THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Neil.

Neil Kearns: Hi Liz.

Liz Bowyer: You're the Head of the Corporate Trading Desk for our Global Markets Division. Let's talk about stock buy back programs, which are a big issue for many of our corporate clients right now. Many companies suspended their buy back programs last year. Talk about what you saw in 2020.

Neil Kearns: Well, we, understandably, saw a marked decline in share repurchase activity last year. Repurchase authorizations dropped about 45 percent to approximately 508 billion dollars. And that's a pace we have not seen since 2012. We witnessed about 20 percent of the S & P 500 publicly terminate or suspend their share repurchase program. Again, something we have not seen since the financial crisis. And we estimate approximately an additional 20 percent of the S&P 500 suspended their program, but they just did not make a public announcement on that.

Basically, what companies were trying to do was send a signal to investors that they were prioritizing balance sheet strength. Financials were particularly hard hit as the Fed prohibited them from repurchasing stock on the back of the quarterly stress test.

Liz Bowyer: And how is that reflected in terms of dollars spent?

Neil Kearns: Actual dollars spent were down a more nominal 27 percent to approximately 600 billion, which was in line with what we saw in 2016 and 2017. So, last year was a year where we actually saw a greater level of actual dollars spent than actual dollars announced in a repurchase authorization. We did see very, very high concentration where the top five repurchasers of stock counted for 40 percent of total dollars repurchased. And the top 25 counted for almost 80 percent of total dollars repurchased. Technology was heavily weighted in there with them representing five of the top six programs.

Liz Bowyer: And what does stock buy back activity look like so far in 2021?

Neil Kearns: Well, we're off to a very robust start for this year. We see approximately 180 billion dollars in repurchase authorization so far. That is up about 60 percent year over year. A big driver of that is financials. They account for about 30 percent. And that's a consequence of the fact that the Fed has given the green light to the majority of the large banks to recommence their share repurchase programs.

We don't believe this fervent pace of activity is sustainable throughout the balance of the year. It's our estimate that dollars spent for the S & P 500 this year should increase by about 15 percent. Which would translate into repurchase authorizations for the entire US market of about 800 billion dollars. But that would still be, you know, top five historically.

Liz Bowyer: And what's driving this activity?

Neil Kearns: Well, you know, we're seeing strong earnings growth and we're seeing very high cash balances as companies have prioritized balance sheet strength over the last three quarters. We estimate that for the S & P 500, cash and equivalents are close to historic highs of approximately 1.9 trillion dollars. And clearly in a low interest environment there is a very small return on that cash. So, that's why we're seeing a lot of companies that are starting to return some of that cash in the form of share repurchase to shareholders.

In addition to that, we estimate that approximately 200 billion dollars of unused share repurchase dollars have been rolling into this year. So, that's incremental to the 180 billion in repurchase authorizations. So, certainly, ample dry powder for share repurchase activity this year.

Liz Bowyer: And just given the levels of market activity that we're seeing, are there concerns that companies are buying back their stocks at the peak?

Neil Kearns: It's a very good question. And you know, in reality, high share repurchase is generally reflective of high earnings growth, which is generally reflective of high valuation and high stock price. So, you have this sort of circular condition whereas companies are doing well and they're generating a lot of excess cash, that's generally reflected in their stock price. And those are the companies that are in the best position to return some of that cash to investors in the form of share repurchase and dividends.

In addition to that, I mean, one of the top priorities for the majority of share repurchase programs is to offset dilution from stock option exercises. And the dilution is actually more pronounced during a rising stock price environment. So, companies are almost forced to be more aggressive with their share repurchase program as it's moving higher because more options are coming into the money. And hence, more dilution.

Liz Bowyer: And how should investors be thinking about this?

Neil Kearns: Well, I think investors should look at this as a real positive. With the exception of last year, US corporates have been the largest net buyers of US equities for the last decade. So, the reemergence of this, you know, corporate bid should continue to provide meaningful support to the broader equity markets. And equally as important, during periods of broader market dislocation, this is when companies have consistently demonstrated their willingness to aggressively step into the market. And so, I think the ability for the corporate bid to provide that added layer of resilience and support is a real positive to US equity investors.

Liz Bowyer: Well finally Neil, stock buy back programs are not without controversy. President Biden has been critical of them in the past. How do you think that debate might evolve this year?

Neil Kearns: Well, 2018 was by far the most active year for share repurchase with approximately 1.1 trillion dollars in authorizations. This also coincided with tax reform during that year. The sheer magnitude of the number certainly caught the attention of many people, including some politicians who questioned the efficacy and adequacy of how some of those tax savings were being utilized. So, the repurchase topic was actively debated in 2019. There was no new legislation enacted, but that frankly wasn't from a lack of proposals. You know, I do feel that as we continue to turn the corner on this pandemic and focus shifts elsewhere, one area will certainly be on tax reform. So, I really think that, you know, there is a confluence of conditions here that, I think, dramatically increases the likelihood that we'll see the share repurchase topic pulled back out into the political spotlight for debate.

Liz Bowyer: Thanks Neil.

Neil Kearns: My pleasure, Liz. Always nice catching up with you.