<u>TICKET TO RIDE: US CORPORATE PROFITS AND S+P 500 TRENDS</u>

(c) Leo Haviland, 646-295-8385 May 17, 2017

In "Ticket to Ride", The Beatles sing:
I don't know why she's riding so high
She ought to think twice
She ought to do right by me
Before she gets to saying goodbye".

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CONCLUSION AND OVERVIEW

In offering enthusiastic audiences explanations of past, current, and future United States stock marketplace levels and travels, diverse marketplace preachers tell competing tales. Their arguments and conclusions reflect their different marketplace perspectives and methods, including the particular variables they select and arrange. For a majority of devoted visionaries, American corporate profitability is a very important factor.

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After-tax US corporate profits soared after reaching a trough in fourth quarter 2015, not long before the S+P 500's major bottom in first quarter 2016. The noteworthy profit climb since 4Q15 surely encouraged the S+P 500 to jump from its 1Q16 trough.

Yet Trump's remarkable triumph in November 2016's Presidential election created (or at least magnified) faith that United States after-tax corporate profits would increase significantly in calendar 2017 and 2018. The S+P 500 galloped 15.2 percent higher from 11/4/16's 2084 low to 3/1/17's 2401 elevation. Thus hopes for greater profits probably greatly assisted the S+P 500's sharp rally.

What is a key tenet (especially in the post-election period) in the gospel promoting a viewpoint of growing American corporate profitability and an entangled bull stock climb? Much centers on hopes that the Republican-controlled Congress will enact noteworthy corporate tax cuts. Related optimism for marketplace earnings (and stock) bulls includes possibilities for repatriation of corporate cash hoards, dramatic boosts in domestic infrastructure spending, and reduced regulatory burdens.

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However, current sharp divides on the American political scene (including within the Republican congregation) and widespread lack of confidence in (and hostility toward) the President will make it very difficult for a notable change in the corporate (and individual) tax code to become law. Passage of legislation encouraging earnings repatriation is not assured. Moreover, neither is a monumental infrastructure spending scheme.

In addition, despite the fierce climbs in recent calendar quarters, profit highs for recent full calendar years do not manifest a clear trend toward moving to new heights. Full calendar year profits over the past few years have been about flat.

Disappointment relative to widely-forecast profitability gains may inspire S+P 500 price retreats. In any case, history reveals that several noteworthy bear moves in the S+P 500 have intertwined with noteworthy profitability slumps.

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What is too high (too low), high (low), overvalued (undervalued), or reasonable/rational/average/normal (unreasonable, irrational, atypical/abnormal) for stock prices or other economic indicators is a matter of opinion. However, and even though stock valuations can appear very elevated relative for an extended period of time, some marketplace gurus nowadays proclaim that some measures show US stock valuations are on the lofty side.

Also, elevated share buyback levels also have helped to propel US equities higher. There are hints this pattern will not persist.

Current low US stock marketplace volatility, high American consumer confidence, and evidence that financial stress remains below average have reflected (and encouraged) the majestic bull climb in the S+P 500. Observers nevertheless should watch for changes in such measures.

A warning light for S+P 500 bulls is the failure the S+P 500 to motor much above the early March 2017 high. The subsequent record high is 5/16/17's 2406. If the S+P 500 continues to find ventures much beyond that March 2017 elevation challenging, this arguably will signal that current optimism regarding future corporate profit gains may be ebbing, that the S+P 500 bull trend is tiring, or both.

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American and other corporations win or lose given amounts of money for all sorts of reasons. Factors influencing earnings and profitability change, as do the relative importance and interconnections of these variables. Marketplace history obviously need not repeat itself, either entirely or even partly, whether for corporate earnings, profits, the S+P 500, or other economic phenomena.

Long run inflation increases generally increase nominal values in general. Also, central bank policies, tax regimes, wage trends, and productivity (innovation; efficiency) developments influence sales and profits. The altitudes and paths of the US dollar, interest rate yields, and commodity prices also are relevant in various ways and degrees to particular corporations, and to patterns in the S+P 500 (and other advanced and emerging stock marketplaces). Unemployment rates, fiscal situations (budget deficits), debt levels and trends (government, corporate, and consumer), regulatory structures, and population growth matter. America is not an island apart from the rest of the world; globalization has increased in recent decades.

