

Covered Call – An Income Generating Strategy to Navigate Market Uncertainty

GLOBAL X
by Mirae Asset

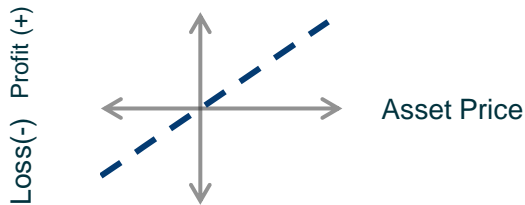
What is Covered Call Strategy?

Covered call is an option strategy in which an investor holds certain stocks (or indexes), while at the same time sells a call option (the right for investors to buy stocks at pre-determined prices within a specific timeframe) on the stocks they already own.

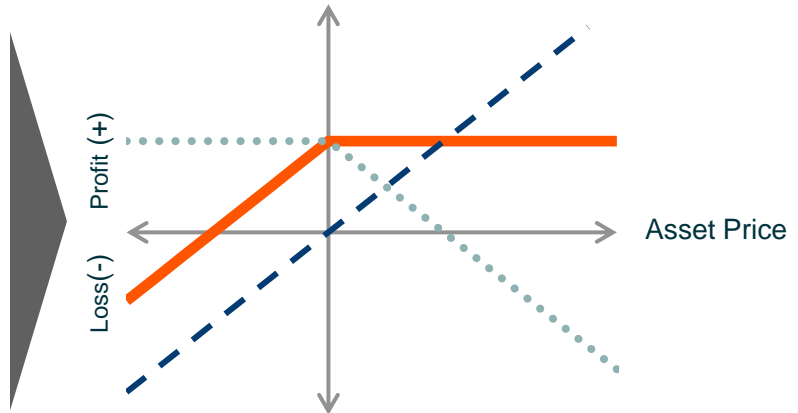
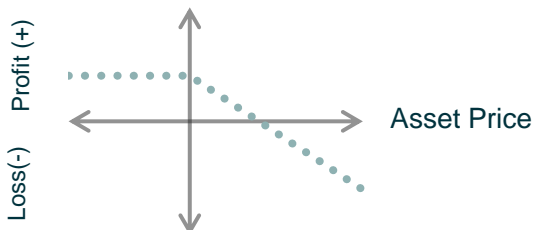
Below chart shows the payoff diagram for covered call strategy. It contains two parts: (1) By holding underlying asset (Hang Seng Index for example), investors receive positive returns when asset price goes up, and negative returns when asset price goes down; (2) By selling respective call options, Investors can receive option premiums income. However, when asset price goes up, investors that sell call option will incur losses when the option gets exercised. Through combination of (1) and (2), the orange line in the chart below represents the payoff for Covered Call Strategy.

Payoff Diagram for Covered Call Strategy

① Hang Seng Index stocks



② Selling Hang Seng Index Call option (at the Money)
→ Monthly Option Premium Income



Source: Mirae Asset, 2025

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Features of Covered Call Strategy

Through selling call option, investors can receive option premiums as income. Option premiums tend to increase during volatile markets, offering a potential risk management component.

However, upside potential for covered call is capped in the event that the stock appreciates beyond the strike price. In other words, investors cannot enjoy the benefits of capital appreciation of underlying stocks.

When share price decreases, option premiums offer additional layer of protection that can partially offset losses. No additional downside protection beyond the premiums received.

Consider three different market conditions:

1. When market is in an uptrend, reference index/stock goes up

In this case, the major source of income for covered call investors will still be option premiums income from selling call options. In other words, investors cannot enjoy capital appreciation in a bull market. As a result, covered call strategy is likely to **underperform** underlying indexes/stocks in this market condition.

2. When market is volatile, reference index/stock is flat/choppy

In this case, investors are likely to receive higher option premiums income, as option premiums tend to increase along with market volatility. Covered call strategy would be expected to **outperform** underlying indexes/stocks in a volatile market.

3. When market is in a downtrend, reference index/stock goes down

In this case, option premiums received can partially offset the loss of underlying indexes/stocks, leading to **outperformance** against underlying. However, this **does not mean** that covered call strategy can eliminate loss scenarios for investors, as downside protection cannot go beyond option premiums collected.

