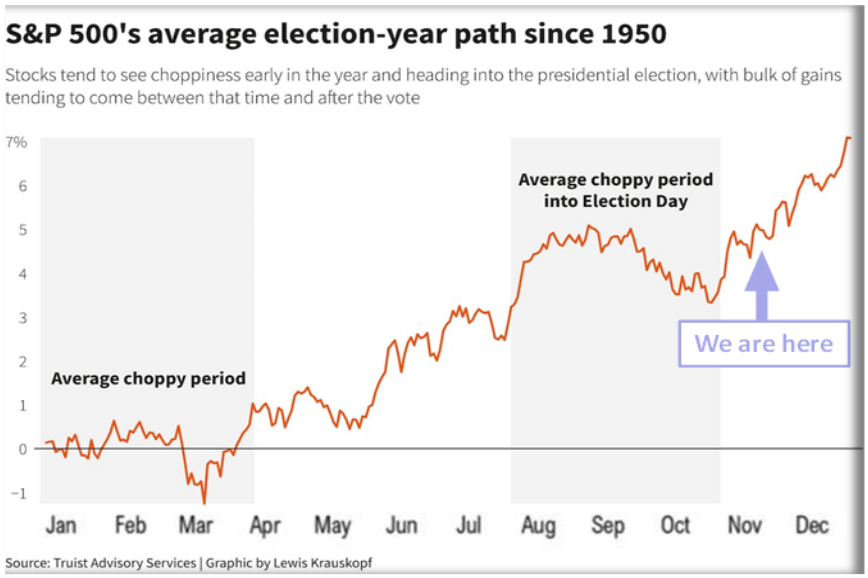
Covered Call Commentary

October| 2024

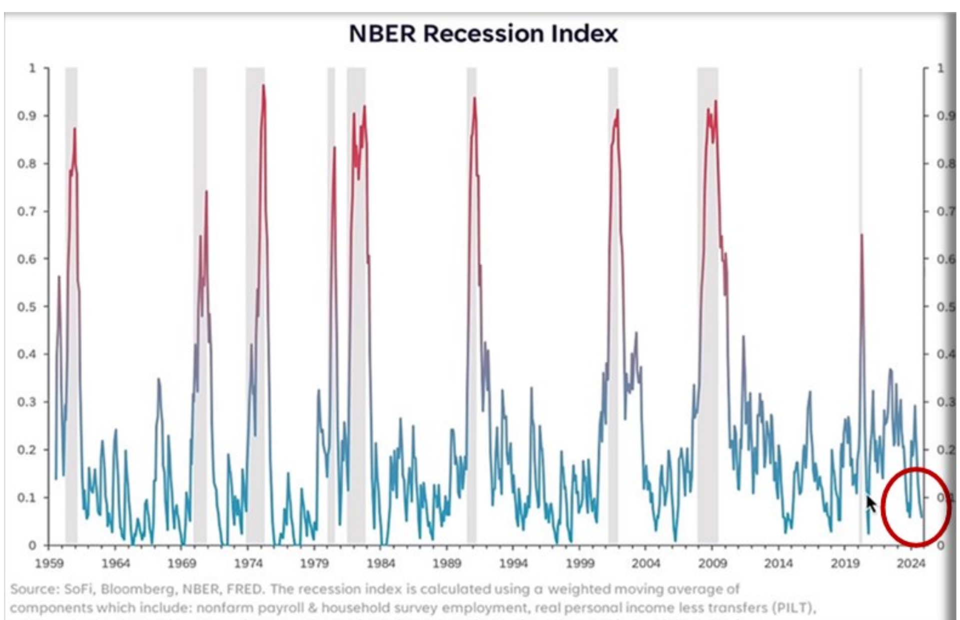
Election Behind Us...So What Lies Ahead?

