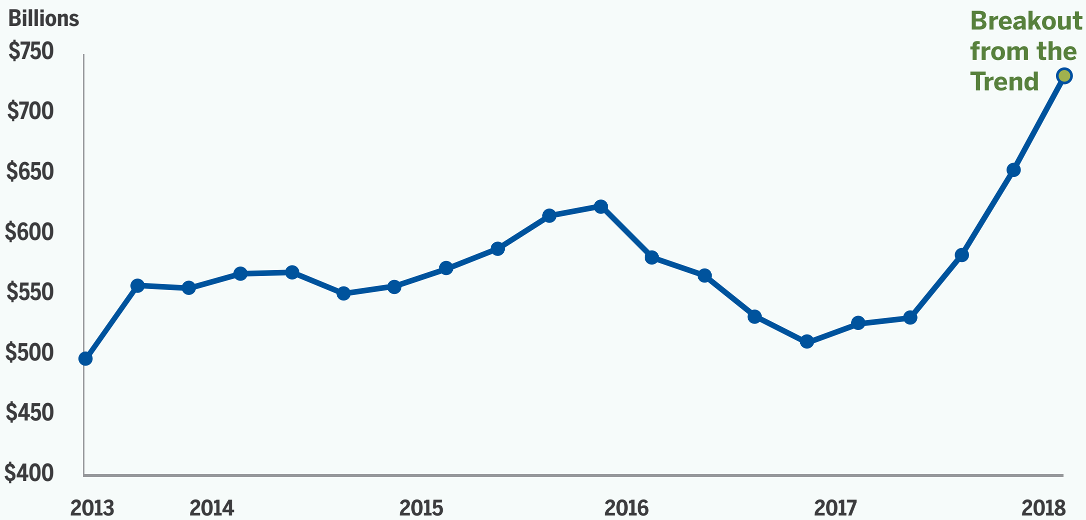
Alger On the Money

Cash Back Rewards

Companies are repurchasing their own stock in record amounts. In doing so, these companies are returning cash to shareholders, which is providing a meaningful tailwind to earnings per share (EPS), i.e., an increase in EPS.

S&P 500 Share Repurchases Have Spiked



Source: FactSet and Alger.
Note: Share repurchases for a given date represent the last twelve months of activity.

- Share repurchases have recently broken out of their $500-$600 billion range over the past several years, reaching new highs. We estimate S&P 500 share repurchases during 2018 may exceed $800 billion, up more than 50% over the prior year.
- Share repurchases have risen because of two factors. First, corporations have generated increased cash flow as a result of strong organic growth and lower statutory tax rates, boosting S&P 500 earnings per share over 20% this year. Second, tax law changes have driven companies to repatriate several hundred billion dollars of cash they formerly held outside the U.S.
- Technology companies have led share repurchase activity and comprise more than one-quarter of all S&P 500 share repurchase activity this past year. This is likely due to strong fundamental growth in the sector as well as large cash repatriation resulting from global operations. The financial and health care sectors also rank highly in share repurchases.
- Increasing share repurchases provides for larger returns of cash to shareholders, resulting in fewer shares outstanding and higher earnings per share. This creates an EPS "tailwind" amounting to 2% at the end of 2017 and over 3% in 2018.

Inspired by Change, Driven by Growth.

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Risk Disclosure: Investing in the stock market involves gains and losses and may not be suitable for all investors. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Many technology companies have limited operating histories and prices of these companies' securities have historically been more volatile than other securities, especially over the short term. Technology companies may also face increased competition, government regulation, and risk of obsolescence due to progress in technological developments.