

Weekly Market Commentary

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Q1 Buybacks Boost Stocks Amid Market Recovery

There have been plenty of catalysts supporting the broader market's recovery from the correction lows set last month. Oversold conditions fueled by indiscriminate selling left the S&P 500 with washed-out market breadth and a hard reset of its lofty valuation. First quarter earnings season came in much better than feared, and most companies unexpectedly did not pull forward guidance. President Trump's announcement of a 90-day pause on most reciprocal tariffs eased fears of an escalating trade war, while continued progress in trade negotiations further supported the risk-on rally. Steady retail buying and a slow return of institutional demand also supported the rebound. Corporate buybacks, arguably one of the less-discussed catalysts, likely provided an additional boost to the market's quick recovery. In this week's *Weekly Market Commentary*, we explore recent repurchase activity, including who is buying back stock, how much, and how buyback companies have historically performed.

Background on Buybacks

Corporate buybacks, as the name implies, are when a company purchases its own shares from the open market or directly from shareholders via a tender offer, effectively reducing the total number of shares outstanding. Management tends to execute buyback programs when it believes its stock is undervalued. They are typically funded by excess cash, retained earnings, or through a debt offering, especially when interest rates are low. In addition to potentially boosting the stock's performance, the reduced share count can also help improve financial metrics, such as earnings per share (EPS) or return on equity (ROE). Companies have flexibility on when or if they repurchase shares; however, the Securities and Exchange Commission (SEC) restricts them from buying shares during the "blackout period," which is generally a few weeks before reporting earnings (or other non-public information) to a few days after the release.

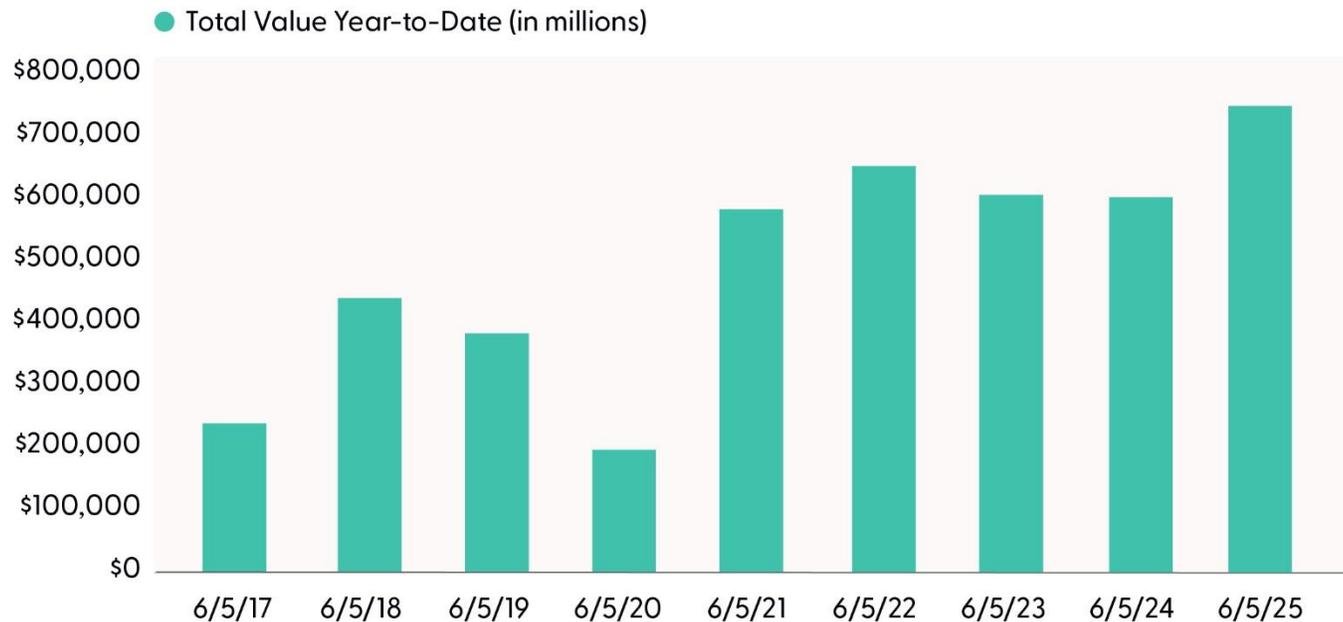
Buybacks are also not without controversy and have often become the target of scrutiny. Opponents of share repurchase programs argue that they artificially inflate stock prices and benefit executives who are leveraged to equity-based compensation. Pouring money into buybacks also diverts funds away from potential longer-term growth drivers, such as research and development, acquisitions, and capital expenditures. Buybacks have also often found themselves in the crosshairs of politics. The Inflation Reduction Act (IRA) of 2022 introduced a 1% excise tax on most corporate buybacks for publicly traded companies in the U.S., a tax the Biden Administration wanted to increase to 4% until last year.