Admittedly, the ongoing lax monetary policies of the Federal Reserve Board and other central bank guardians such as the European Central Bank, Bank of England, Bank of Japan, and China's central bank have played a starring role underpinning equity prices in America and elsewhere. Stock-owning audiences around the globe (particularly the praiseworthy investment community) as well as Wall Street institutions, public corporations, and the financial media friends generally adore massive money printing (quantitative easing) and sustained yield repression.

Low interest rate yields for US Treasury securities (and negative yields for many government debt obligations elsewhere) encourage fervent scrambles for acceptable returns elsewhere. These often-alluring territories include stock realms (hunting for dividends and potential capital gain), corporate debt, and commodities. American consumer price (and personal consumption expenditure) inflation has been paltry in recent years. But since nominal prices in general (all else equal) tend to ascend alongside (or on a lagged basis relative to) a climb in US nominal GDP, a nominally priced index such as the S+P 500 likewise will advance.

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So the failure of America to enact important corporate tax "reform" (tax cuts) or embark on a glorious infrastructure spending voyage may not greatly diminish future earnings expectations (or even actual levels) or significantly wound the S+P 500. But they might.

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In addition, challenges to the bullish trend in US equities may come from the long run upward trend of US government interest rates (note the Fed's tightening plan). Or, concern about US federal budget deficits (or debt problems elsewhere in the world) may march into view. Hopes for higher (or at least not falling) energy prices likely underpin hopes for higher corporate earnings (and profits) in that key financial sector. But commodities "in general" (and petroleum in particular) have fallen from their 1Q17 highs. Anticipated oil output levels from OPEC and its non-OPEC comrades probably will not significantly reduce still-high OECD industry inventories for at least the next several months. The broad real trade-weighted US dollar established highs in December 2016/January 2017, though it has slipped only modestly since then. Contrary to what many believe, increasing US dollar depreciation may help lead to or confirm weakness in the US stock marketplace.

For further marketplace analysis, see essays such as " The Oil Battlefield: Evolution, Relationships, and Prices" (4/10/17); "Eurozone Under Siege: Currency Trends and Policies" (3/20/17); "Easing Comes, Easing Goes: US Government Interest Rates" (3/13/17); "Rhetoric and Global Currency Trends" (2/13/16); "Gold and Goldilocks: 2017 Marketplaces" (1/10/17); "Back to the Future: the Marketplace Time Machine" (12/13/16); "The New World?! US Election Aftermath" (11/15/16); "US Election 2016: Rolling and Tumbling" (11/6/16); "Running for Cover: Foreign Official Holdings of US Treasury Securities" (10/13/16).

US CORPORATE PROFITS: ON THE ROAD

"Always in motion is the future." Yoda, in "Star Wars: the Empire Strikes Back" (Irwin Kershner, director)

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Marketplace historians and clairvoyants review various measures of corporate profitability. Let's examine nominal after-tax profits (without inventory valuation and capital consumption adjustments) for all American corporations (not just those in the S+P 500) both over the past several decades as well as on the current scene. See the Federal Reserve Board Z.1 "Flow of Funds" (3/9/17; next release June 2017) and Bureau of Economic Analysis data.

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United States after-tax corporate profits ("ATP") peaked (annualized basis) at $1771.5 billion in fourth quarter 2014. The S+P 500 attained a very important interim top not long after this, on 5/20/15 at 2135. The S+P 500 mournfully plummeted 15.2 percent to its 1812 (1/20/16)/1810 (2/11/16) bottom. Petroleum prices also bottomed in 1Q16 (NYMEX crude oil lows $26.19 on 1/20/16 and $26.05 on 2/11/16). After-tax profits plummeted 19.7 percent to 4Q15's $1423.4bb low, soaring 22.3pc to 4Q16's $1741.2bb.

Looking forward, will ATP keep rising for calendar 2017 and thereafter?

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Everyone knows that the so-called long run secular trend for US nominal after-tax corporate profits has been upward. In the post-World War 2 era, US corporations (as a whole) always have made money in each calendar year. Year-on-year after-tax profits ("ATP") profits from 1946 to 2016 have averaged an increase of 8.5 percent.

In the post-World War 2 epoch, US ATP saw several very substantial year-on-year percentage leaps and a few extended spans of noteworthy gains. Right after WW2, 1946 and 1947 displayed gains of 70.1pc and 29.7pc, respectively. The blessings of 1946 have not come close to returning.

