arta

The Rise of Structured Income

INSIGHTS

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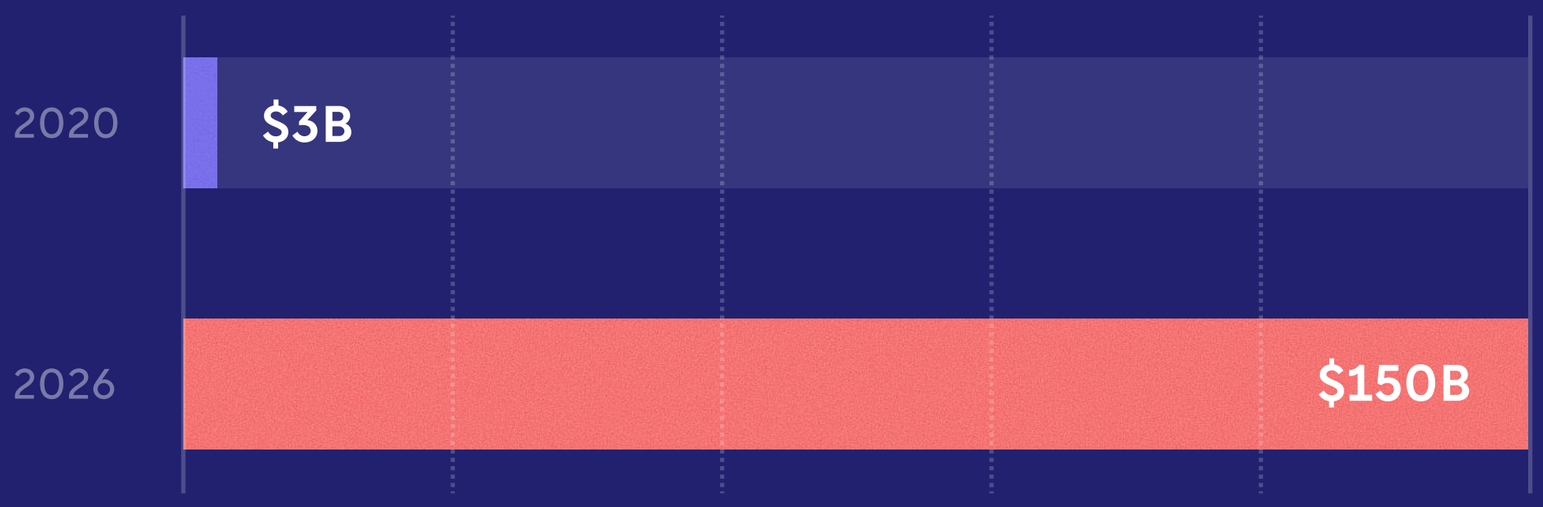
Overview

For decades, investors have relied on **fixed income** as the primary asset class to generate income in their portfolios. But in recent years, a new form of income generation has soared in popularity: **structured income**.

Rather than looking to the bond market for regular coupons, structured income strategies use derivatives to reshape equity exposure into a stream of income. Historically, many of these strategies required either hands-on options trading or a private-banking relationship with high minimums. Today, they're increasingly accessible through listed funds and lower-minimum notes.

Funds in Morningstar's Derivative Income ETF category have grown nearly 50-fold over the past five years, from about $3 billion in assets at the end of 2020 to more than $150 billion by early 2026[1]. The US market for income-oriented structured notes has also soared to over $100 billion in annual issuance.[2]

AUM – Morningstar Derivative Income ETF category



Several catalysts helped spark structured income's rise:

- The breakdown of bonds as a traditional equity hedge over the last 10-20 years has led investors to search for alternative income sources.
- In 2020, the launch of JPMorgan's Equity Premium Income ETF ("JEPI") brought an efficient and accessible covered call strategy to a mass audience.
- Over the last five years, a wave of new income-oriented products built on that momentum, expanding access through structured note and ETF wrappers.

[1] Sources: Morningstar, Where ETF Investors Put Their Money in 2024. JP Morgan, Income Options: The Case for Derivative Income Strategies in Today's Market.

[2] Source: Structured Retail Products (SRP)

This report offers a comprehensive look at the current structured income landscape, focused on three of the most popular strategies:

- **Covered calls** – Selling away equity upside in exchange for extra income.
- **Call spreads** – Selling away only a band of upside, preserving participation in large rallies.
- **Autocallables** – Generating higher income by monetizing equity downside risk.

At its core, structured income is risk transfer. Investors give up some upside or take on defined downside to earn income, and that income comes from a fundamentally different source than most portfolio income. Some structures are more equity-like and some are more bond-like, but they all offer the potential for relatively high income in exchange for some calculated exposure.

This list of strategies isn't exhaustive, but it does show how structured income strategies have evolved from simple beginnings toward an expanded toolkit. In the sections that follow, we'll examine each strategy in turn, looking at how it works, how to access it, and who it's best suited for.

