

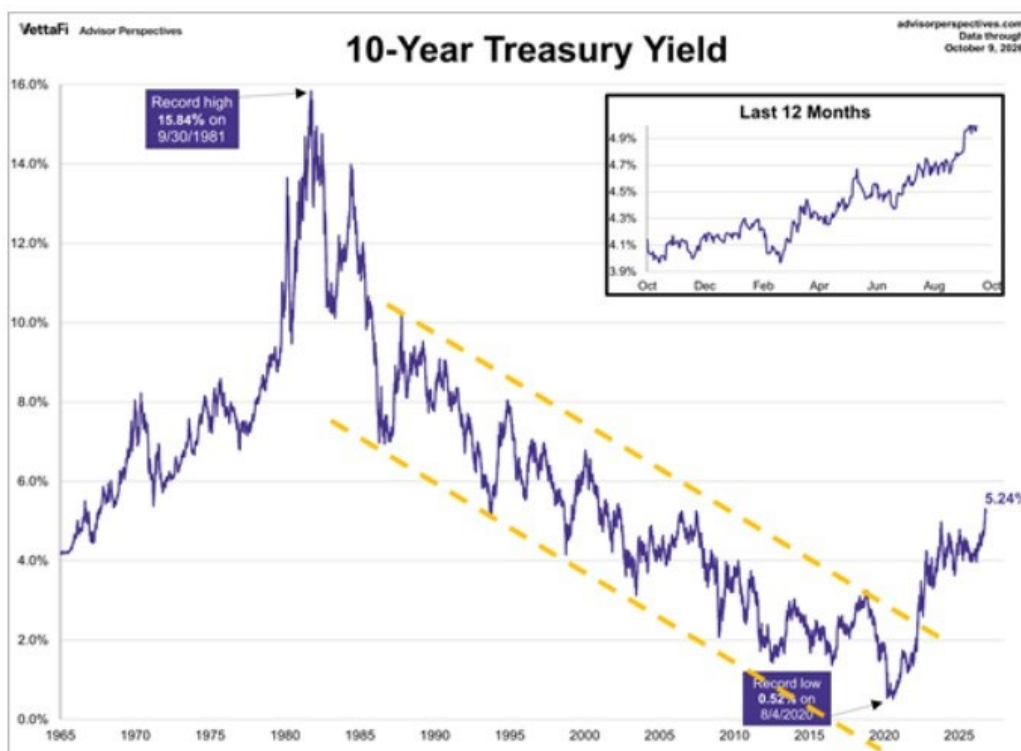
Bond Market Woes: The Case for Covered Calls

Executive Summary: The investment landscape is changing. After four decades of declining interest rates, bonds may no longer provide the same combination of income, appreciation, and diversification that investors have come to expect, while historically elevated equity valuations suggest more modest stock market returns ahead. We believe this environment could be particularly favorable for our covered call strategy, which seeks to generate consistent income while maintaining meaningful equity participation.

End of the 40-Year Bond Bull Market

Bond investors are on high alert. Or they should be, because the investment environment that made traditional bonds so attractive for four decades may have fundamentally changed.

The recent spike in Treasury yields has made headlines, as has their decisive breakout from their 40-year downward channel. See below.



We believe there have been three distinct regimes in the bond market over the past 80+ years:

1. Bond bear market: 1940–1980

U.S. Treasury bonds experienced four consecutive decades of negative real returns (more on this later). This wasn't necessarily because bond investors lost money in nominal terms. It was because inflation eroded their purchasing power faster than coupon income and price appreciation could compensate. Bonds can generate positive nominal returns while still losing purchasing power to inflation. There is a similar risk of this today.

2. The great bond bull market: 1981–2020

From 1981 to 2020, Treasury yields saw a roughly four-decade secular decline, from a peak above 15% in 1981 to below 1% in 2020. This decline provided bond investors with two sources of return: coupon income as well as capital appreciation as yields fell. It also helped equity valuations through falling discount rates and expanding valuation multiples. Investors became accustomed to a favorable combination of bond income, bond-price appreciation, and diversification during equity selloffs. That combination should not be assumed to persist.

3. The post-2020 environment: A new regime

The 2022 inflation shock demonstrated how quickly the traditional stock/bond relationship can break down. When inflation and interest rates rise together, bond prices fall, while equity valuations can also come under pressure.

But the macro environment is quite different now. Persistent fiscal deficits, elevated debt-service costs, inflation risks, and the possibility of renewed monetary accommodation could constrain future real bond returns. And most importantly, stocks are trading at record high valuations, a stark contrast to their low multiples in the early 1940s. There is a real risk that the conventional 60/40 portfolio may face some significant headwinds in the coming years.