Around thirty percent represents an extraordinary year-on-year gain. Year-on-year profitability gains averaging over twenty percent per year extending over several calendar years are stellar. For example, 1955 had a 26.7 percent jump. In 1973, profits climbed a majestic 30.9pc year-on-year, the four years 1971-74 manifested an average ascent of 20.7pc per year (1975 produced a 5.2pc fall, but 1976's soared 27.0pc). 1987 unveiled a 28.1pc rise. What about the glorious Goldilocks Era? The marvelous average yearly rise from 2002-2006 was 23.3pc, which surely assisted ("confirmed") the wonderful bull march in the S+P 500. They spiked 30.7 percent in 2004 and raced another 30.8pc upward in 2005 (2006's grew 11.1pc).

Of course above average profits over a very long time span may be striking, even if they do not reach twenty percent. In 1990-97's joyous eight year span of continuous year-on-year rises, ATP advanced an average of 10.9 percent each year (1994's 22.0pc the greatest).

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Will American corporate profits forever keep rising? Numerous US stock investment choirs sing hymns proclaiming long run American prosperity.

Moreover, US corporate profits frequently have declined. In the seven decades since the end of World War 2 (1946-2016), they fell 23 times on a calendar year-on-year basis. Not all of these were small. Not all of them were in the distant past. The greatest ATP falls have been roughly eighteen percent. Recall year-on-year swoons in 2008 (17.6pc; 2007's fell 5.5pc year-on-year), 1986 (17.7pc), and 1949 (17.8pc). Even during the current global recovery, US profits dipped in 2011 (2.9pc year-on-year) and 2015 (8.5pc).

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After the dreadful days of the 2007-09 worldwide economic disaster, US after-tax corporate profits resumed their nominal climb alongside the American and worldwide recovery. In addition to the sustained low policy interest rates (such as Federal Funds) and gigantic money printing (quantitative easing) by the adored high priests of the Federal Reserve and other key central banks, keep in mind the massive federal deficits generated by America (and its allies).

The S+P 500's major bottom was 3/6/09 at 667. Low interest rates (especially if they are near or beneath inflation levels), all else equal, can encourage spending (and borrowing) by consumers and corporations (and governments) and thereby boost economic growth. The more spending, the greater probably will be nominal ATP. Low interest rates tend to reduce corporate costs.

Within the first half of the 2009-2016 period, 2010 and 2012 revealed well-above average yearly nominal ATP gains; 2010's was 22.2 percent, 2012's 17.9pc. However, the average annual increase of 6.0pc for 2009-2016 was far less than the 23.3pc of the best years of the Goldilocks Era (2002-06). In addition, average yearly ATP growth over 2009-16 was about 2.5 percent beneath the 8.5pc long run average (1946-2016). Admittedly, the ATP trend covering 2009-16 seems somewhat strong relative to low inflation levels.

ATP stood at $1683.2 billion in calendar 2012, $1688.4bb in 2013, $1730.1bb in 2014, $1583.8bb in 2015, and $1652.0 in 2016 (less than in calendar 2014 and 2012). So 2013's total inched up less than one percent (merely .3pc) year-on-year, with 2014's up only 2.5pc. Calendar 2015's ATP stumbled 8.5pc lower versus 2014; calendar 2016's climbed 4.3 pc versus 2015.

Therefore, America's nominal ATP actually fell an average of -.3pc year-on-year for 2013-2016! Given this unimpressive recent track record, it pays to wonder how much the sustained bull move in (optimism regarding) the S+P 500 derived from highly accommodative (global) monetary policies (such as interest rate yield repression and money printing) and American corporate share buyback programs. The recent "Trump rally" in the S+P 500 since early November 2016 received some help from these factors; however, that bull charge likely also significantly derived from ardent hopes for ATP boosts resulting from the realization of campaign promises regarding tax reform (lower American corporate taxes), infrastructure spending, and reduced regulatory burdens on business.

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Not all corporate profitability predictions clearly distinguish between (define) revenues, earnings, and profits (or types of profits). To what extent do percentage changes in measures such as "earnings" or "earnings per share" translate into similar changes in after-tax profits? Also, many US stock analyses apply only to the S+P 500 universe, not to all American corporations.

In any case, numerous gurus forecast "earnings" increases for first quarter 2017 relative to the prior year quarter. For example, for the S+P 500, FactSet predicts a 1Q17 earnings jump of 13.6 percent versus 1Q16 ("Earnings Insight", 5/12/17; the great majority of S+P 500 companies have reported actual results). It says 1Q17 revenues grow 7.8pc year-on-year. Thomson Reuters indicates a 14.7pc ascent for 1Q17 earnings relative to 1Q16 ("This Week in Earnings", 5/12/17).

