Harry's Take

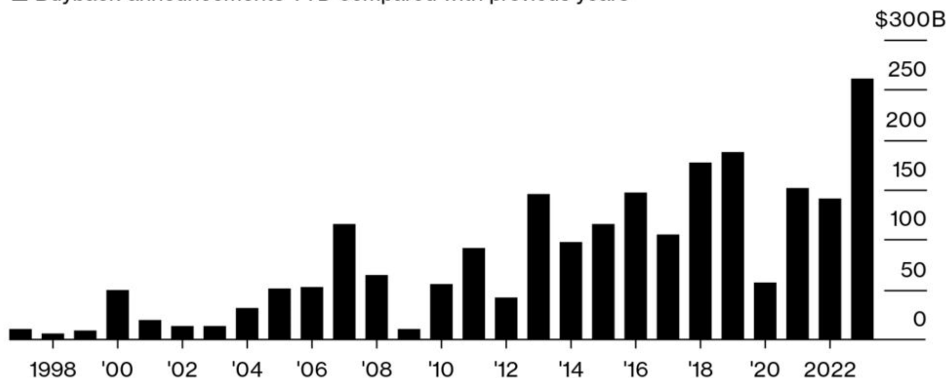
March 14, 2023

Stock Buybacks at Highest Ever: Strong Sign of a Major Top as First Major Bank Fails

It hasn't been enough to have artificial and record low interest rates to leverage your company's stock performance and a boom that has now lasted 14 years longer than it would have naturally (assuming that stocks did finally top on January 4 for the broad S&P 500). More and more large companies have decided to leverage the good times even more. They have bought back their own stock shares to leverage earnings per share more than earnings!

Look at this chart. Stock buybacks were not nearly as significant just 25 years ago. Buybacks were around $50B into the 2000 tech bubble top. They rose to around $120B at the 2007 top and then to around $190B into the early 2020 top. But now, they are just over $260B, and this last rise was the sharpest!

Stock Buybacks Hit Yet Another, More Dramatic High: Very Bearish



Source: https://www.bloomberg.com/news/articles/2023-03-09/jpmorgan-strategists-say-a-few-rich-firms-fuel-record-buybacks

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And look how dramatically they fall when stocks crash: $50B fell to $15B from 2000 to 2003; $120B fell to around $10B from 2007 to 2009, a 92% drop; and $200B fell to $55B in 2020. But now comes the worst: by my guess, stocks buybacks are likely to fall from $260B to $10B–$20B, or down 92%–96%, which is more like what happened from 2007 to 2009, only it could be a bit worse this time.

In the March 2023 issue of the *HS Dent Forecast*, I outlined other key indicators of a major crash ahead, such as the Fed rate hike, which is already higher than previous hikes (and rates are likely to go even higher yet), short-term Fed funds rates that are now higher than corporate bond yields, and S&P 500 earnings yields that are nearing 10-year Treasury yields. I will show more such indicators in the upcoming April issue.

This is indeed finally shaping up to be that "crash of a lifetime," as I've long predicted, despite the unprecedented stimulus our economy got from 2008 into early 2022. If only the Fed hadn't panicked over COVID and blew the wad with $5T in two years, then they might have kept this party going a little longer. Now that they have been forced to tighten… **IT'S PARTY OVER!**

Yes, and that will continue to be true even if the Fed now holds off a bit due to the failure of the Silicon Valley Bank, which the Fed now is forced to bail out. What's worse news than banks starting to fail? And this is just the beginning. The lucky banks are the ones that fail first, as they will get more bailout funds before the money runs out. Ultimately, you can't bail out many banks before the system just fails.

Harry

Got a question or comment? You can contact us at info@hsdent.com.