Covered Call Performance by Different Market Direction



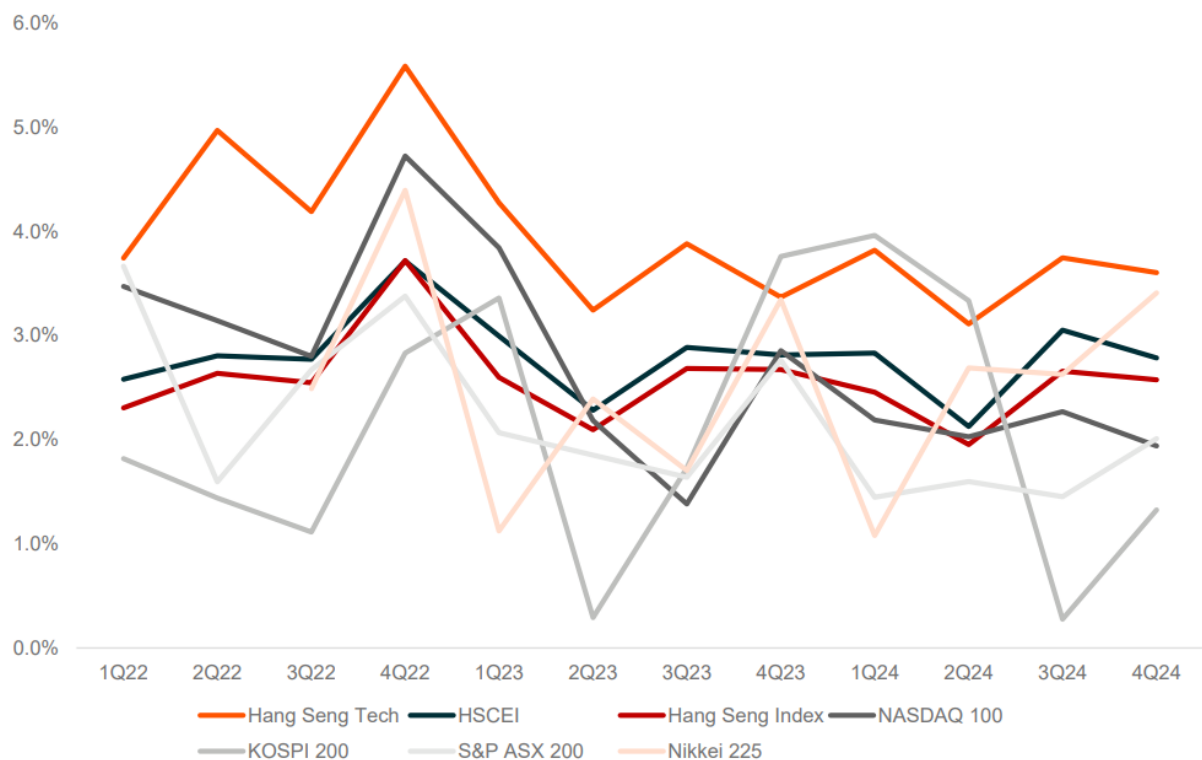
Source: Mirae Asset. For Illustration Purposes Only. Flat/Choppy market assumes no fluctuations below the strike price.

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Hong Kong Market Indexes Have Higher Option Premiums

Across major global market indexes, Hong Kong Market Indexes (Hang Seng Index, Hang Seng China Enterprises Index, and Hang Seng TECH Index) have higher historical option premium, due to higher market volatility. This makes Hong Kong an ideal market for applying the covered call strategy.

Option Premiums Comparison for Major Indexes



Source: Hang Seng, Bloomberg, Mirae Asset, 2025. Note: Option premium data for Hang Seng Tech Index, HSCEI, and Hang Seng Index are from Hang Seng; Others are estimated using Bloomberg data. For reference only.

Covered Call ETF: Streamlined Access to the Strategy

Covered call strategy is an effective income-generating strategy for investors to navigate market uncertainty. However, it could be costly and time consuming for non-professional investors to adopt such strategy as it involves options trading. In this case, covered call ETF stands out as a more suitable option because of its low costs, ease of trading, and transparency.

Covered Call and Retirement Planning

As discussed above, covered call strategy can generate income through selling call options of underlying assets. Therefore, by engaging in regular options selling, such as on a monthly basis, investors can potentially secure a consistent and stable income stream, particularly beneficial for those focused on retirement planning. However, do note that covered call strategy is not principal-protected investments as investors might also suffer loss if underlying asset goes down.

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Risks

Option premium can partially offset losses in market downturn, but it does not mean that investors will not lose money when market goes down. The protection from covered call strategy does not go beyond option premium, and Investors may still incur losses in when underlying indexes/stocks decline.

Upside return potential is capped for covered call strategy. When market goes up, the return for investors does not go beyond option premiums received, thus investors cannot enjoy the capital appreciation of its underlying indexes/stocks.

About Global X

Global X was founded in 2008. For more than a decade, our mission has been empowering investors with unexplored and intelligent solutions. Our product line-up features 400 ETF strategies and over \$97.2 billion in assets under management^[1]. While we are distinguished for our Thematic Growth, Income, and International Access ETFs, we also offer Core, Commodity, and Alpha funds to suit a wide range of investment objectives. Global X is a member of Mirae Asset Financial Group, a global leader in financial services, has a presence in 19 global markets and the group's managed assets exceed US\$613.8 billion in assets under management worldwide.

^[1] Source: Mirae Asset, 31 March 2025.

^[2] Source: Mirae Asset, 31 December 2024.

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