Political Calculations

Unexpectedly Intriguing!

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Share Buybacks Boom After U.S. Tax Cuts

Following the sudden improvement in their after-tax earnings following the implementation of the Tax Cuts and Jobs Act of 2017, many publicly-traded U.S. companies are taking advantage of the permanent corporate income tax reform by buying up shares in their own companies.

That strategy is in addition to doing things like increasing compensation and paying out bonuses to employees, increasing dividend payouts to investors, reducing debt and other balance sheet repairs and also investing in new business growth opportunities, all of which have been made possible by the reduction of the corporate tax burden.

Of these strategies, things like dividend hikes and share buybacks matter to investors, where as of 2017, count approximately 54% of U.S. households among their number, either through direct ownership of shares or through indirect vehicles like mutual funds and retirement and pension plans. Where share buybacks are concerned, Investopedia has put together the following video to explain how they can affect the value of shares of stock for a company that chooses that strategy.

So what does that mean for investors in 2018? A boom in buybacks if Birinyi Associates' observations of the year to date for share buybacks through mid-February 2018 is any indication:

> Since President Donald Trump signed the tax bill, companies have announced about $170.8 billion in stock buybacks, the most ever for this early in the year.
>
> "There's a whole stock pile of cash that just came back. Take Cisco. We know they had $68 billion trapped overseas, and they're going to take $25 billion of that and buy back stock," said Art Hogan, chief market strategist at B. Riley FBR.
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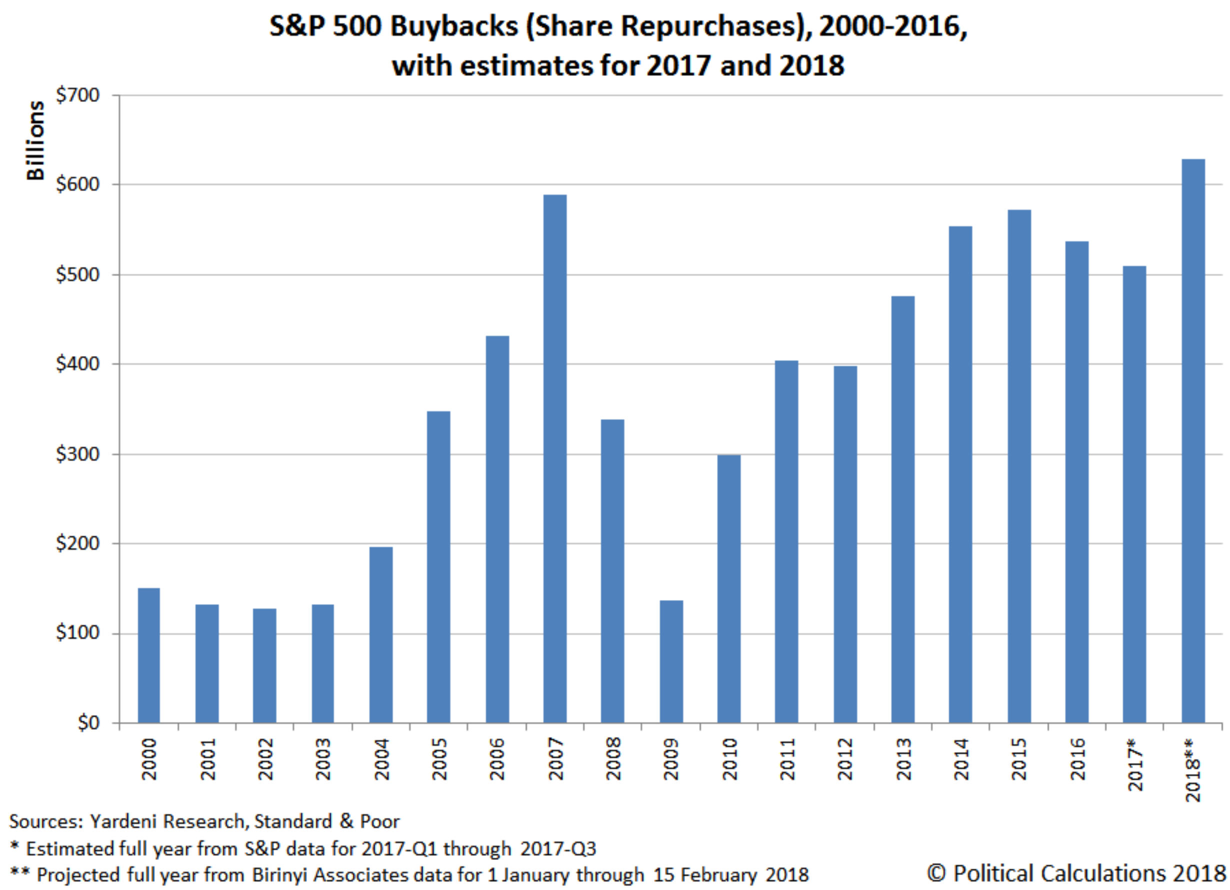
> Birinyi Associates, which has tracked buybacks since the 1980s, said this year's level, from Jan. 1 through Feb. 15, is the most ever, topping $147.2 billion in the period of 2016, which had been the busiest at this point of the year.

Given that data point for the previous record amount of share buybacks in 2016, we've projected what the total for share buybacks in 2018 may be, assuming that the full year's total matches the same proportion that was ultimately recorded back in that earlier year for the S&P 500.



The historic data in the chart above comes from Yardeni Research and Standard & Poor, where we've estimated the full year's buybacks for the S&P 500 in 2017 from the data for its first three quarters, and then used the Birinyi Associates' figure for the first month and a half of 2018 to project the total share buybacks for S&P 500 companies in 2018.

What we find is that 2018's projected total of $628 billion in buybacks will break the previous record of roughly $589 billion worth of stock repurchases that was set by U.S. corporations in 2007, which would work out to be about a 7% increase over that previous record.

Time will tell if share repurchases were the right thing for the companies that are choosing this action to have done with the benefits they received from U.S. corporate income tax reform.

Update 24 February 2018: Lance Roberts takes a different tack in considering what the new boom in share buybacks means at RealInvestmentAdvice!

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