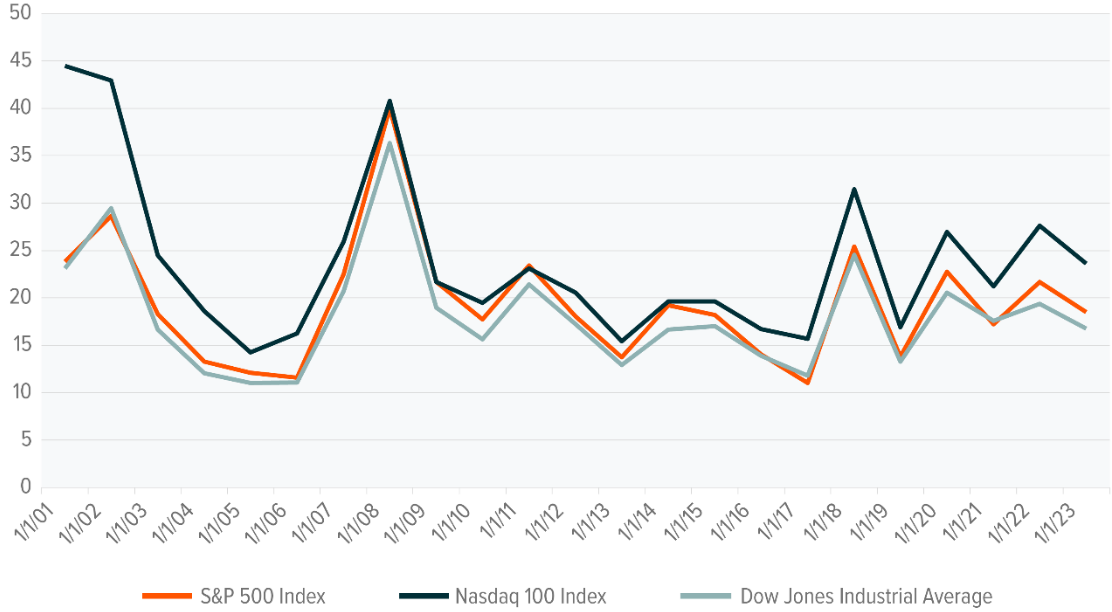
Sources: S&P, Bloomberg L.P. Data as of June 30, 2023.



The underlying composition of these respective indices has historically dictated their performance. For instance, during times of economic prosperity, when equities are generally moving in a positive direction, the Nasdaq 100, with its growth-driven framework, has historically achieved better gains than the Dow Jones Industrial Average and the S&P 500. That said, in times when economic support is harder to find, like during the 2008 financial crisis, the Dow Jones has held ground better against drawdowns than the Nasdaq 100, and periodically proven more resilient than the S&P 500, as well.[1] The price-weighted nature of the Dow Jones Industrial Average lends the index to exhibit lower levels of volatility than that of the S&P 500. Likewise, its sector exposures and makeup centered around financial and health care stocks can make it less susceptible to wide swings in price than the Nasdaq 100. The chart below highlights these characteristics. Notably, the Dow Jones Industrial Average has exhibited softer levels of implied volatility than each of the other two indexes for most of the last twenty plus years.

DOW JONES INDUSTRIAL AVERAGE VS. S&P 500 VS. NASDAQ 100 ANNUAL AVERAGE 30-DAY IMPLIED VOLATILITY COMPARISON (%)

Sources: Bloomberg L.P. Data from January 1, 2001 to June 30, 2023.



DYLG Coverage Percentage: The Tradeoff Between Growth & Income

The funds in the Global X Covered Call suite vary not only in the underlying assets that they seek to track, but also in the balance of notional value that they strive to cover. For instance, the Global X Dow 30 Covered Call ETF (DJIA) writes monthly calls against the entirety of its holdings, putting a cap on all potential price appreciation in exchange for higher levels of premium income. This is more of a conservative scenario than the one offered by the Global X Dow 30 Covered Call & Growth ETF (DYLG), which foregoes only half of the upside potential achievable by the underlying assets by writing call options against 50% of its notional balance.

VARYING COVERAGE OF LONG POSITION

	50% Coverage	100% Coverage
UPSIDE POTENTIAL	Half	None
OPTION PREMIUM INCOME	Half	Full

The fully covered approach taken by DJIA seeks to achieve the maximum amount of current income for its investors and helps to de-lever risk from their respective portfolios. DYLG is designed to provide more of a modest degree of current income, but it's balanced approach allows investors to maintain capital exposure to half of the upside potential of the reference asset. DYLG also provides similar sector diversification to that of DJIA, since they both harness the Dow Jones Industrial Average as their underlying index. That said, with DYLG retaining exposure to 50% of any gains of the Dow Jones Industrial Average over the life of each option, investors are still able to express a bullish attitude over a given time horizon. With the addition of DYLG, this tradeoff between growth and income is now expressible across the entirety of the Global X Covered Call suite.