2020	Covered call ETFs go mainstream with JEPI (JP Morgan)
2022	Launch of first major call spread ETF (NEOS)
2023	Access expanded to custom autocallable notes (Arta)
2025	Launch of first autocallable ETF (Calamos)

Covered Calls: Selling Upside for Income

Covered Calls: Selling Upside for Income

Covered calls have been around for decades, largely implemented in a DIY fashion through individual brokerage accounts. But as a structured income strategy in an ETF wrapper, this approach took off following the launch of the JPMorgan Equity Premium Income ETF (JEPI) in 2020.

According to Morningstar, JEPI's rollout is considered the most successful ETF launch of all time, gathering $27 billion of inflows in the first three years.[3] As of June 2026, the fund has nearly $45 billion in assets under management.

How Covered Calls Work

Basic covered call portfolios combine just two instruments: shares of stock, and a call option sold against that stock. The result is a portfolio that sacrifices some upside potential in the future in exchange for premium income today.

To understand how this works, imagine that you purchase $100 worth of stock ABC, while also selling a call option against that stock. The call has one year to expiry, a strike price of $110, and generates $10 in premium income.

After a year, there are three possible scenarios:

1. **Stock rises less than the strike.** Suppose that ABC rises to $105. You keep the stock as the option expires worthless. Your total profit is $15 ($10 in premium income and $5 in capital gains) for a return of 15% on your initial investment.

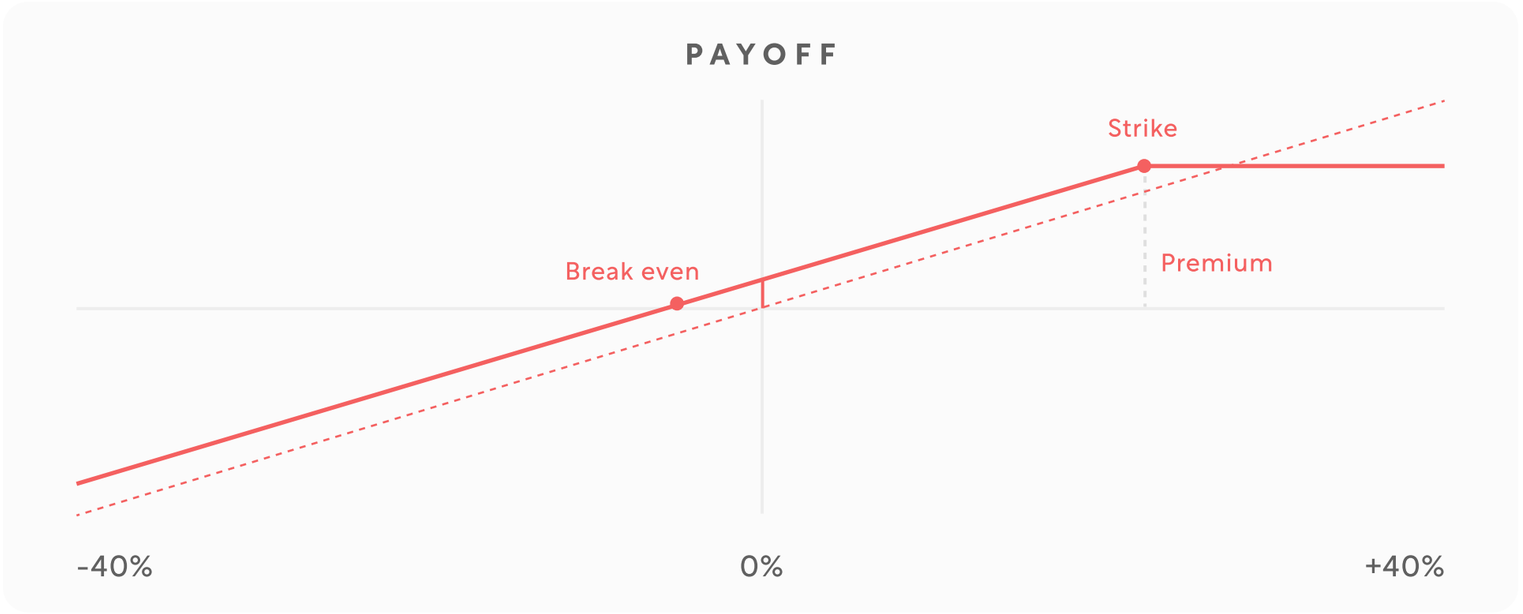
2. **Stock rises more than the strike.** Suppose that ABC rises to $130. Your option is called away, meaning that you sell the stock for $110. Your total profit is $20 ($10 in premium income plus $10 in capital gains) for a return of 20%.

3. **Stock falls.** Suppose that ABC falls to $80. The option expires worthless. You're exposed to $20 in capital losses, which is partially offset by $10 in premium income for a return of -10%.

Compared to holding vanilla stock, covered call strategies will always outperform when the stock sits below or at the strike. The stock isn't called away, and the premium income adds an extra layer of return.

[3] Source: Morningstar, The Most Successful ETF Launch of All Time Raises Questions.

Covered call ETF - Cap upside for income



But above the strike, covered call strategies will generally underperform what you'd earn by just holding stock. Vanilla stock investors participate in all upside gains, but covered call investors have a ceiling on their upside potential, determined by the strike.

When stocks fall, you're exposed to downside either way – though covered calls give you a small cushion in the form of the premium.