Who Is Buying and How Much

Corporate America has a substantial amount of stock to repurchase, and with only a few companies left to report this quarter, the buyback window is nearly wide open for the S&P 500. In aggregate, announced buyback programs among S&P 500 constituents reached roughly \$750 billion year-to-date (as of June 5). As the "S&P 500 Announced Buyback Programs" chart illustrates, this is well ahead of the total authorized repurchase value reached as of early June during prior years. For example, by early June 2023 and 2024, companies had only authorized around \$600 billion in buybacks.

The bulk of the buyback announcements this year have come from the communication services (\$210 billion), financials (\$200 billion), and technology (\$196 billion) sectors. Sectors with the lowest value of buybacks announced this year include energy, materials, real estate, and utilities.

S&P 500 Announced Buyback Programs



Source: LPL Research, Bloomberg 06/05/25

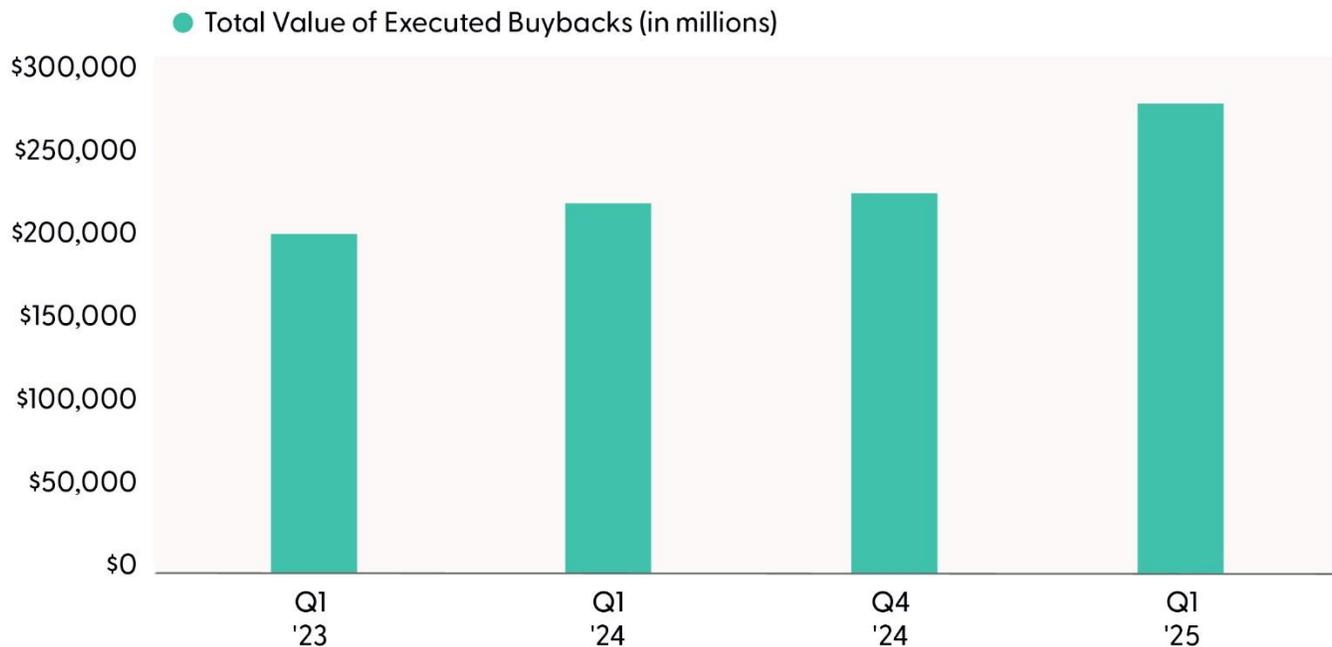
Past performance is no guarantee of future results.