Suppose US nominal after-tax corporate profits as presented by the Federal Reserve (Z.1 report) for 1Q17 rise ten percent versus 1Q16. US overall first quarter 2016 after-tax profits were $1550.5 billion (annualized), so that total *1.1 equals $1705.5bb. A 12 percent year-on-year climb equals 1Q17 ATP of $1736.6bb, close to but still beneath 4Q16's $1741.2bb.

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Looking over the horizon, what will be future US after-tax profit levels and trends? Of course much can happen, and soothsayers disagree.

FactSet believes full calendar year 2017 earnings for the S+P 500 will increase 9.9 percent year-on-year (revenue growth 5.3pc). It predicts calendar year 2018 earnings expansion of 11.7pc versus 2017 (revenues up 4.7pc). Thomson Reuters forecasts full year 2017 earnings for the S+P 500 will trot up 11.3pc versus 2016, with 2018's bouncing up 11.8pc relative to 2017.

Full year calendar 2016 ATP totaled $1652.0 billion. Suppose calendar 2017 ATP balloon 10 percent higher year-on-year. Then full year ATP will be $1817.2bb, a new nominal ATP record. A five pc rise, however, leaves them at $1734.6bb; this still achieves a calendar year record, but remains under 4Q14's $1771.5bb (annualized) and 4Q16's $1741.2bb (annualized).

What about calendar year 2018? Suppose calendar year 2017 ATP actually advance ten percent, with 2018's stretching another 10pc upward. Then US ATP for calendar 2018 will be heavenly, at nearly $2000 billion ($1817.2*1.1).

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The generally anticipated 1Q17 ATP total (annualized) sits within the quarterly (annualized) ATP ranges of the past several years. Thus "taken alone", it probably does not readily support further price rises in the S+P 500.

Perhaps the actual realization of such ten percent (or a bit higher) earnings gains during calendar 2017 (and in calendar 2018) will encourage the S+P 500 to move higher from current levels around 2400. However, such relatively hopeful earnings estimates for the next several quarters have permeated much of Wall Street's rhetoric for quite some time. Consequently, much of the advance in the S+P 500 in recent months, and especially since America's 11/8/16 election, already reflects ("incorporates" or "builds in", to use some other metaphors) these outlooks. So all else equal, for the S+P 500 to move much above May 2017's highs to date, earnings for 2Q17, 3Q17, and subsequent quarters may need to exceed prevalent earnings expectations.

Suppose such sunny forecasts for ten percent or higher earnings for calendar 2017 (and even calendar 2018) are reined in and reduced. Or, suppose actual quarterly earnings fall short of such ten percent targets. The S+P 500 likely would be vulnerable to a notable fall.

Marketplace prophets should ask to what extent investors (and other owner categories) in general are already "all aboard" (long) the S+P 500 train.

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Current low volatility in the S+P 500 (see the VIX) as well as in the United States Treasury marketplace and the broad real trade-weighted US dollar may not persist for much longer. See "Marketplace Volatility: Calm Before the Storm" (5/8/17). The St. Louis Fed's "Financial Stress Index" on 5/5/17 rested peacefully at -1.45, not far from 6/27/14's low around -1.64. June 2014's depth not only is the low for the period following the international economic disaster (10/17/08 peak 5.40), but also the low for the data series (back to end 1993) and thus even beneath the levels in the later stages (2006-2007) of the Goldilocks Era.

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According to the NYSE, securities market credit reached a new peak in March 2017 at about $537 billion.

An assortment of key valuation metrics monitored by the US Office of Financial Research "are high" (as of end March 2017; "Markets Monitor", First Quarter 2017, Figure 3). FactSet's "Earnings Insight" (5/12/17) remarks: "The forward 12-month P/E ratio for the S&P 500 is 17.5. This P/E ratio is above the 5-year average (15.2) and the 10-year average (14.0).

Also, according to the Office of Financial Research (as of March 2017; Figure 2): "The current bull market [which began in March 2009; for the S+P 500] is the second longest in U.S. history". They survey back to the 1930s. The median is 53 months, with the longest October 1990 to March 2000. The OFR indicates the bull charge from March 2009 to end March 2017 has been 249 percent, well above the 114pc median.