Accessing Covered Calls

The rollout of JEPI – and follow-on competitors – has significantly expanded access to this type of structured income trade. Most of these ETFs focus on writing covered calls on an index. Covered call ETFs have grown into a $100 billion-plus category.

Largest Covered Call ETFs – June 2026*

ETF	Ticker	AUM	Distribution Rate / Yield	Strategy	Launch
JPMorgan Equity Premium Income ETF	JEPI	$44.7B	8.33%	S&P 500 covered calls	May 2020
JPMorgan Nasdaq Equity Premium Income ETF	JEPQ	$38.5B	10.95%	Nasdaq 100 covered calls	May 2022

* Source: Morningstar, Fund websites. Retrieved June 2026.

Covered Calls: Trade-Offs and Suitability

Covered call strategies are generally suitable for investors who want to retain equity exposure while generating extra income, and who are willing to give up the possibility of participating in large rallies. While they give up the biggest upside, investors gain a return stream that doesn't depend on the stock rising.

PROS

- Retains ownership, dividends, and upside up to the strike.
- Premium income cushions modest stock declines.
- Simple, transparent, and with daily liquidity.

CONS

- Upside capped at strike – forgoes large rallies.
- Full downside exposure beyond the premium cushion.
- Income can be thin in calm markets, even while upside remains capped.

Call Spreads: Keeping More of the Rally

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For investors looking to preserve modest equity participation while generating additional income, covered calls can be attractive. However, they come with a significant tradeoff: upside potential is completely capped by the strike price.

Call spread ETFs offer an alternative. Under a call spread structure, income generation is generally lower, all things equal, but the investor's upside is no longer fully capped. This strategy reached mainstream adoption following the launch of the NEOS S&P 500 High Income ETF (SPYI) in 2022, which now manages roughly $10 billion in assets.[4]

How Call Spreads Work

To understand how call spreads work, we can extend our covered call example. Suppose that you begin by assembling the same portfolio: buying $100 of stock ABC and generating $10 in income by selling a one-year expiry call with a strike price of $110 (the short option). This time, however, you also purchase a $125 strike one-year expiry call for $5.50 (the long option).

Your portfolio now consists of shares of stock plus a 'call spread' on the stock. After a year, there are four possible scenarios:

1. **Stock rises less than the lower strike.** Suppose that ABC rises to $105. You keep the stock as both options expire worthless. Your total profit is $9.50 ($4.50 in net premiums plus $5 in capital gains) for a return of 9.5% on your initial investment.

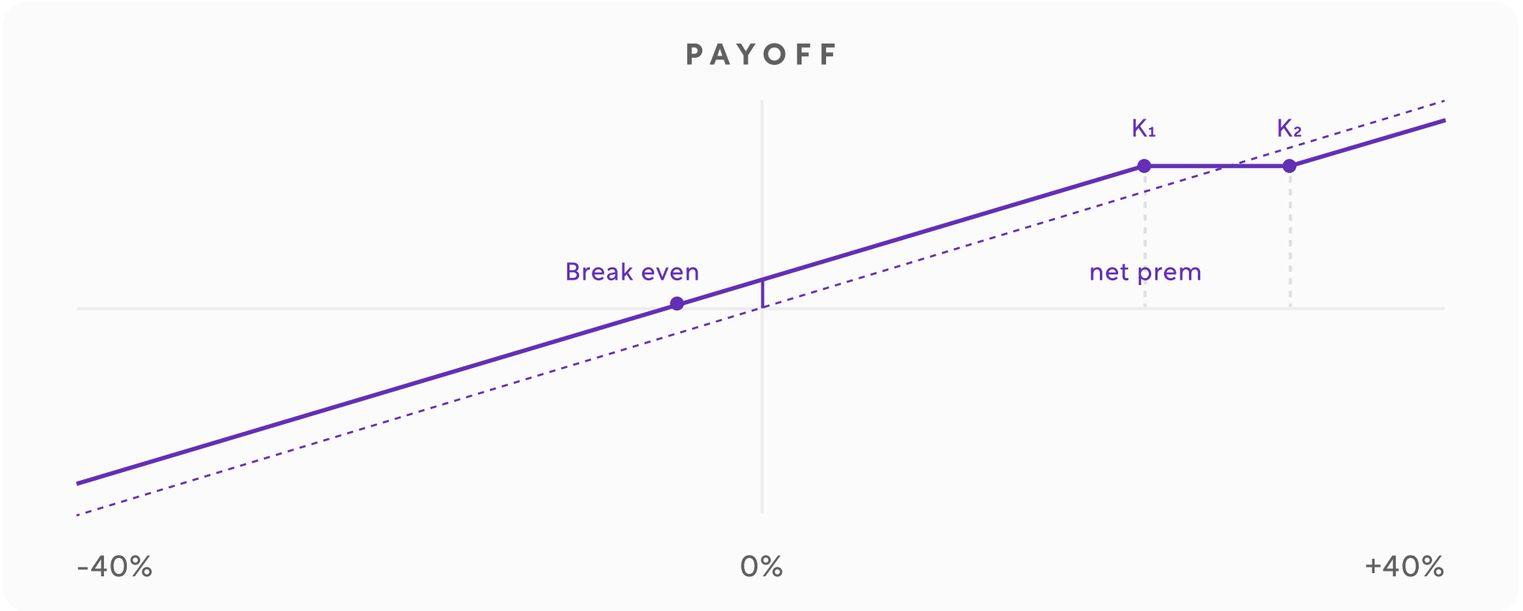
2. **Stock rises between the two strikes.** Suppose that ABC rises to $115. Your short option is called away at $110, and your long option expires worthless. Your total profit is $14.50 ($4.50 in net premiums plus $10 in capital gains from the short option) for a return of 14.5%.

