

Actionable Ideas for the Power to Trade Smarter

Where Next for U.S. Corporate Buybacks?

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Mr. Campbell: S&P 500 corporate share repurchases, also known as buybacks, had a record year in 2018, reaching \$806 billion.⁽¹⁾

Typically, buyback programs are attractive for companies that want to reward shareholders in a tax-efficient way, or think their stock is undervalued. US companies are only required to report the on buyback execution progress in their quarterly financial statements, and often this disclosure is simply the reduction in shares outstanding. Therefore, buybacks offer increased flexibility in the precise timing, amount and pace of shareholder distributions compared to dividend payments. This benefits companies in an uncertain macro, political, or industry climate. Over 70% of S&P 500 companies had an active buyback program in 2018.⁽¹⁾

Buybacks have been preferred over dividends in dollar terms for the past nine years, with the largest variance, as measured in dollars, occurring in 2018.⁽²⁾ What accounts for buyback's recent popularity? The *U.S. Tax Cuts and Jobs Act* of late 2017 was the catalyst. This new legislation lowered corporate tax rates and introduced a temporary tax holiday for the repatriation of overseas profits. Since 2009, S&P companies have been returning more money to equity investors than they raised. We attribute approximately 40% of the record 2018 buyback total to this catalyst.

Due to execution rules and the large size of many programs, a buyback could take up to 18 months to complete after it's announced. Given that the bulk of the new programs were announced in the second quarter of 2018, we see 2019 remaining at approximately \$200 billion a quarter, before a return to trend, which had been \$100-\$150B.⁽³⁾ Keep in mind that in addition to tax savings, factors like interest rates, cost of credit, economic growth expectations, and an investor preference for income could impact corporate buybacks levels. Over the longer term, we find that companies with strong fundamentals and healthy credit tend to buy back shares.

For regular commentaries on buyback developments, including related investment ideas, or other actionable insights across asset classes, check out the rest of our Trader Insights series or contact your sales rep.

(1): FactSet Data as of May 2019

(2): S&P 500 Buyback per quarter have exceeded dividends each year and quarter from 2010 through Q1 2019. 2018's variance was \$365B. Source: FactSet and Bloomberg as May 2019

(3): FactSet Data as of May 2019, referencing years 2013 through 2017

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