All indexes are unmanaged and can't be invested in directly.

It is one thing for a company to have a large, authorized buyback program, but another to actually execute the program. As noted previously, even though a company can repurchase shares, it often doesn't, especially if management doesn't find the stock's valuation or market conditions compelling. The optionality of repurchases also opens the door for management to deploy capital into other strategies, such as expanding operations, paying down debt, or simply preserving cash if economic uncertainty is running high.

With a full hopper of authorized buybacks and the market falling into correction territory in March, it was no surprise corporate America stepped up and repurchased shares in the first quarter (Q1). As illustrated in the "S&P 500 Companies Picked Up the Pace of Buybacks in Q1" chart, executed share repurchases totaled \$283 billion last quarter. This marks a 23.6% increase in buyback activity compared to Q4, and a 26.9% and 38.4% increase when compared to Q1 buybacks in 2024 and 2023, respectively. As probably no surprise, Apple (AAPL), Meta Platforms (META), Alphabet (GOOG/L), and NVIDIA (NVDA) were the most active, with total buybacks reaching nearly \$73 billion across the group. The big banks were also active last quarter, with notable share repurchases from JPMorgan (JPM) and Bank of America (BA), totaling nearly \$18 billion.

S&P 500 Companies Picked Up the Pace of Buybacks in Q1



Source: LPL Research, Bloomberg 06/05/25

Total value based on estimated repurchase price and total decrease in capital stock across the S&P 500.

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Buyback Performance

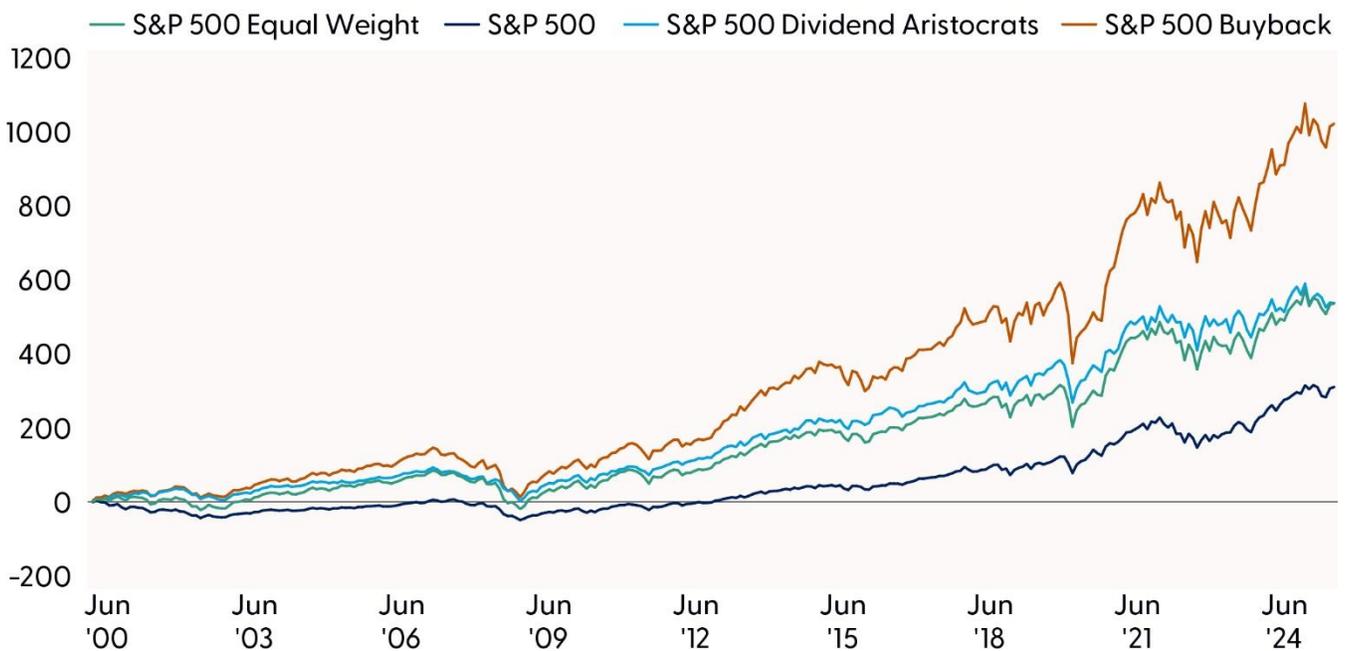
We have established that S&P 500 companies have a significant amount of stock to repurchase, and management was very active in executing those programs in Q1. Next, we examine performance to determine whether buybacks have a meaningful impact on future performance or if they provide other benefits to investors.