GLOBAL X COVERED CALL AND COVERED CALL & GROWTH SUITE

Fund	QYLD	XYLD	DJIA	RYLD
Reference Index	Nasdaq 100	S&P 500	Dow Jones Industrial Average	Russell 2000
Call Option Duration	1 Month	1 Month	1 Month	1 Month
Option Moneyness	At-the-money	At-the-money	At-the-money	At-the-money
Call Option Coverage	100%	100%	100%	100%

Fund	QYLG	XYLG	DYLG	RYLG
Reference Index	Nasdaq 100	S&P 500	Dow Jones Industrial Average	Russell 2000
Call Option Duration	1 Month	1 Month	1 Month	1 Month
Option Moneyness	At-the-money	At-the-money	At-the-money	At-the-money
Call Option Coverage	50%	50%	50%	50%

RYLD may invest in the Vanguard Russell 2000 ETF to gain exposure to the Russell 2000. Call option duration defined as length of the call option contract. Option moneyness defined as exercise price relative to security price the call option contract is written at.

Implementing the Dow 30 Covered Call & Growth Strategy

Covered call & growth strategies can be valuable in particular trading environments. To wit, it is important to note the long-standing relationship that has been held between option premium pricing and volatility. This association may well influence the coverage decision. As market volatility rises, premiums received from writing call options typically increase as well. Meantime, the value of the underlying assets on which the options are written become more prone to wider swings in value. This supports the case for a covered call & growth strategy should investors want to participate in the growth potential of the Dow Jones Industrial Average but still like to establish a current income stream as well. The chart below highlights the option premiums and distributions that have been realized by DJIA since its inception, relative to our other fully covered funds. Although it may not prove the case every time, the premiums received from DYLG are expected to be roughly half of those attained by DJIA.

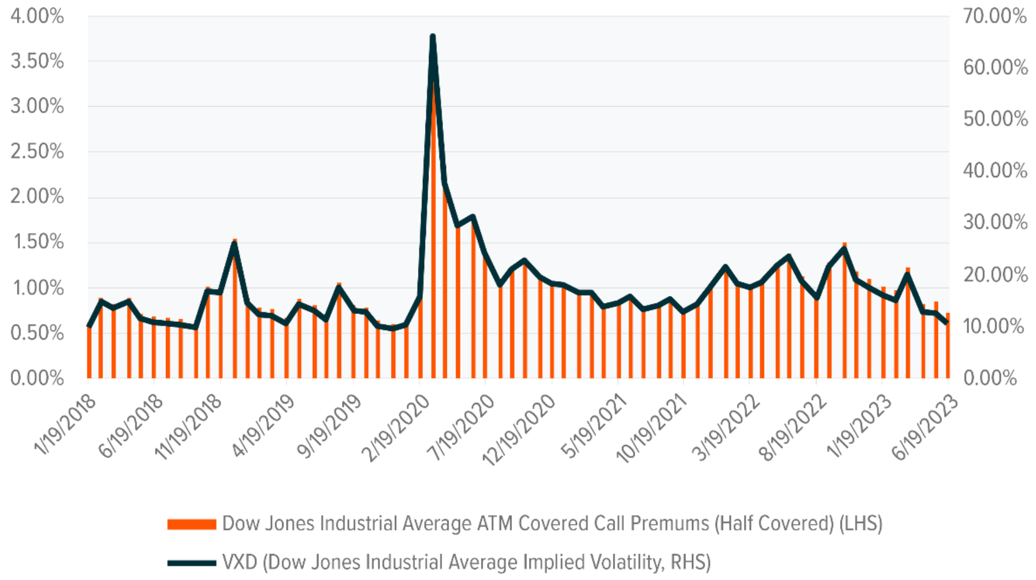
DATE	QYLD		XYLD		RYLD		DJIA	
	Monthly Distribution Cap: 1.00%		Monthly Distribution Cap: 1.00%		Monthly Distribution Cap: 1.00%		Monthly Distribution Cap: 1.00%	
	Option Premium	Distribution[1]	Option Premium	Distribution[1]	Option Premium	Distribution[1]	Option Premium	Distribution[1]
Sept 2021	1.70%	0.83%	1.54%	0.75%	2.24%	1.00%	-	-
Oct 2021	1.74%	0.87%	1.39%	0.69%	2.00%	0.98%	-	-
Nov 2021	1.95%	0.98%	1.44%	0.72%	2.14%	0.99%	-	-
Dec 2021	2.43%	2.25%	1.83%	0.91%	2.82%	1.27%	-	-
Jan 2022	2.76%	0.99%	2.09%	1.00%	3.04%	0.99%	-	-
Feb 2022	3.03%	1.01%	2.38%	1.02%	2.84%	1.00%	-	-
Mar 2022	2.83%	1.00%	2.26%	1.00%	2.50%	1.01%	1.76%	0.89%
Apr 2022	2.94%	1.00%	2.09%	1.01%	2.66%	1.00%	1.74%	0.80%
May 2022	3.12%	1.01%	2.51%	1.01%	2.78%	1.01%	1.45%	0.72%
Jun 2022	4.27%	1.00%	3.32%	1.00%	3.86%	1.00%	2.37%	1.00%
Jul 2022	3.62%	1.00%	2.75%	1.01%	3.75%	1.02%	1.76%	0.90%
Aug 2022	2.78%	1.00%	2.01%	0.99%	2.58%	0.99%	1.29%	0.66%
Sep 2022	4.02%	1.01%	3.06%	1.01%	3.36%	1.01%	2.13%	1.01%
Oct 2022	4.36%	1.01%	3.61%	1.01%	4.31%	1.01%	3.21%	1.00%
Nov 2022	3.09%	1.02%	2.42%	1.02%	2.77%	1.03%	1.57%	0.79%
Dec 2022	3.02%	1.00%	2.53%	1.00%	2.95%	1.00%	1.92%	0.96%
Jan 2023	2.88%	1.01%	2.26%	1.01%	2.53%	1.02%	1.23%	0.62%
Feb 2023	2.69%	1.03%	2.07%	1.02%	2.54%	1.03%	1.22%	0.62%
Mar 2023	3.26%	1.01%	2.80%	1.00%	3.42%	1.00%	2.28%	1.00%
Apr 2023	2.40%	1.01%	1.84%	0.93%	2.52%	1.01%	1.08%	0.55%
May 2023	1.89%	0.96%	1.38%	0.70%	1.78%	0.89%	0.57%	0.29%
June 2023	2.43%	1.01%	1.60%	0.81%	2.26%	1.02%	1.43%	0.73%