It's uncanny how closely this years markets have followed the typical pattern of past election years. It's been a stronger than average move, of course, as the economy has improved and the Fed has begun its rate cut cycle. Here is a chart of the typical stock market pattern during election years, since 1950 as well as where we find ourselves today.



Economy Hanging In There

Most economists expected a recession over the past two years, and some are still calling for one, but the economy remains very resilient and relatively healthy. The NBER recession index (which combines a broad swath of economic indicators) is *not* currently signaling a recession. So far, the Fed appears to have achieved its "soft landing."



Themes for 2025 & Beyond

There are various “Trump trades” that are making large moves. Small caps have outperformed since the election, as investors reposition for deglobalization/onshoring and the rate cut cycle. And crypto has gone ballistic, as Trump has promised to restructure the SEC and build a bitcoin reserve on the US balance sheet.

Reflation is also on investors’ minds, as the US shifts back into growth mode. The 10 year Treasury yield has risen by approx. 75 basis points over the past two months. Upward pressure on long rates should help normalize the yield curve, which has been inverted for several years, but it could also dampen bond returns for some time.

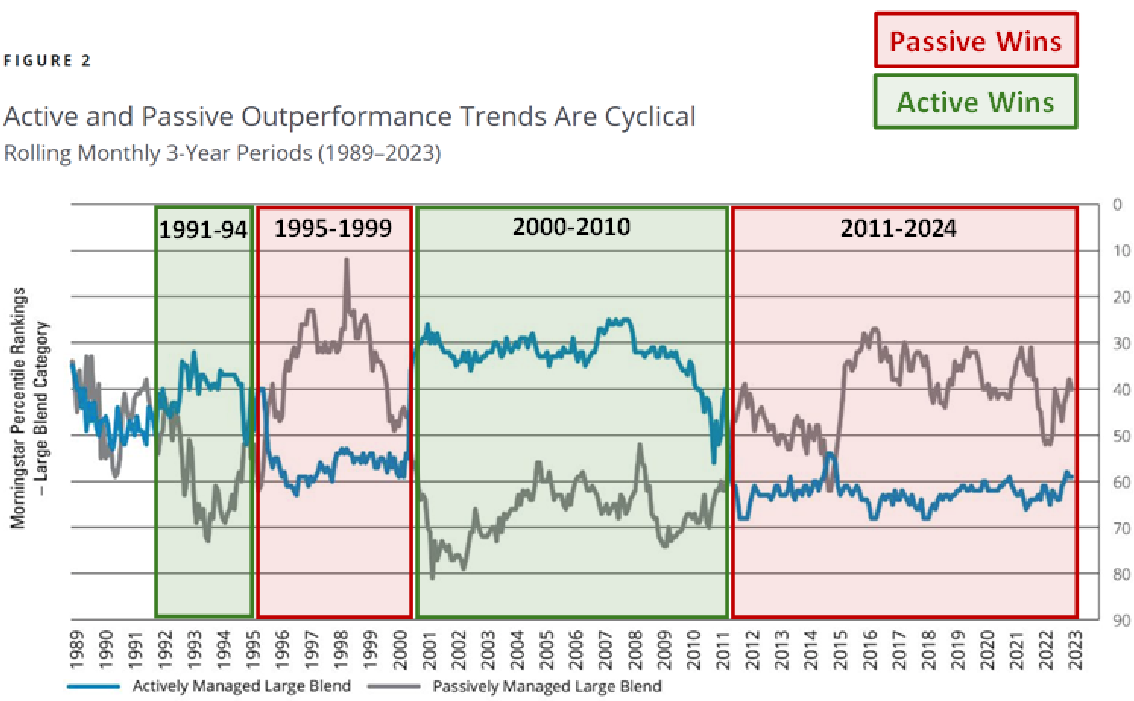
Market breadth has improved considerably since mid-year, with industrials and financials outperforming technology for the first time in ages. This bodes well for the overall economy.

Stocks are expensive but do typically perform better than bonds during moderately inflationary periods. Vanguard expects stocks to return between 3.2%-5.2% over the next decade. These types of choppy, sideways moving markets are perfect for covered calls.