Additional context: Annualized total returns by decade

A key distinction between stock and bond cycles, at least in modern history, is that stocks tend to take breatherers between strong, multi-decade bull markets whereas bonds have experienced booms and busts that last 4+ decades. Consider the table below. Over the past 100 years, stocks have experienced “lost decades” (defined as negative real returns) about every 20 years. Bonds, however, **lost ground in real terms for four consecutive decades** between 1940–1980.

Annualized Total Returns (CAGR) by Decade						
STOCKS						
Decade	Nominal	Real				
1930s	-0.9%	1.1%	Tough decade			
1940s	8.5%	3.0%	Tough decade			
1950s	19.5%	16.9%				
1960s	7.7%	5.1%				
1970s	5.9%	-1.4%	Lost decade			
1980s	17.3%	11.7%				
1990s	18.0%	14.7%				
2000s	-1.0%	-3.4%	Lost decade			
2010s	13.4%	11.5%				
2020s*	14.9%	10.6%				
Average	10.3%	7.0%				
BONDS						
Decade	Nominal	Real				
1930s	4.0%	6.1%				
1940s	2.5%	-2.7%	Lost decade			
1950s	0.8%	-1.4%	Lost decade			
1960s	2.4%	-0.1%	Lost decade			
1970s	5.4%	-1.8%	Lost decade			
1980s	12.0%	6.5%				
1990s	7.4%	4.3%				
2000s	6.3%	3.6%				
2010s	4.1%	2.3%				
2020s*	-0.6%	-4.4%	Lost decade			
Average	4.4%	1.2%				

Note: 2020s are through Dec 2025 for both sets, "Lost decade" defined as a negative real return, "Tough decade" defined as an equity return of 0-3%; Source: Aswath Damodaran, NYU Stern. Stock data is S&P 500 total return (incl its predecessor, 1928–1956); Bond data is 10 year Treasury total returns

Bonds lost ground in real terms for four consecutive decades between 1940-1980!

Today's Market

The four-decade bull market in bonds was one of the defining investment trends of the modern era. But with that cycle apparently behind us, persistent inflation risks, rising government indebtedness, and elevated equity valuations may create a more challenging environment for traditional stock-and-bond portfolios.

In this environment, investors may benefit from broadening their sources of income beyond fixed-income coupons. Our covered-call strategy offers one such approach, seeking to convert a portion of equity market volatility into current cash flow while retaining meaningful participation in long-term equity ownership.

We launched this strategy in December 2001, toward the beginning of the last “lost decade” of the 2000s. In the ensuing 8 years, we delivered an annualized return (gross of fees) of 7.5% compared to just 1.6% for the S&P 500.

Q3 Performance

Our covered call strategy showed a 1.6% return in the third quarter, roughly 70% of the S&P 500's 2.3% return. This is in line with our net market exposure, which is consistently in the 60-70% range.

COVERED CALL STRATEGY

Attribution: Q3 2026

Dividends	0.3%
Stock price	0.5%
Options	0.8%
Cov Call Return	1.6%

As a conservative income strategy, we will not always fully participate during positive periods. But over our 25+ year track record, we have captured 80% of the S&P 500's total return while experiencing roughly 60% of its volatility, as measured by standard deviation.

Quadrant Analysis

The table below, which we call the “Four Quadrants,” shows how covered calls behave relative to their underlying long-only securities in different market environments. Covered calls generally outperform long-only investing in three of the four market environments shown below. The exception is during explosive rallies, when written calls cap a portion of the upside. Most clients view this trade-off as worthwhile because the strategy has historically provided meaningful downside protection while still participating in much of the market's gains.

Q3 saw the return of the big AI platforms, with Microsoft, Meta and Nvidia leading the pack in our portfolio. Exxon also gained roughly 20%, as the Iran conflict continues to disrupt global oil markets. 2026 has been unusually polarized, but our portfolios have captured roughly 75% of the upside in advancing stocks.

Sideways Moving			
Name	Stock	Options	Net
JPM	1.5%	3.1%	4.6%
ETN	1.0%	4.7%	5.8%
UNP	0.6%	0.7%	1.2%
BRK	-0.5%	0.6%	0.1%
Median	0.7%	2.3%	2.9%

Covered Call Better

Declining			
Name	Stock	Options	Net
IBM	-21.2%	13.2%	-8.0%
TSLA	-15.6%	3.7%	-12.0%
MCD	-13.9%	1.1%	-12.8%
SYK	-12.3%	2.6%	-9.7%
Median	-14.8%	3.2%	-11.6%