"Marketplace Volatility: Calm Before the Storm" (5/8/17) stated: "The S+P 500's monumental rally from its 3/6/09 major bottom at 667 is about an eight year diagonal bull move. The S+P 500 probably has traveled far enough in distance and long enough in time terms to be on the lookout for a trend change. For the near term, recall that several important S+P 500 highs in recent years were attained around calendar May. Recall 5/2/11's S+P 500 plateau at 1371. Also, an important interim top in the S+P 500 during the global financial crisis occurred in calendar May, on 5/19/08 at 1440. The critical pinnacle of two years ago at 2135 occurred 5/20/15. The 4/26/10 S+P 500 top at 1220 was not distant from calendar May."

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America's ATP trends are not the only important variable for US (and other) stock marketplace levels and trends. Yet at times in post-WW2 history, noteworthy falls in the S+P 500 roughly have accompanied declines in US after-tax profits. ATP fell 5.5 percent year-on-year in 2007 and 17.6pc in 2008. The S+P 500 attained its major summit on 10/11/07 at 1576, with its final high 5/19/08 at 1440. What about the S+P 500's major high on 3/24/00 at 1553? In 2000, calendar year profits fell 5.0pc. Though 1999's grew 5.8pc, 1998's had slumped 13.0pc. ATP did not surpass 1997's $551.5bb height until 2002's $596.6bb. What about late summer 1987's dramatic stock price fall (S+P 500 peak 8/25/87 around 338)? Although calendar 1987 ATP leaped substantially year-on-year (28.1pc), they had retreated 17.7pc in 1986 and 5.2pc in 1985.

In this context, recall the fairly close timing coincidence of 4Q14's ATP pinnacle and the S+P 500's very important interim summit at 2135 on 5/20/15. The 19.7 percent ATP nosedive from 4Q14's $1771.5 billion to 4Q15's $1423.4bb was very significant.

THE NOMINAL WORLD: PROFITS AND GDP

In Stanley Kubrick's "2001: a Space Odyssey", Hal comments: "Well, forgive me for being so inquisitive but during the past few weeks I've wondered whether you might have some second thoughts about the mission."

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How do American corporate after-tax profits appear in the context of economic output?

The average percent year-on-year growth in United States nominal GDP from 1946-2016 was 6.4pc. For 1946 through 2016, the difference between average year-on-year changes in nominal after-tax profits and average year-on-year changes in nominal GDP is about 2.1 percent (8.5pc less 6.4pc).

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The average United States yearly nominal ATP level relative to nominal GDP from 1946 to 2016 is about 6.6 percent. After World War 2, and before the 2005 to the present period, the last high over eight percent was 1979's (at barely over 8.0pc). The other years over eight percent were 1950's 8.6pc, 1948's 8.8pc, and 1947's 8.6pc.

During the enthralling Goldilocks Era economy, this indicator became very elevated from the long run historical vantage point. And since then, and even during the global economic crisis, this ratio has remained rather euphoric.

Recall the nominal ATP/GDP depths of 3.4 percent in 1986 and 2001's 4.6pc. Eventually a new golden age of corporate profits arrived. In 2004, ATP reached 7.7pc of GDP. They expanded to 9.5pc in 2005 and to almost ten pc in 2006.

Walk back to shortly before the Great Depression. The 2005 and 2006 percentages smashed above the prior record, 1929's champion 9.1pc.

During calendar year 2007, the year the global financial crisis emerged, America's ATP/GDP ratio of 9.0pc remained lofty from the long run historical perspective. Even in 2008's savage US and worldwide downturn, accompanied by the crashing S+P 500, ATP relative to GDP stood at 7.3pc.

What about the fairly sunny recovery years thereafter? The S+P 500 established its 667 major bottom on 3/6/09. In calendar 2009, the ATP/GDP ratio was 8.3pc. For the following calendar years, the ratio relationship has been historically strong. It was 9.2pc in 2011, skyrocketing to 10.4pc (still the calendar year record) in 2012. The ratio remained very high in 2013 (10.1pc) and 2014 (10.0pc), drifting modestly lower thereafter (8.8pc in 2015; 8.9pc in 2016).

For quarterly statistics (annualized) in the span since 2011, the high for this percentage occurred in 1Q12 at 10.8pc. However, it has sagged since 4Q14's 10.0pc.

Note the ATP/nominal GDP ratio's 4Q15 low of 7.8 percent. Compare the timing of the S+P 500's 1Q16 bottom. The ratio increased to just over 9.2pc in 4Q16.

