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"Investors must exercise due diligence and remain attentive to developments in this sphere"

Will buybacks continue to bolster equity markets?

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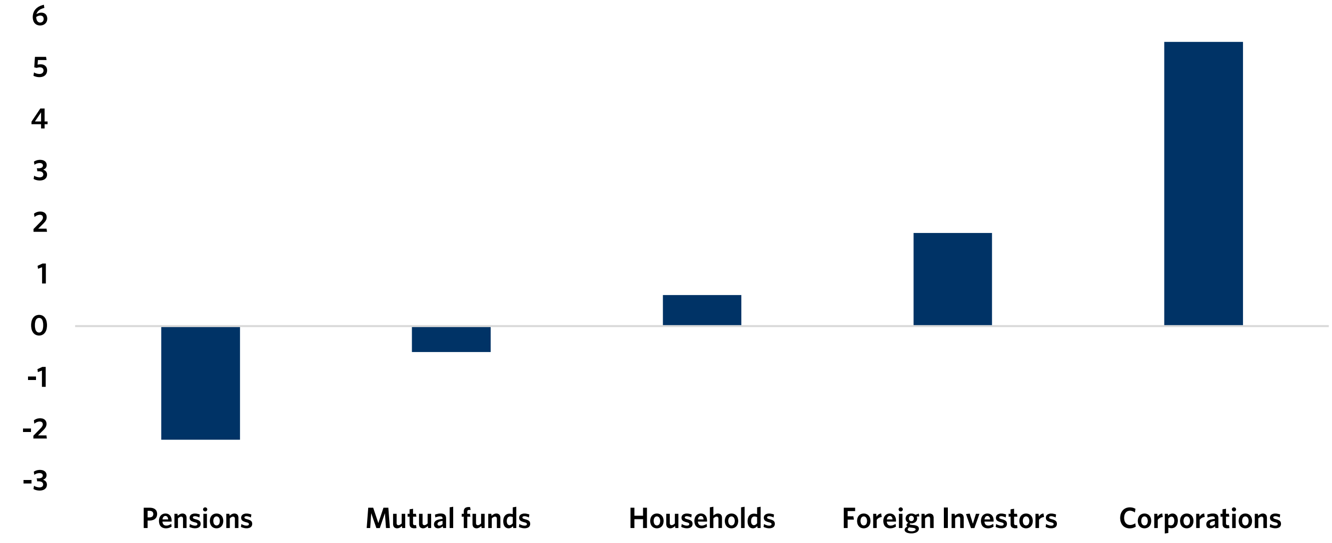
Share repurchasing, commonly known as buybacks, entails a company repurchasing its own shares from the market, subsequently retiring, or holding them as treasury stock. This strategy diminishes the number of outstanding shares, thereby augmenting earnings per share (EPS) and the company's stock price, given constant or growing earnings. The efficacy of a buyback, as noted by Warren Buffett, hinges on the share price at which it is executed, buying back undervalued shares transfers wealth to shareholders, constituting a positive outcome. Equally, the converse holds true.

The prevalence of buyback activity started in 1982 following the implementation of SEC Rule 10b-18, which delineates the parameters of buybacks. Prior to this, while not prohibited, buybacks were infrequent due to concerns about potential accusations of price manipulation. Notably, since 2000, the primary demand for equity purchasing in the US has emanated from corporate entities.

Net demand for US equities since 2000 (USD trillions)



Source: Goldman Sachs Global Markets Weekly Wrap-up, 31 March 2024.

Opinions on share buybacks are divided. Advocates assert that they offer a means for company management to redistribute surplus cash to shareholders, presenting a less enduring commitment than increasing dividends. They argue that buybacks optimise capital allocation, particularly for firms unable to achieve higher returns on investment than their cost of capital. Moreover, proponents suggest that reinvesting buyback shares into entities like venture capital/private equity fosters more growth and Research & Development investment than would occur solely through the retained earnings of large, mature firms.

Buybacks can serve as indicators, or "signals" that management perceives the shares to be undervalued, based on anticipated future growth prospects. Additionally, they may offer tax advantages for investors, as capital gains potentially are taxed at a lower rate and realised only upon sale, unlike dividends which are subject to annual taxation.

