FELTZ WEALTHPLAN
A REGISTERED INVESTMENT ADVISOR

The Weekly Note

A Weekly **Market Commentary**

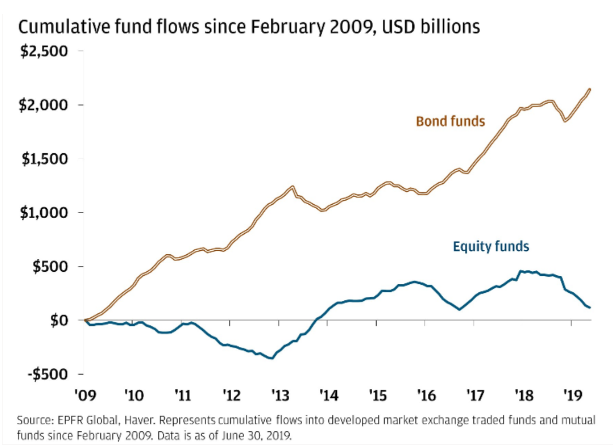
Monday, August 26th, 2019

"Stock buybacks continue to offset equity fund flows"

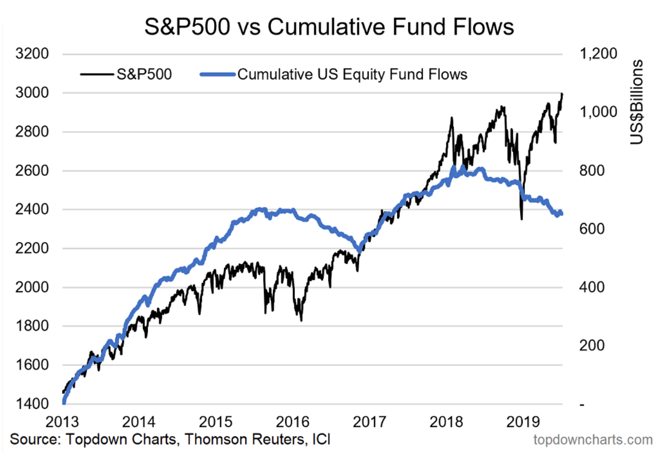
Ten years into a bull market, with the S&P 500 having quadrupled from the March 2009 bottom, one might assume that investor "flows" (net purchases) to stocks have driven market gains. In actuality, investor risk appetite has been fairly anemic, with only marginal net buyers over the past decade. Instead, investors have mostly opted to pour money into low-yielding bonds even as stock indices set new all-time highs.

Whether because of trepidation or a natural shift in asset allocation for retiring boomers, bonds have dominated asset flows for both U.S. and global investors since 2008. Although there was an immediate surge of inflows to stocks following the election of President Trump, most of these have been offset by outflows over the past 18 months, coinciding with elevated market volatility.

During this most recent bout of volatility, bond fund flows surged once again, likely accelerating the move lower in interest rates as bond prices were bid higher.



Source: EPFR Global, Haver. Represents cumulative flows into developed market exchange traded funds and mutual funds since February 2009. Data is as of June 30, 2019.

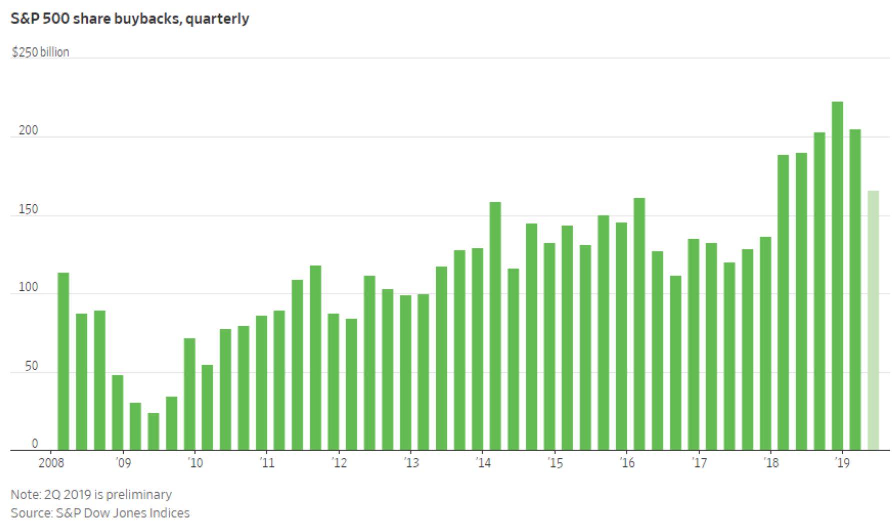


Source: Topdown Charts, Thomson Reuters, ICI
topdowncharts.com

So how have stocks gone up nearly 4x in the last ten years without incremental demand from investors? We think the most likely contributing factor is stock buybacks.

When a company buys back its own stock, the number of outstanding/public shares adjusts down and, all else equal, the price for each remaining public shareholder should theoretically move higher.

Since the fourth quarter of 2009, S&P 500 companies have repurchased over **$5 trillion** in stock, including nearly $1.2 trillion since the beginning of 2018[1]. The record level of buybacks over the past 18 months are a result of a surge in cash flows stemming from recent corporate tax reform. Companies have also opted to raise dividends and buy back stock in light of limited growth opportunities from the slowing global economy.



There are many ways to spin the narrative on what all this means, but we think it certainly speaks to the relative skepticism that has persisted for the average investor. Even with shifting demographics, we would expect to see a euphoric surge in investor risk appetite given the length of time since the financial crisis. That doesn't make the market immune to systemic risks, but it does tell us this bull market has not been a product of irrational investor risk-taking.

One other takeaway is that international companies have not been nearly as aggressive with stock buybacks as U.S.-listed companies. That may be contributing to the relative divergence in performance for U.S. vs. ex-U.S. stocks over the past decade. Believe it or not, there have actually been significantly more investor inflows to ex-U.S. equity funds compared to U.S. equity funds over the past decade.

As boomers stare at retirement balances, many not wanting to risk an uncertain recovery from the next large market drawdown, we expect to see equity outflows follow spikes in market volatility. Investors that have a long-term time horizon or a financial plan built to assume market cycles will come and go, could see opportunities for buying these dips if they have the right temperament.

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WealthPLAN Partners

Source:

1. https://www.wsj.com/articles/slowing-share-buybacks-remove-a-pillar-of-stock-market-11566379801