3. **Stock rises more than the higher strike.** Suppose that ABC rises to $130. While the short option is called away, you can exercise the long option, participating in gains above $125. Your total profit is $19.50 ($4.50 in net premiums plus $10 in capital gains from the short option plus $5 in capital gains from the long option) for a return of 19.5%.

4. **Stock falls.** Suppose that ABC falls to $80. Both options expire worthless. You're exposed to $20 in capital losses, which is partially offset by $4.50 in net premiums for a return of -15.5%.

[4] Source: Morningstar, Neos S&P 500(R) High Income ETF

Call-spread ETF Partial uncap above strike



This analysis shows how call spreads differ from a covered call structure. Rather than selling away all upside potential, call spreads only sell away a narrow band (in the example above, the band between $110 and $125). However, purchasing the higher-strike call also means sacrificing some premium income.

Accessing Call Spreads

Today, the call spread ETF market is dominated by NEOS. In addition to their original S&P 500-linked fund, the firm also manages the Nasdaq-linked QQQI call spread ETF. Note that because distribution rates are shaped by how aggressively a fund sells options, these funds largely post higher rates compared to covered call ETFs. In theory, the spread structure does sacrifice some premium – in practice, a more aggressive selling strategy can make up the difference.

Largest Call Spread ETFs – June 2026*

ETF	Ticker	AUM	Distribution Rate / Yield	Strategy	Launch
NEOS Nasdaq-100 High Income ETF	QQQI	$12.3B	14.11%	Nasdaq 100 call spreads	January 2024
NEOS S&P 500 High Income ETF	SPYI	$10.0B	12.08%	S&P 500 call spreads	August 2022

* Source: Morningstar, Fund websites. Retrieved June 2026.

Call Spreads: Trade-Offs and Suitability

Call spread strategies are generally suitable for investors who want to generate income from their equity holdings but aren't willing to surrender the chance of participating in a big rally. All things equal, they generate less premium than selling a call outright, but they preserve participation in the rallies that matter most.

PROS

- Retains stock ownership and dividends.
- Preserves upside exposure above the higher strike.
- Same transparency and liquidity as covered calls.

CONS

- Lower income than other strategies on an equalized basis.
- Forgoes upside between the two strikes in moderate rallies.
- Full downside exposure beyond the premium cushion.

Autocallables: Income from Bearing Downside Risk

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Covered calls and call spreads both preserve underlying equity ownership. These structures use options to establish an income-generating layer that sits on top of a stock portfolio. But autocallables work differently.

"Autocalls" offer an equity-linked payout structure, but without the underlying stock ownership itself. Instead, their payoff is engineered through a package of options. Rather than own a portfolio of stocks, investors hold a note issued by a bank (or a portfolio of such notes) – essentially an obligation to pay out income based on the performance an underlying stock, basket of stocks, or index.

Arta began offering autocallable structured notes directly to US accredited investors in 2023 at low minimums. Following the launch of the Calamos Autocallable Income ETF (CAIE) in 2025, these instruments also became accessible in a listed format, with over a dozen additional autocallable ETFs filing for launch[5].