Shift Back To Active Management

As we mentioned in our September commentary, we believe investors are likely to move towards active management as the market environment becomes more challenging. As demonstrated in the chart below, passive investing works great when markets go straight up. But good active managers typically thrive during more uncertain markets. In our view, the future is likely to be less certain than the recent past. The market is transitioning from a “sailing market” to a “rowing market,” and managers who take a more active role will outperform during this time.

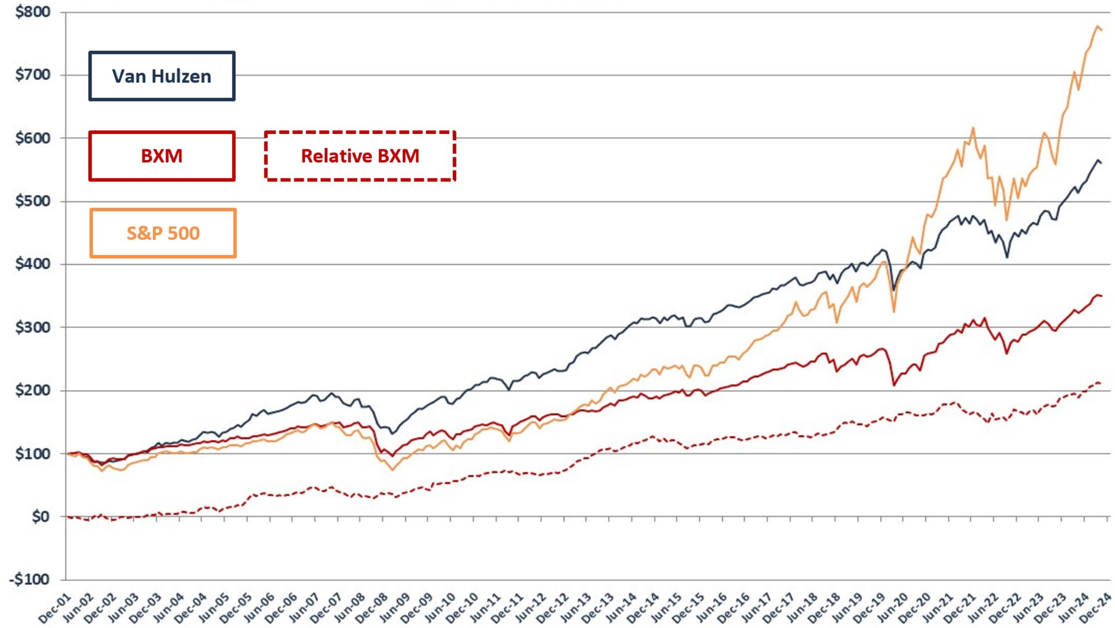
Passive strategies have outperformed over the past 14 years. But these trends tend to go in cycles, and active strategies outperformed during the prior 10 years. If Vanguard’s outlook is correct, active managers are likely to outperform over the coming decade.



Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.

Covered Call Strategy Performance (gross as of 10/31/2024)



Returns (annualized)*	Oct 2024	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-0.6%	3.2%	9.2%	12.5%	19.1%	5.8%	6.4%	6.3%	6.0%	7.8%
Van Hulzen (Net)	-0.7%	3.1%	8.9%	12.0%	18.4%	5.3%	5.8%	5.7%	5.4%	7.0%
BXM	-0.5%	3.8%	8.0%	13.0%	18.5%	4.6%	6.0%	5.7%	6.4%	5.6%
Difference (Gross-BXM)	-0.1%	-0.6%	1.2%	-0.5%	0.6%	1.2%	0.3%	0.6%	-0.4%	2.2%
S&P 500	-0.9%	3.7%	14.1%	21.0%	38.0%	9.1%	15.3%	14.0%	13.0%	9.4%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts