

February Stock Buybacks Hit Record—Total \$2 Trillion Since 2009

by *Lu Wang and Oliver Renick at Bloomberg*

Corporate America's love affair with itself grows more passionate by the month.

Stock buybacks, which along with dividends eat up sums of money equal to almost all the Standard & Poor's 500 Index's earnings, vaulted to a record in February, with chief executive officers announcing \$104.3 billion in planned repurchases. That's the most since TrimTabs Investment Research began tracking the data in 1995 and almost twice the \$55 billion bought a year earlier.

Even with 10-year Treasury yields holding below 2.1 percent, economic growth trailing forecasts and earnings estimates deteriorating, the stock market snapped back last month as companies announced an average of more than \$5 billion in buybacks each day. That's enough to cover about 2 percent of the value of shares traded on U.S. exchanges, data compiled by Bloomberg show.

"Companies that are earning a lot of money and generating cash are borrowing money at basically zero rates and buying back," said Neil Grossman, the St. Petersburg, Florida-based chief investment officer at Tkng Capital Partners. "From an investor's standpoint, you want the highest return on your dollar, period. If the highest return comes not from growing your business but buying your shares back, that's fine."

Home Depot Inc., Comcast Corp. and TJX Cos. were among 123 companies that disclosed repurchases in February as five years of profit expansion and record-low interest rates bolstered corporate cash hoardings.

Powerful Market

Companies in the S&P 500 have spent more than \$2 trillion on their own stock since 2009, underpinning an equity rally in which the index has more than tripled. They were on pace to spend a sum equal to 95 percent of their earnings on repurchases and dividends in 2014, data compiled in October showed.

S&P 500 futures were little changed, down 0.2 percent at 7:53 a.m. in New York.

"This is one of the data points that coincides with a very powerful and resilient stock market," Gene Peroni, a fund manager at Advisors Asset Management Inc. in Conshohocken, Pennsylvania, said by phone. His firm oversees \$14.7 billion. "It's a trend that's reached a crescendo point here, perhaps."

Home Depot, the largest U.S. home-improvement retailer, announced last month an \$18 billion stock buyback program, including about \$4.5 billion in its current fiscal year. Comcast boosted its repurchases to \$10 billion while TJX said it will spend as much as \$1.9 billion on its own stock this year.

Valuations Stretched

Companies are increasing buybacks with valuations reaching five-year highs just as profits are forecast to post the first back-to-back quarterly contractions since 2009. The S&P 500 trades at 18.9 times earnings, compared with an average of 16.9 since 1936, data compiled by Bloomberg and S&P show.

Earnings from S&P 500 members will decline at least 3.2 percent this quarter and next, according to analysts'

estimates compiled by Bloomberg. For the full year, growth will be 2.3 percent, down from 5 percent in 2014.

“Valuations are somewhat stretched right now, so it’s puzzling a little bit to see this kind of activity,” said Todd Lowenstein, who helps manage \$16 billion at HighMark Capital Management Inc. in Los Angeles. “If you’re a contrarian, this level of buyback activity spooks you a little bit because the track record is not impressive in terms of companies’ ability to buy stock at the right price at the right time.”

The last time buybacks reached a monthly record of \$99.8 billion in July 2006, the S&P 500 advanced 23 percent in the next 14 months before hitting an all-time high. Repurchases set an annual record of \$589 billion in 2007.

S&P 500 companies hold \$1.75 trillion in cash and marketable securities, data compiled by Bloomberg show. The index increased 5.5 percent in February, rebounding from the worst month in a year with the biggest gain since October 2011. The Nasdaq Composite Index closed above 5,000 for the first time in 15 years on Monday and is within 1 percent of a record.

“It’s good to see heavy buybacks,” David Santschi, chief executive officer at TrimTabs Investment Research, said by phone. “The supply and demand indicators we track don’t point to a top. On the contrary, they point to further gains.”

[Company Cash Bathes Stocks as Monthly Buybacks Set Record – Bloomberg Business](#) .

Copyright © 2014 Conyers LLC . All Rights Reserved.