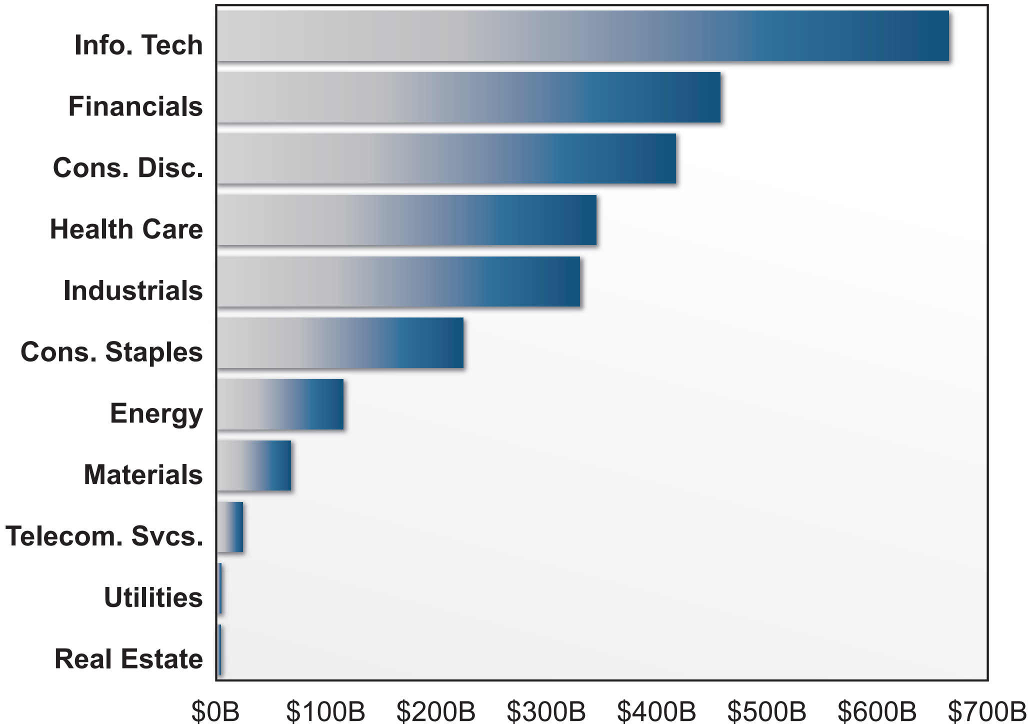
Stock Buybacks Are Expected To Rise Markedly Thanks To Tax Reform

S&P 500 Index Stock Buybacks by Sector (5-Years)



Source: S&P Dow Jones Indices. Data thru 12/31/17.

View from the Observation Deck

1. The Tax Cuts & Jobs Act, signed into law on 12/22/17, lowered the federal corporate tax rate from 35% to 21% beginning in 2018.
2. The new tax law also established a 15.5% tax rate on cash and equivalent profits (liquid assets) and an 8.0% tax rate on reinvested foreign earnings (non-liquid assets) repatriated to the U.S.
3. In Q4'17, S&P 500 Industrials (Old), defined as the S&P 500 minus Financials, Transportation, Real Estate and Utilities companies, had cash and equivalent holdings totaling an all-time high of $1.636 trillion, according to S&P Dow Jones Indices. We believe that the new tax law could potentially push that total higher moving forward, as well as provide additional capital for stock buybacks.
4. S&P Dow Jones Indices estimates that S&P 500 Index companies spent $519.40 billion on buybacks in 2017 and $2.66 trillion for the five-year period ended 2017.
5. As indicated in the chart, Information Technology was the most active sector with respect to buyback activity over the past five years. Technology companies repurchased stock valued at $664.8 billion. Financials and Consumer Discretionary followed with buybacks totaling $457.3 billion and $417.1 billion, respectively.
6. Goldman Sachs analysts estimate that companies in the S&P 500 Index will spend $650 billion on stock buybacks in 2018, while JPMorgan Chase & Co. strategists see that figure approaching $800 billion, according to Bloomberg.