Covered Call Better

Rising			
Name	Stock	Options	Net
SLB	5.4%	-1.4%	4.0%
V	4.9%	0.2%	5.1%
JNJ	4.8%	-0.7%	4.1%
AMZN	4.5%	0.6%	5.1%
Median	4.8%	-0.2%	4.6%

Covered Call In-Line

Exploding			
Name	Stock	Options	Net
MSFT	37.7%	-12.7%	25.0%
META	28.8%	-10.8%	18.1%
XOM	19.8%	-8.2%	11.6%
NVDA	14.1%	3.3%	17.4%
Median	24.3%	-6.6%	17.7%

Long-Only Better

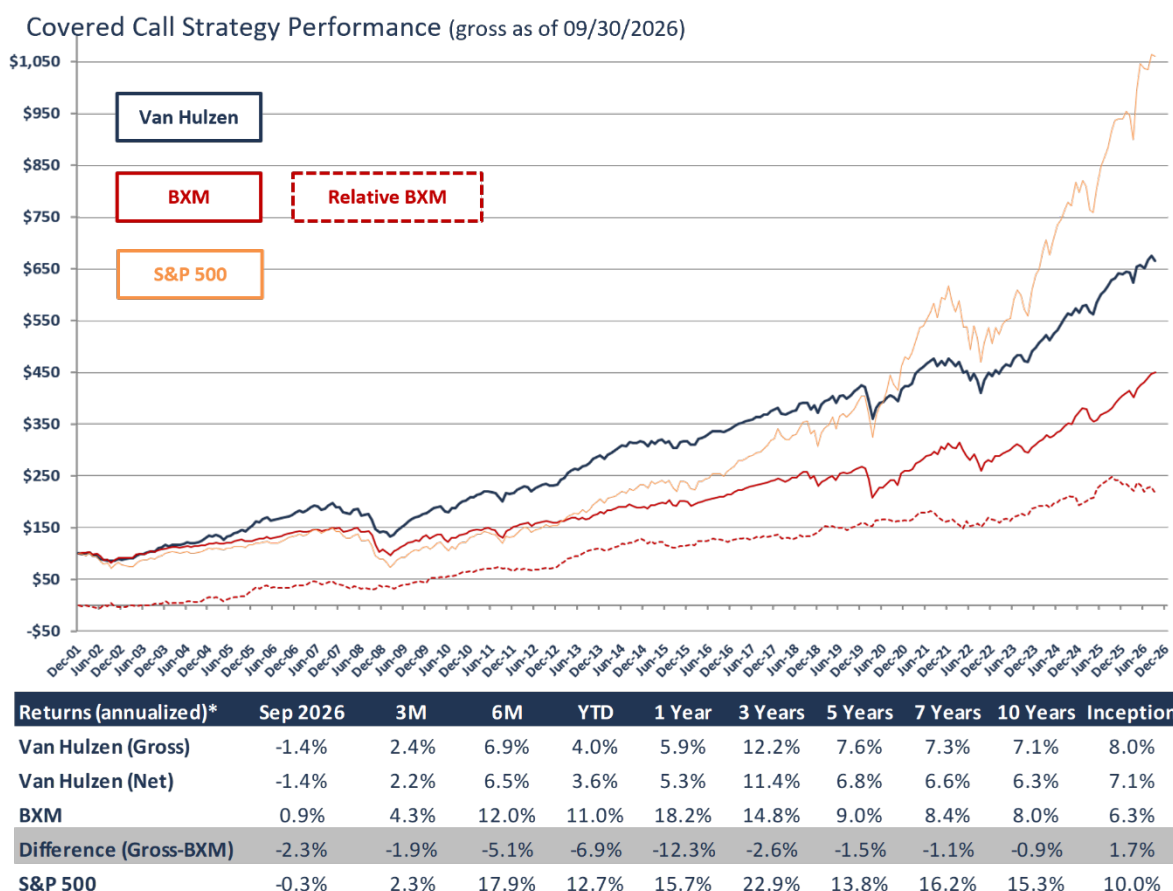
Key Takeaways & Outlook

We believe the coming years may look quite different from the last several decades. With equity valuations historically elevated and the secular bond bull market apparently behind us, traditional 60/40 portfolios could face challenges on both sides of the equation. Our base case is not necessarily a prolonged bear market, but rather an extended period of choppy, volatile, and modestly rising equity markets as earnings gradually catches up with valuations.

We believe this environment plays to the strengths of our covered call strategy. By combining high-quality equity ownership with consistent option premium generation, we seek to deliver attractive risk-adjusted returns without relying on sustained market appreciation. While covered calls limit participation in powerful rallies and cannot completely eliminate equity downside risk, they offer a compelling alternative source of portfolio income when traditional stocks and bonds face headwinds.

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider having 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.



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

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