Conversely, detractors contend that buybacks adversely affect investment, employment, and income distribution. An upsurge in buybacks could signify a dearth of profitable investment opportunities for the company. Considerations of agency costs are paramount, as cash utilisation must be weighed against the expected return on all potential management decisions. Poor Management decision making, such as ill-advised acquisitions, could lead to discounted valuations of excess cash on the balance sheet. Moreover, critics argue that buybacks may serve as a tool for management to artificially inflate a flagging share price, potentially enhancing their compensation at shareholders' expense.

The discourse surrounding buybacks, both financial and political, has increased. Notably, in January 2023, US policymakers introduced a "buyback tax," levying a 1% tax on the value of any buybacks. While this tax marginally diminishes the attractiveness of share buybacks, its impact on corporate behaviour is presently considered negligible.

While historically centered in the US, the 12 months leading to December 2023 witnessed negative net equity supply in various global markets, including the UK, Japan, France, and Germany, with non-US markets experiencing the most pronounced decline. Factors such as mergers and acquisitions and heightened pressure on Japanese firms to enhance market valuations and governance have propelled a surge in buybacks, coinciding with a 33-year high in Japanese stock prices.

The erstwhile allure of buybacks was bolstered by low debt costs; however, with rising interest rates, the favourable differential between debt funding and equity costs is diminishing. Nonetheless, many companies engaging in buybacks possess significant cash reserves, rendering the cost of debt inconsequential. Should economic conditions deteriorate, certain companies may be compelled to shore up their balance sheets, reducing leverage and potentially dampening future EPS growth.

Investors must exercise due diligence and remain attentive to developments in this sphere, as certain stocks and sectors could encounter substantial headwinds should buyback activity decline.

Market Review - week ending 19 April 2024

- **Global equities fell 2.8%**
- **Global equities experienced their worst week since the US mini-banking crisis of March last year, as higher interest rate expectations and escalating tensions in the Middle East weighed on sentiment**
- **Brent crude fell 3.5% to $87.29 per barrel, following an EIA report which showed US crude inventories at their highest level in nine months**
- **Gold rose 2% to $2,391.93 per ounce**

US

- US equities fell 3%
- US retail sales were up 0.7% in March (vs 0.4% expected), with the previous month also being revised up to 0.9%
- US industrial production in March came in line with expectations, showing 0.4% growth
- Fed Chair Jerome Powell commented at a conference that “the recent data have clearly not given us greater confidence and instead indicate that is likely to take longer than expected to achieve that confidence”
- Housing starts fell to an annualised rate of 1.321m in March (vs 1.485m expected), the lowest in seven months

UK

- UK equities fell 1.3%
- Headline CPI (Consumer Price Index) increased 3.2% in March, (vs 3.1% expected) with the core measure coming in at 4.2%, fuelling concerns over stickier inflation
- Job data showed wages (excluding bonuses) increasing 6.0% (vs 5.8% expected), while unemployment rose unexpectedly to 4.2%
- UK Foreign Secretary Cameron commented on last week’s missile attack from Iran, stating “We’re saying very strongly that we don’t support a retaliatory strike”

Europe

- European equities fell 1%
- ECB President Lagarde confirmed that the ECB were moving closer towards a rate cut, saying that “If we don’t have a major shock in developments, we are heading towards a moment where we have to moderate the restrictive monetary policy that we have”
- French President Macron said that “We’re going to do everything we can to avoid flare-ups and try to convince Israel that we shouldn’t respond by escalating, but rather by isolating Iran”

Rest of the World/Asia

- Global emerging market equities fell 3.6%
- Japanese equities fell 4.8%, while Chinese equities fell 1.9%
- The Chinese economy made a stronger than expected start to the year as GDP in Q1 grew at a 5.3% annualised pace, (vs 4.8% expected)
- China industrial output for March grew 4.5% year-on-year, (vs 6.0% expected) while retail sales advanced 3.1% (vs 4.8% expected)
- Chinese house prices continued to fall in March, dropping 2.7% from a year earlier, indicating that the nation’s property market is struggling to find a bottom
- Japan’s exports grew 7.3% year-on-year in March (vs 7.0% expected), supported by a weakening yen, while imports fell 4.9% (vs -5.1% expected)

