SPDR Spotlight

A Different Spin on Diversification - SPIN

The Lead

- The incoming administration's focus on tax cuts and deregulation has lifted US equities earnings growth expectations and S&P 500 P/E ratio to its 2nd percentile since 2000[1].
- Although the recent macro trend of U.S. exceptionalism persists, the uncertainty surrounding shifts in fiscal, trade, and immigration policies introduces potential downside risks, particularly from a possible disruption of the valuation premium.
- The market-aware actively managed SPDR® SSGA US Equity Premium Income ETF (SPIN) may help investors better protect against market drawdowns while maintaining upside potential.

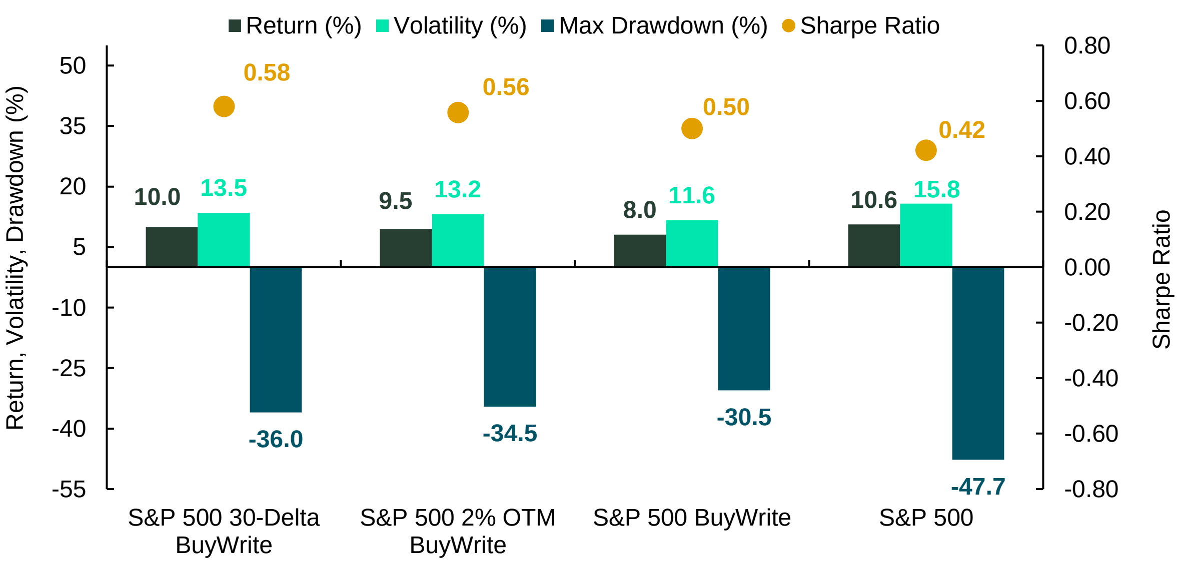
The Takeaway

The defensive nature of covered call strategies arises from sacrificing upside potential in exchange for a premium, which helps cushion losses in declining markets. The more market-aware a covered call strategy is, the greater likelihood it can adapt to changing market regimes without sacrificing upside. As shown in the graph below, relative to the market, an indexed market regime-aware covered call S&P 500 exposure has historically had less volatility, lesser drawdowns, and a higher Sharpe ratio while it has outperformed a more static 2% out-of-the-money version by 50 bps per year over the past 35 years[2].

Considering this, an active covered call approach that combines a fundamentally constructed equity portfolio with a dynamic options overlay may outperform a static, index-based covered call strategy lacking market regime awareness, while seeking to offer alternative forms of drawdown protection during periods of macro uncertainty.

Chart of the Week

Dynamic vs. static covered call S&P 500 exposure



Source: Bloomberg Finance L.P., period: 1/1/1990 - 11/29/2024, using quarterly frequency. **Past performance is not a reliable indicator of future performance. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.**

Standard Performance

Ticker	Name	Inception Date	Gross Expense Ratio (%)	Net Expense Ratio (%)
SPIN (NAV)	SPDR® SSGA US Equity Premium Income ETF	09/04/2024	0.25	0.25
SPIN (MKT)	SPDR® SSGA US Equity Premium Income ETF	-	-	-

Source: ssga.com as of 11/29/2024. **The fund is new and therefore does not have a performance history of its own**. The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. Some of the funds listed may have current fee agreements in place that reduces fund expenses and if removed or modified will result in higher expense ratios and reduce fund performance. Complete details can be found in each fund's prospectus on our website www.ssga.com.

1 - Bloomberg Finance L.P., as of November 28, 2024. Based on Estimated P/E Next Year Aggregate.

2 - Bloomberg Finance L.P., period: 1/1/1990 - 9/30/2024, using quarterly frequency. S&P 500 30-Delta BuyWrite = The Cboe S&P 500 30-Delta BuyWrite Index, S&P 500 2% OTM BuyWrite = Cboe Standard & Poor's 500 2% OTM BuyWrite Index, S&P 500 BuyWrite = Chicago Board Options Exchange S&P 500 BuyWrite Monthly Index.

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Marketing Communication

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