J.P.Morgan

CFA Trending Topics

August 15, 2018

Share buybacks continue to surge following the enactment of tax reform

Key takeaways:

- The first and second quarter of 2018 saw $172 billion and $402 billion in repurchase authorization announcements by S&P 500 companies, representing a 34% and 214% increase over the 2017 quarterly average, respectively.
- As firms continue to evaluate the net impact of tax reform, they will find themselves needing to strike a balance between growth, balance sheet strength, and shareholder friendly actions.

The 2004/2005 repatriation "holiday" has often served as a reference point for tax-driven share repurchase activity. Year-to-date 2018 activity already exceeds the 2005 post-holiday period by a significant margin: the first and second quarters of 2005 saw 39% and 12% increases over the one-year average leading up to the passage of the 2004 law. Now, as then, the numbers have been driven by some large announcements, with the top 10 announcements representing 44% of the total for the full year in 2005, and 49% of the 2018 first half total.

The large jump in second quarter repurchase authorizations suggests the impact of tax reform on U.S. corporations is still to be fully felt. As corporate finance teams work to understand the nuanced implications of the Tax Cuts and Jobs Act, many are evaluating what optimal capital structure and capital allocation looks like under the new financial regime. Firms will need to move thoughtfully but quickly as investors increasingly seek guidance around expanded growth strategies and return of capital plans.