Market Performance - week ending 19 April 2024

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 19 April**	**Month to date**	**YTD 2024**	**12 months**
Developed Markets Equities					
United States	USD	-3.0%	-5.4%	4.4%	20.9%
United Kingdom	GBP	-1.3%	-0.5%	3.6%	4.1%
Continental Europe	EUR	-1.0%	-2.8%	5.2%	10.1%
Japan	JPY	-4.8%	-5.1%	12.1%	31.7%
Asia Pacific (ex Japan)	USD	-3.7%	-4.1%	-2.2%	0.9%
Australia	AUD	-2.8%	-4.2%	0.9%	6.9%
Global	USD	-2.8%	-5.2%	3.2%	16.7%
Emerging Markets Equities					
Emerging Europe	USD	-0.5%	1.8%	7.7%	29.2%
Emerging Asia	USD	-3.8%	-3.9%	-0.6%	2.9%
Emerging Latin America	USD	-2.5%	-5.2%	-8.9%	13.9%
BRICs	USD	-1.9%	-1.5%	-1.5%	0.2%
China	USD	-1.9%	-1.3%	-3.5%	-16.7%
MENA countries	USD	-2.2%	-1.7%	0.3%	5.0%
South Africa	USD	-4.3%	-2.0%	-8.7%	-8.2%
India	USD	-1.5%	-0.8%	1.9%	25.3%
Global emerging markets	USD	-3.6%	-3.6%	-1.4%	4.1%
Bonds					
US Treasuries	USD	-0.4%	-2.0%	-2.9%	-1.3%
US Treasuries (inflation protected)	USD	-0.3%	-1.6%	-1.7%	-0.7%
US Corporate (investment grade)	USD	-0.7%	-2.3%	-2.4%	2.4%
US High Yield	USD	-0.6%	-1.7%	-0.2%	8.6%
UK Gilts	GBP	-0.8%	-2.4%	-4.1%	0.2%
UK Corporate (investment grade)	GBP	-0.7%	-1.8%	-1.7%	6.4%
Euro Government Bonds	EUR	-1.0%	-1.2%	-1.8%	3.9%
Euro Corporate (investment grade)	EUR	-0.8%	-0.8%	-0.4%	6.0%
Euro High Yield	EUR	-0.3%	-0.2%	1.4%	10.0%
Japanese Government	JPY	0.3%	-1.1%	-1.4%	-2.7%
Australian Government	AUD	0.1%	-1.2%	-0.3%	0.3%
Global Government Bonds	USD	-0.6%	-2.4%	-5.1%	-3.4%
Global Bonds	USD	-0.6%	-2.3%	-4.1%	-0.8%
Global Convertible Bonds	USD	-1.6%	-3.6%	-3.7%	1.9%
Emerging Market Bonds	USD	-0.6%	-1.9%	0.4%	9.6%

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 19 April**	**Month to date**	**YTD 2024**	**12 months**
Property					
US Property Securities	USD	-3.0%	-7.8%	-8.3%	0.8%
Australian Property Securities	AUD	-3.8%	-9.6%	4.9%	15.3%
Asia Property Securities	USD	-5.0%	-6.7%	-9.5%	-11.5%
Global Property Securities	USD	-2.9%	-6.9%	-7.3%	1.1%
Currencies					
Euro	USD	0.1%	-1.3%	-3.7%	-2.8%
UK Pound Sterling	USD	-0.5%	-1.8%	-2.9%	-0.5%
Japanese Yen	USD	-1.0%	-2.1%	-8.9%	-12.9%
Australian Dollar	USD	-0.6%	-1.5%	-6.0%	-4.5%
South African Rand	USD	-1.1%	-1.2%	-4.4%	-5.0%
Swiss Franc	USD	0.3%	-0.9%	-7.8%	-1.4%
Chinese Yuan	USD	0.0%	-0.2%	-1.9%	-4.9%
Commodities & Alternatives					
Commodities	USD	-0.6%	2.6%	8.2%	5.9%
Agricultural Commodities	USD	-0.2%	-1.6%	3.0%	2.9%
Oil	USD	-3.5%	-0.2%	13.3%	5.0%
Gold	USD	2.0%	7.3%	15.9%	19.8%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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