Let's start with the academic avenue. In a 2021 research study, the U.S. Chamber of Commerce Center for Capital Markets Competitiveness analyzed over 10,000 publicly traded U.S. companies spanning 17 years and found that buybacks provide greater liquidity for investors, reduced volatility, and introduced price impact and transaction cost savings — they estimate retail investors alone have saved anywhere from \$2.1–\$4.2 billion since 2004 due to the added liquidity buybacks provide.

Another research study from S&P Global found that over a long-term time horizon, buyback portfolios generated excess returns relative to their small, mid, and large cap benchmarks. It is hard to argue with the performance of buyback companies, as highlighted in the “S&P 500 Buyback Companies Have Notably Outperformed Over the Last 25 Years.” Since 2000, the S&P 500 Buyback Index, an equally weighted and quarterly rebalanced basket of the top 100 stocks with the highest buyback ratio (cash paid for common shares during the last four calendar quarters divided by the total market capitalization of common shares), has amassed a total price return of over 1,000%. This does not include dividends or any reinvestments. During the same time, the market-cap-weighted and equal-weighted S&P 500 indexes rose 310% and 536%, respectively. Since capital for buybacks can compete with dividend payouts, we also analyzed the performance of the S&P 500 Dividend Aristocrats Index (constituents that have consistently increased dividends for at least 25 consecutive years), which rose 537% over the same period.

While the S&P 500 Buyback Index outperformance is notable, we cannot attribute all the outperformance exclusively to share repurchase activity. In general, companies capable of announcing buyback programs tend to be higher quality, with significant cash reserves, strong cash flows, or clean balance sheets that can be levered for repurchases. We would argue that these strong fundamental attributes are the biggest drivers behind the long-term outperformance.