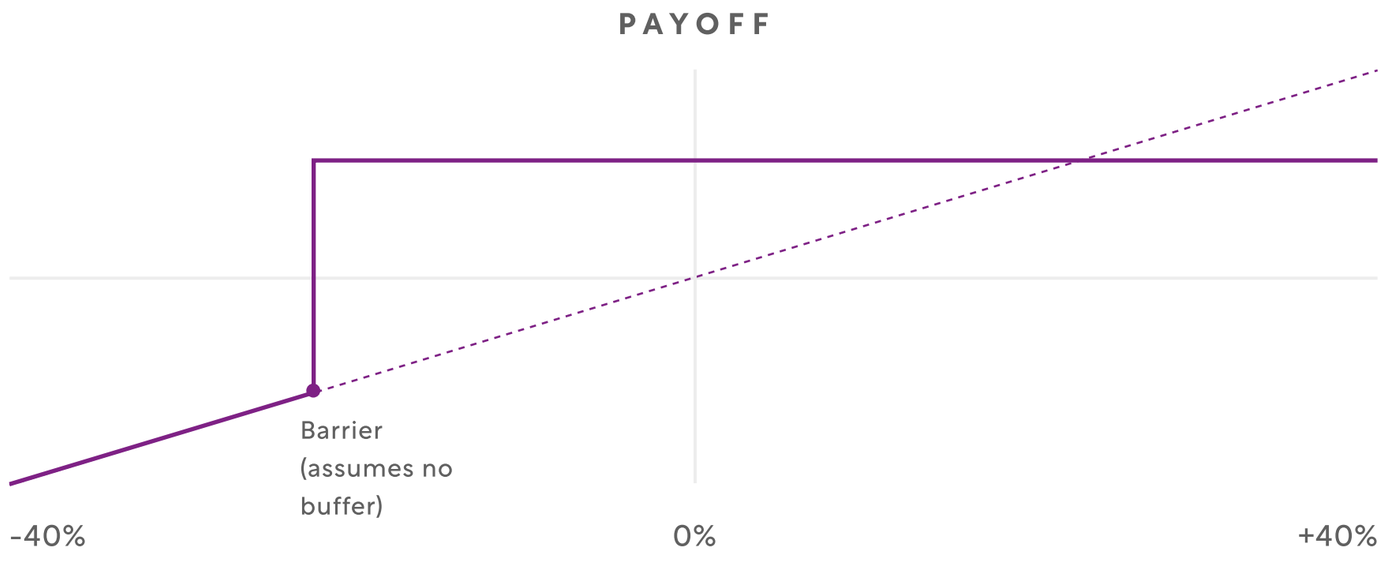
How Autocallables Work

Autocalls can take different forms, but these notes typically generate yield by bearing the risk of substantial equity declines. Key terms of each note include:

- **Reference Asset:** Autocall returns are tied to a reference asset – often a basket of stocks or a broad market index like the S&P 500.
- **Downside Barrier:** The downside barrier is how much the reference asset would have to decline before an investor is exposed to potential principal losses.
- **Downside Buffer:** Some notes feature a buffer, which shields an investor from an initial portion of principal losses, exposing them only to the remainder.
- **Tenor:** The length of the note's life, at the end of which principal is returned unless the barrier has been breached.
- **Coupon Contingency:** Some autocalls have unconditional coupons, which pay a fixed income throughout the note's life, regardless of performance. Others have contingent coupons, which only pay as long as the reference asset is above a certain level.

[5] Sources: Structured Retail Products, Calamos launches first-ever autocallable ETF hedged by J.P. Morgan & Calamost lists first autocallable Ucits ETF in Europe

Autocallable -
Downside risk for coupons



There's one last feature that gives autocalls their name. If the reference asset is above a certain price on any of a series of scheduled dates, these notes are automatically called away. This upside barrier is known as the **Autocall Trigger**.

If early termination occurs, an investor will receive their principal back (and typically a final coupon payment as well). For most autocalls, the trigger level is set at or near the reference asset's initial value. However, these notes typically feature a non-call period as well, during which the note can't be called away.

Under the hood, autocalls can have a nuanced structure – banks create these notes by assembling an array of underlying options. However, possible outcomes of any individual note tend to be relatively straightforward.

As an example, consider investing $100 in an autocallable note with the following terms:

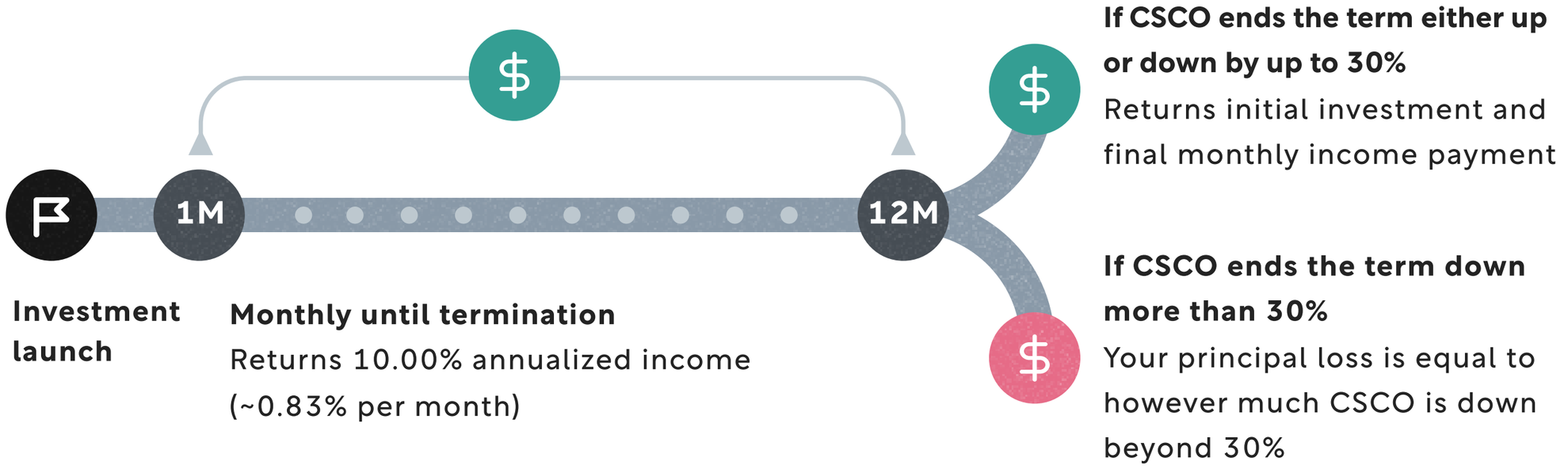
Reference Asset	Cisco (CSCO)
Annual Coupon	10% p.a. (unconditional, 0.83% paid monthly)
Downside Barrier Level	70% of initial value
Autocall Trigger Level	100% of initial value (observed monthly)
Non-call Period	3 months
Tenor	12 months
Downside Buffer (ungeared)	30%

For an investor in this note, there are three possible outcomes:

1. **No breach in either direction.** Suppose that CSCO drifts modestly lower throughout the year and ends down 15%. In this scenario, the note will continue paying out its 10% p.a. coupon until maturity, at which point principal is returned. The investor receives back $110, for a one-year return of 10%.

