

Tax cut triggers \$437 billion explosion of stock buybacks

by [Matt Egan](#) [@MattEganCNN](#) July 10, 2018: 5:01 PM ET

Corporate America threw Wall Street a record-shattering party last quarter.

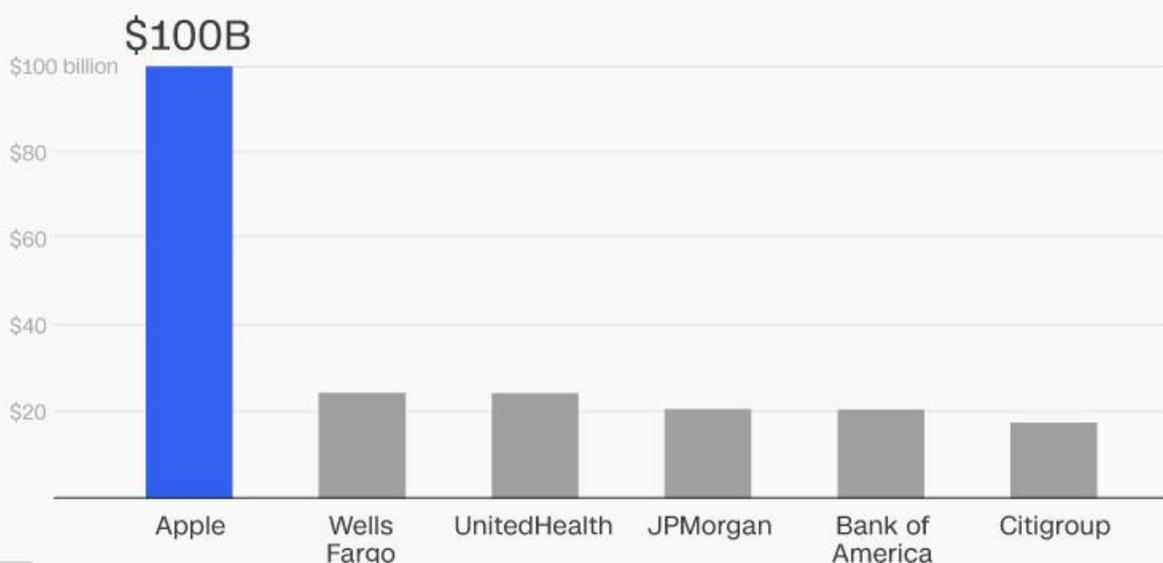
Flooded with cash from the Republican tax cut, US public companies announced a whopping \$436.6 billion worth of stock buybacks, according to research firm TrimTabs.

Not only is that most ever, it nearly doubles the previous record of \$242.1 billion, which was set during the first three months of the year.

Apple alone announced plans for \$100 billion in buybacks. Big banks such as Wells Fargo ([WFC](#)), JPMorgan Chase ([JPM](#)) and Bank of America ([BAC](#)) each said they would buy back at least \$20 billion of their own stock after the [Federal Reserve gave them a clean bill of health](#) late last month.

The buyback boom is terrific news for shareholders — and corporate executives. When companies repurchase vast amounts of stock, they provide persistent demand that tends to boost share prices. Buybacks also artificially inflate a closely watched measure of profitability known as earnings per share.

Biggest buybacks announced during the second quarter



Source: TrimTabs

The Republican tax cut created a windfall for Corporate America. The legislation slashed the corporate tax rate to 21% from 35%. It also gave companies a tax break on foreign profits that they return to the United States.

The tax law and strong economy have combined to fuel record profits. CEOs are choosing to use a large chunk of that money to reward shareholders.

S&P 500 companies repurchased \$189 billion worth of stock during the first quarter, [topping the record set in 2007](#), according to S&P Dow Jones Indices. Apple ([AAPL](#)) alone bought back \$22.8 billion of its stock, the [most of any company](#) in any quarter in US history.

[Related: Are stock buybacks deepening America's inequality?](#)

Of course, anything that helps the stock market can help the many American households that own shares directly or indirectly through retirement plans.

However, critics of buybacks argue they [disproportionately benefit the rich](#). That's because the top 10% of households owned 84% of all stocks in 2016, according to research from NYU professor Edward Wolff.

Corporate America has shared some of the spoils with workers. More than 5.5 million employees have received a tax cut bonus, a pay raise or a sweetened 401(k), according to the White House.

But shareholders are coming out far ahead. TrimTabs notes that the \$436.6 billion of buybacks announced during the second quarter would have paid for a \$1,000 bonus check to be sent to 6.8 million workers — every single trading day.

A stated goal of the tax law was to encourage businesses to spend more. But it [hasn't helped much](#), at least not so far.

Real nonresidential fixed investment, one broad measure of business spending, increased a solid 6.1% during the first quarter. While that is healthy growth, it was roughly in line with recent quarters and was slightly slower than the end of 2017.

It's possible that second-quarter economic growth figures, due out later this month, will show companies spent more on equipment, factories and other investments that create jobs and boost wages.

[Related: Execs are cashing in on the explosion in stock buybacks](#)

However, researchers at the [San Francisco Federal Reserve](#) said on Monday that the tax law may not pack much of a punch because the US economy was already healthy. Washington normally stimulates the economy during a downturn, not a boom.

The San Francisco Fed said that recent research suggests the tax cuts could boost the economy very little — or perhaps not at all.

A safer bet is that the explosion of buybacks will help enrich corporate executives, whose compensation is often linked to their share price.

Last month, an SEC official [detailed a disturbing trend](#): In the days after companies announce buybacks, execs quietly cash out their own shares. Daily stock sales spiked from an average of \$100,000 to more than \$500,000 per executive, according to SEC Commissioner Robert Jackson Jr.

Defenders of buybacks argue that they are a legitimate use of excess cash. The money doesn't vanish. Shareholders can use their winnings to boost the economy by investing in new companies or purchasing a home.

JPMorgan CEO Jamie Dimon recently slammed critics of buybacks as "people who are basically ignorant."

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