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ATP versus nominal GDP from 2004-16 averaged about 9.2 percent, about 2.6pc over the nearly 6.6pc 1946-2016 average. The earlier part of the 2004-16 span (2004-07) includes the Goldilocks Era of debt/leverage. As the global financial crisis erupted and proceeded, a highly accommodative American (and global) monetary universe (central banking yield repression and money printing/quantitative easing) eventually succeeded the Goldilocks Era. This long-running easy money program of course helped to spark and sustain rallies in the S+P 500 from its March 2009 major bottom. Suppose monetary policy gradually (even if only slowly) tightens. Will this reduce the ATP/GDP ratio from the 2004-16 average? Will flat (or declining) corporate profits, whether due to wage increases, a weaker economy (first quarter 2017 US GDP expanded at an annual rate of only .7 percent), or other factors narrow this relationship toward the 6.6pc long run average?

Nominal first quarter 2017 US GDP stood slightly over $19.0 trillion (annualized). Assume ATP for 1Q17 rose ten percent relative to 1Q16 to around $1705.5 billion. Then for 1Q17, as a percentage of nominal GDP, ATP will hover at about 9.0pc, near the 2004-16 average. US nominal GDP for calendar 2016 was about $18.6 trillion. The average year-on-year change in nominal GDP was about 3.7 percent. A boost of that magnitude for calendar 2017 relative to 2016 will make 2017 nominal GDP around $19.3 trillion. Suppose calendar 2017 nominal ATP are $1817.2 billion (a ten pc year-on-year rise). Then the ATP/GDP ratio will be about 9.4 percent.

SHARE BUYBACKS AND S+P 500 HISTORY

In "Magic Bus", The Who sing: "Thank you, driver, for getting me here (Too much, Magic Bus)".

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The Federal Reserve Board reports statistics on "net issues" of corporate equities (Z.1, Table F.223). In recent years, net share buybacks (negative net issues) of US stocks probably have been an important bullish factor supporting the S+P 500 and propelling it upward (see "US Share Buybacks: Off to the Races"; 5/3/15).

Focus on the “nonfinancial corporate business” and “domestic financial sectors” categories. From calendar 2005 through 2016, the average yearly net share buybacks for the combination of these two groups have averaged about $170.1 billion dollars per year. This 2005-16 behavior removed a lot of US stock “inventory” from the marketplace.

In the later years of the Goldilocks Era, 2005-2007 (recall the S+P 500 bull move), net buybacks were about $391.8 billion per year. Net issues were substantial in 2008 ($363.2bb) and 2009 ($252.6bb). However, calendar year 2010 saw the resumption of net share buybacks, which continued through calendar 2016. Net share buybacks from 2010 through 2016 averaged about $211.6 billion per year, a substantial sum; Net buybacks were $328.1 billion in calendar 2015 and $296.0bb in 2016. View the net share buybacks in the context of the long run S+P 500 rally from the March 2009 bottom.

However, the behavior of the two groups has differed. In every single year from 2005 through 2016, the “nonfinancial corporate business” category has produced net share buybacks. In every year from 2005 through 2016, the “domestic financial sectors” crew has been a net issuer.

Of the grand total from 2005-16, the nonfinancial corporate business (“NCB”) category has averaged net buybacks of $399.5 billion per year. Calendar 2007 saw a record $706.3bb in NCB net buybacks. For the 2008-16 period, 2016’s $565.7 represents the NCB net buyback high. In contrast, the domestic financial sectors group (“DFS”) has been a net issuer of stock from 2005 through 2016, averaging sales of $229.4 billion per year (record $678.8bb in 2008; 2016 net issues $269.7bb).

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Therefore, even if net US share buybacks persist, a significant slowdown in their pace (reduction in their level) probably would be a bearish warning signal for the S+P 500. What if net US share buyback rates slow significantly? What if net US share buybacks cease and firms become net issuers of stock?

Even though net buybacks (NCB and DFS together) were $296.0bb in full calendar year 2016, this statistic does not finish the story. One should examine quarterly information. In calendar 2016, nonfinancial corporate business net buybacks peaked in 3Q16 at $666.8 billion (annualized). The annualized NCB net buybacks tumbled to $322.9bb in 4Q16. In contrast, the domestic financial sector produced notable issues in both 3Q16 ($418.6 billion, annualized) and 4Q16 ($405.1bb). Therefore, and very significantly, for the NCB and DFS categories combined, fourth quarter 2016 shows net issues of $82.2 billion (annualized; $322.9 less $405.1bb).

“US share buyback plan approvals plunge” (Financial Times website, 5/1/17).

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