2. **Early knock-out.** Suppose CSCO has risen above its initial level on the first observation date, triggering the autocall feature at the end of month three. Having already collected two months of income, the investor will get back their principal plus a third and final coupon payment. The investor receives back $102.50, for a three-month return of 2.5%.

3. **Barrier breach.** Suppose that CSCO has fallen to 50% of its initial value at maturity (a 50% decline). At this point, the investor has collected twelve months of income, but will be exposed to some principal losses. Because the note has an ungeared buffer level of 70%, investors will be exposed to dollar-for-dollar losses beyond that threshold. The investor receives back $90 ($10 in income, less $20 in principal losses) for a final return of -10%. (Note with no buffer or a geared buffer, it would have more downside exposure.)



The early termination scenario has effectively the same annualized return as the most optimistic scenario and offers the opportunity to reinvest and compound. However, early termination also introduces reinvestment risk. There's no guarantee that an investor will be able to find comparable yields when they go to reinvest the proceeds.

Accessing Autocallables

When it comes to accessing the autocallable market, there are three primary pathways: custom notes, shelf products, and ETFs.

Custom notes are bespoke products, allowing an investor to precisely tailor the terms of their autocallable by creating a unique structure with an asset manager or bank. Private banks have long offered custom notes to UHNW clients at high minimums; Arta now offers them directly to accredited investors at accessible minimums, alongside a selection of curated notes designed by derivatives experts.

Shelf products (often called calendar notes) are also available to investors at low minimums, but don't feature customized terms. Instead, shelf products have pre-set terms, with new notes typically released on a regular schedule.

As publicly listed instruments, autocallable ETFs are the most accessible entry point to this market. But because these funds package exposure to many autocallable positions with different terms, they sacrifice some transparency. Today, the autocallable ETF market remains nascent with the largest offerings led by two Calamos funds.

Largest Autocallable ETFs – June 2026*

ETF	Ticker	AUM	Distribution Rate / Yield	Strategy	Launch
Calamos Autocallable Income ETF	CAIE	$1.0B	13.94%	US large cap autocallables	June 2025
Calamos Nasdaq Autocallable Income ETF	CAIQ	$234M	16.91%	Nasdaq autocallables	November 2025

* Source: Morningstar, Fund websites. Retrieved June 2026.

Autocallables: Trade-Offs and Suitability

Autocallable strategies are often suitable for investors who prioritize consistent income over upside, and can tolerate the risk of large losses if markets fall sharply. Their income is generally the highest and, when coupons are unconditional, most certain of the three trades, but comes without any equity participation and with principal risk below the barrier.

PROS

- Generally highest income potential – often featuring fixed, predictable coupon.
- Downside barrier can protect against modest declines.
- Performs best in flat markets when equity allocations may perform poorly.

CONS

- No equity ownership – no dividends or upside beyond coupon.
- Equity-like losses beyond the downside barrier.
- Counterparty risk and limited liquidity in note form.

Structured Income: Portfolio Role and Key Considerations

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So far, we've viewed each of these strategies in isolation. But to understand what purpose they can serve investors, we need to look at them in the context of a portfolio.

Structured income strategies don't fit neatly into traditional asset class categories. Covered calls and call spreads are equity-like, but sacrifice upside for extra income. Autocallables generate bond-like yield, but can experience principal losses when equity markets decline.

That hybrid nature is both a challenge and an opportunity. The challenge is that they introduce unique considerations that investors need to weigh carefully; the opportunity is that they can complement traditional allocations through an alternative income sleeve.

For covered calls and call spreads, the risks are relatively straightforward. Investors still have exposure to equity market declines, cushioned modestly by premium income. There's also an opportunity cost associated with selling away upside potential.

But autocallables are structurally different, generally offering more predictable yield with a larger degree of downside protection. They also carry several risks that are worth understanding in detail:

1. **Counterparty risk:** In note form, an autocallable is an unsecured obligation of the issuing bank. Even if the reference asset performs exactly as hoped, a default by the issuer puts the promised coupons and principal at risk. ETFs can reduce this risk, but can't eliminate it entirely.

2. **Path dependency:** An autocallable's outcome often depends on the route the reference asset takes. Even if the reference asset ends up where you expected, an interim breach, an early autocall, or a missed coupon can change the result, depending on the terms.