S&P 500 Buyback Companies Have Notably Outperformed Over the Last 25 Years

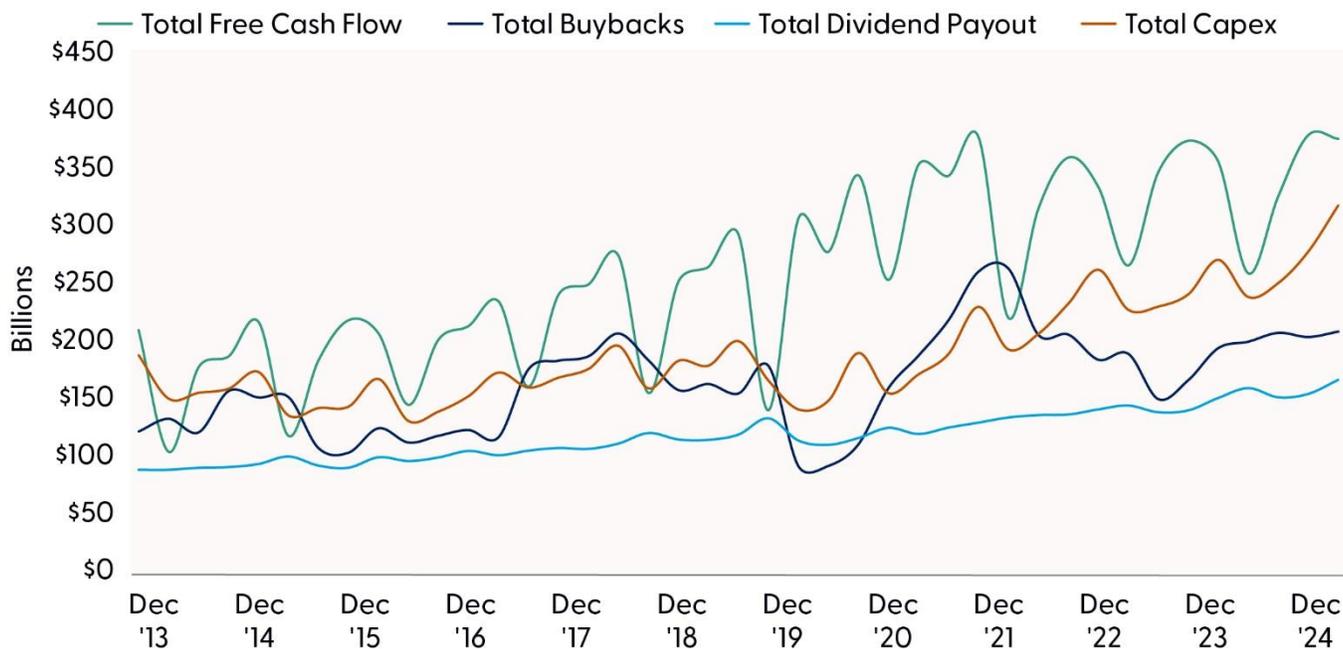


Source: LPL Research, Bloomberg 06/05/25
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Follow the Money

Rising free cash flows among S&P 500 companies should continue to support buybacks this year. However, companies have been spending an increasing amount of their excess cash on capital expenditures (capex). As illustrated in the “S&P 500 Corporate Cash Spending” chart, total buybacks have not kept up with the rise in free cash flows as companies have significantly ramped up capex spending over the last year. A big chunk of that capex spend is being allocated to artificial intelligence (AI) projects, including data center buildouts, processor upgrades, and expanding cloud services. Four of the big hyperscalers alone (AMZN, GOOG/L, META, MSFT) are projected to collectively spend around \$333 billion on AI this year, marking a potential 35% increase from last year.

S&P 500 Corporate Cash Spending



Source: LPL Research, Bloomberg 06/05/25

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If pressure to ramp up AI spending continues, it could impact buyback activity. AMZN is a good example of this scenario. The company authorized a \$10 billion buyback program at the start of 2022 and executed some repurchases that year. However, the company has not repurchased any shares since and still has \$6.1 billion remaining at the end of the last quarter. At the same time, the company has increased capex from \$63.6 billion in 2022 to an estimated \$104 billion this year.

Conclusion

Corporate buybacks were likely one of the many catalysts supporting the broader market's recovery from the April lows. With first quarter earnings in the rearview mirror, the buyback window will also remain open until we get closer to second quarter earnings season in mid-July. And while authorized buyback programs and repurchase activity remain elevated, market valuations have rerated higher amid the sharp recovery, potentially making management less inclined to buy back shares. Buybacks are also competing with increased pressure for capex spending on AI.

Asset Allocation Insights

Investors may be well served by bracing for heightened volatility until trade uncertainties are resolved. We advise against increasing portfolio risk beyond benchmark targets at this time, as the market seems to be factoring in a lot of positive news. Additionally, the fixed income market remains volatile, with longer-term yields nearing critical levels for risk appetite in stocks. While the U.S. economy is holding up well, highlighted by last week's better-than-feared employment report, we believe the S&P 500 is fairly valued and any further gains would necessitate an

earnings surprise and carefully balanced lower Treasury yields (too low could signal rising recession risks). The trajectory of tariffs and the tax bill will be crucial.

LPL's Strategic and Tactical Asset Allocation Committee (STAAC) maintains its tactical neutral stance on equities. Following the recent stock market rebound, the Committee does not rule out the possibility of a reversal lower amid ongoing uncertainty around tariffs. LPL Research continues to monitor tariff negotiations, economic data, earnings, the bond market, and various technical indicators to identify a potentially more attractive entry point to add equities on weakness.

During periods of policy uncertainty, LPL Research prefers to stray little from its benchmarks. In that spirit, the Committee recently upgraded emerging market (EM) equities to neutral, leaving regional preferences across the U.S, developed international, and EM aligned with benchmarks. Among sectors, the Committee favors just communication services and financials.

Within fixed income, the STAAC holds a neutral weight in core bonds, with a slight preference for mortgage-backed securities (MBS) over investment-grade corporates. In our view, the risk-reward for core bond sectors (U.S. Treasury, agency MBS, investment-grade corporates) is more attractive than plus sectors. We believe adding duration isn't attractive at current levels, and the STAAC remains neutral relative to our benchmarks. The Committee would get more interested in adding long-term bonds if the U.S. 10-Year Treasury yield got closer to 5%.

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US Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

All index data from FactSet or Bloomberg.

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