[1]*As a general guideline, the monthly distribution of QYLD, XYLD, RYLD, and DJIA is approximately capped at the lower of: a) half of premiums received, or b) 1% of net asset value (NAV). The excess amount of option premiums received, if applicable, is reinvested into the fund. Year-end distributions can exceed the general guideline due to capital gains that are paid out at the end of the year.*

Seeking to investigate the fund's potential premiums with more granularity, the chart below harnesses a Black-Scholes options pricing model using a 50% covered call Dow Jones Industrial Average strategy.[2] The relationship between the modeled premiums for the Dow Jones Industrial Average and implied levels of volatility is also notably close.

CALCULATED DOW JONES INDUSTRIAL AVERAGE ATM COVERED CALL PREMIUMS (HALF COVERED) VS. THE CBOE DJIA VOLATILITY INDEX (VXD)

Sources: Global X ETFs with information derived from CBOE Markets and Bloomberg L.P. (n.d.). [VXD Index from January 1, 2018 to June 16, 2023] [Data set]. Data from 1/1/2018 to 6/16/2023 using the data from the 3rd Friday of each month when the options are written. Premiums are a hypothetical measurement since it is an index. These are calculated options premiums using the Black Scholes options pricing model. Actual premiums may have varied.



The association between premiums and volatility denotes how recent market turbulence might contribute to higher levels of income when selling covered calls. The decision to cover half or the entirety of an investment harnessing DJIA or DYLG is now possible, and depends on an investor's goals and risk temperament.

Conclusion

We believe today's macroeconomic environment lends itself well to a covered call and growth strategy. Markets like the Dow Jones Industrial Average are trading with elevated volatility, and this is creating an environment where wider premiums might be attained. What's more, investors bearing concern over the potential for an economic recession, or an extended period of elevated borrowing rates, are potentially seeking more conservative positions. Investments in a fund like the Global X Dow 30 Covered Call & Growth ETF (DYLG) may represent a good solution against this backdrop, granting exposure to the underlying index, which would otherwise require a buyer to take positions in thirty different equities and investigate their own call writing strategy.

Footnotes

1. Bloomberg L.P. COMP [SPX, NDX, DJI Indexes from October 31, 2007 to March 9, 2009] Data Set.
2. The Black Scholes model is a flagship model used to calculate the fair price for an option using current stock price, expected dividends, strike price of an option, expected interest rates, time to expiration and expected volatility. The model assumes that dividends are not paid, the option can only be exercised at expiration, risk-free rate and volatility of the underlying investment are known and constant, no transaction costs are involved in buying the option, markets are efficient, and the returns are log-normally distributed.

Glossary

Option: 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 call is most likely to be used when the price of a security is expected to increase. A put is most likely to be used when the price of a security is expected to decline.

The Cboe NASDAQ-100 Volatility Index: Commonly referred to as VXN, reflects a market estimate of future volatility of the Nasdaq 100 Index options, based on the weighted average of the implied volatilities.

Cboe DJIA Volatility Index: Reflects a market estimate of future volatility of the Dow Jones Industrial Average index options, based on the weighted overage of the implied volatilities.

At-the-money: Moneyness refers to an option's strike price relative to the price of its reference asset. At-the-money implies that the strike price of the option is equivalent to the price of the reference asset.

Dow Jones Industrial Average Index: The index is a price-weighted measure of 30 U.S. blue-chip companies. The index includes all industries except transportation and utilities.

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

S&P 500: 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.

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