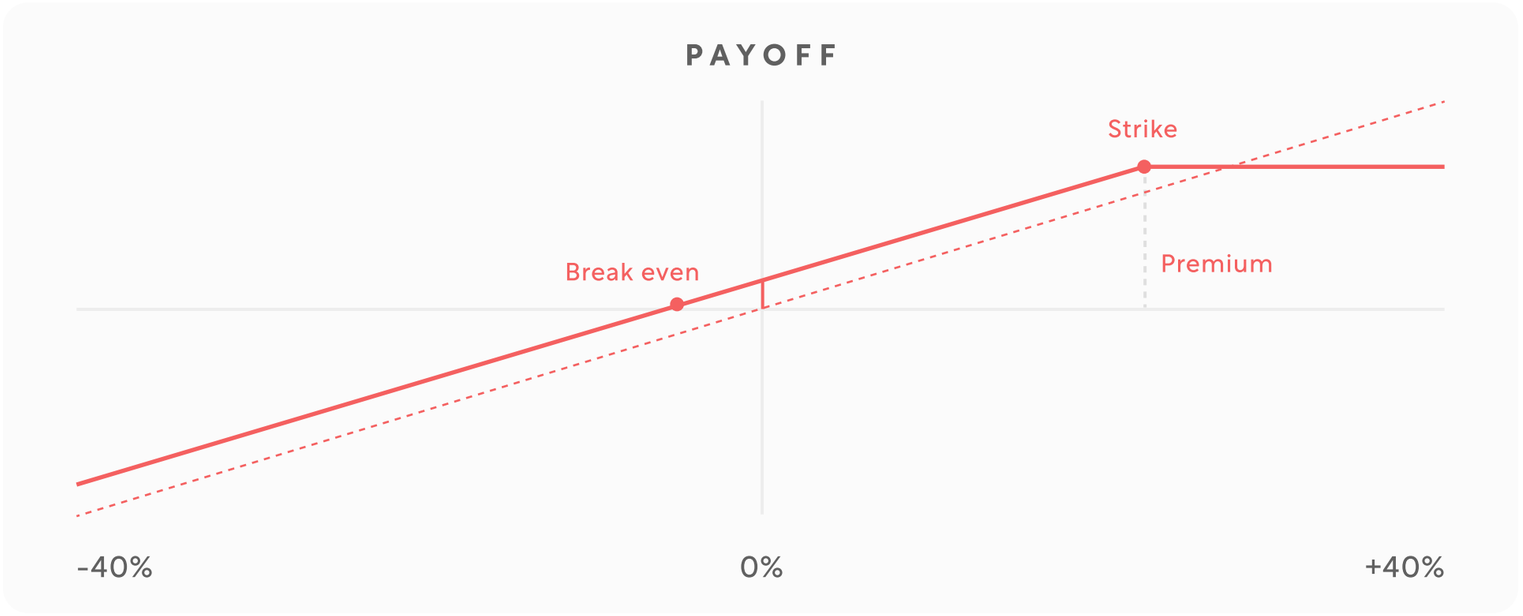
3. **Nonlinear losses:** Autocallable losses may not scale linearly with the reference asset. An investor unscathed by a 29% decline can potentially take a substantial loss at 31%. Buffers can reduce this risk, but aren't a uniform feature.

None of these is an inherent reason to avoid autocallables. But they're all part of the price investors pay to access the generally higher, more predictable income they offer.

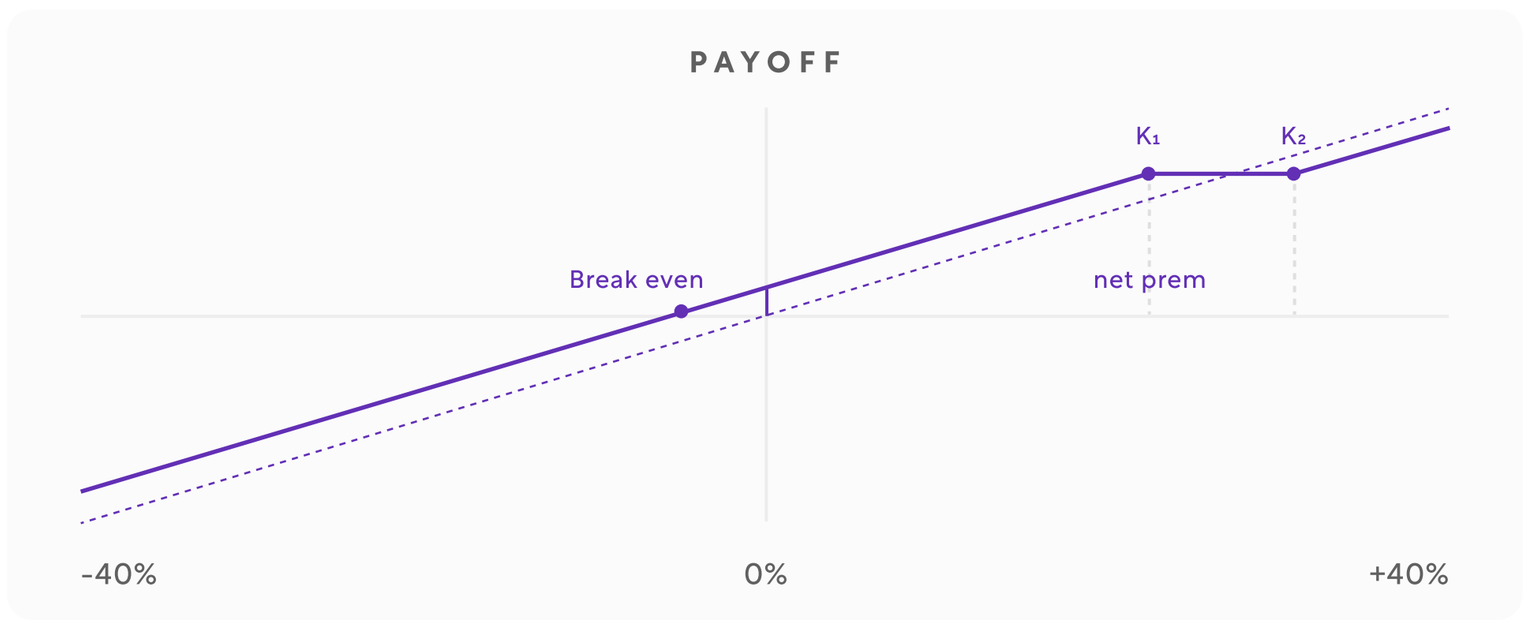
Three derivative income payoff profiles

How each strategy trades upside, downside, and income

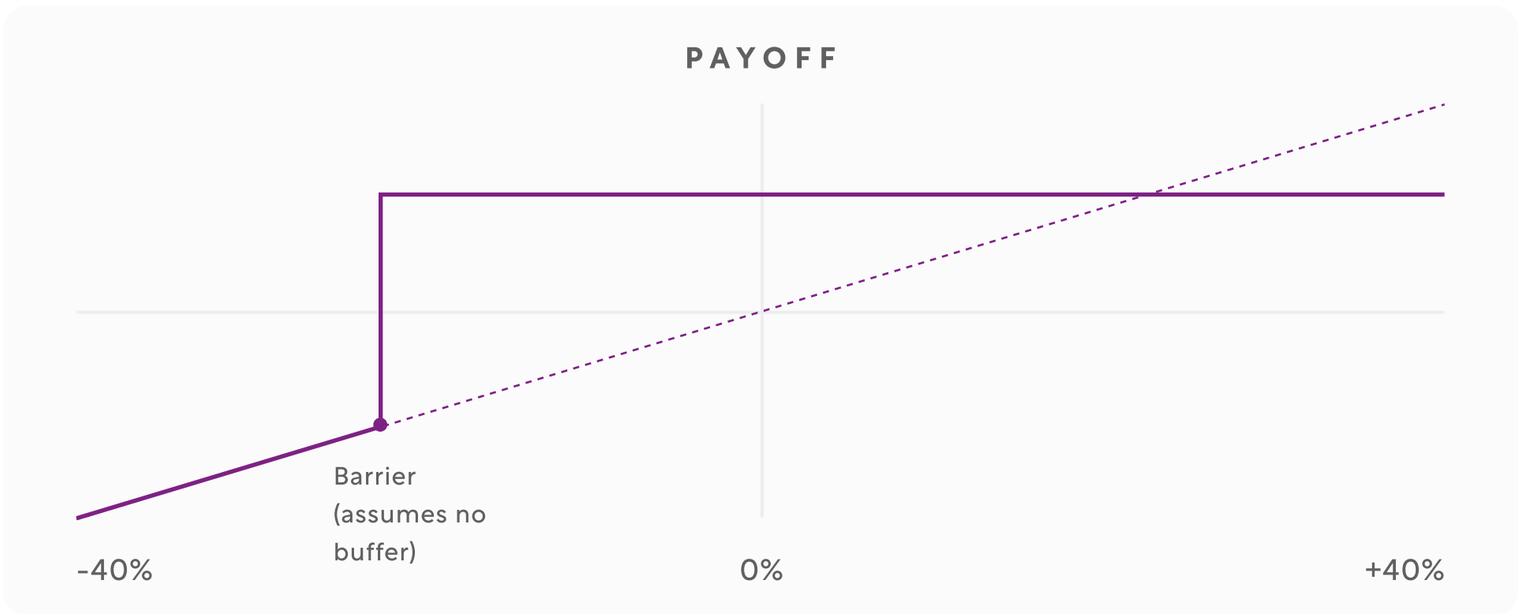
Covered call ETF - Cap upside for income



Call-spread ETF Partial uncap above strike



Autocallable ETF - Downside risk for coupons



Where Structured Income Goes From Here

The growth of structured income isn't a passing fad. Structured product issuance hit a record in 2025, with the US market on pace for $220 billion or more in 2026. Autocallables now make up over 40% of that market[6].

And while ETF offerings continue to expand, listed funds and unlisted notes aren't really competitors. Instead, each serves a different need: ETFs for investors who value accessibility and liquidity, custom notes for investors who value transparency and tailored terms.

As these tools become more familiar, they're likely to appear less as one-off purchases and more as part of a deliberate allocation. In the future, we see alternative income strategies as playing a significant role in goal-based portfolios, structured around an investor's specific objectives and time horizon.

Used thoughtfully, structured income can play a valuable role in a portfolio. Used carelessly, it can expose investors to losses precisely when they might need protection. As the playing field grows, it's more important than ever for investors to understand what they're actually buying, and what they're sacrificing to get it.

[6] Source: Structured Retail Products

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