Abstract

Share repurchases reached a decade-high level in 2019, just as US equity indices reached a historical zenith, a move in tandem that supports more than merely a correlative relation. However, this relationship moves beyond that of just a close tandem move in indices alongside share repurchases, but to the behavior of firms which began to leverage themselves in order to promote the evermore profitable strategy of large buyback programs. Those repurchases indicate an idiosyncratic and procyclical leveraging that, while much smaller in scope and less combustible by lack of derivative amplification, led to the gorging on unsustainable debt described by Hyman Minsky and experienced in the Great Financial Crisis in the banking industry. In this case, the 'Minsky moment' that may have inevitably popped the self-promotion bubble came in the form of the 'black swan' event of the coronavirus outbreak. This paper aims to historically frame the issues, with delimitation of the effect of buybacks from 2009 to early 2020 with scant reference to historical factors influencing the increased usage of share repurchase programs. The analysis within this historical scope will reflect empirical measures on the market-wide level of share buybacks and debt levels alongside the concurrent equity index acceleration. Further, debt levels among firms more broadly will be employed to indicate leverage trends as it moves alongside share repurchase frequency. The paper will also make use of case studies, to illustrate the corporate governance that mirrors the points and cycle posited by Minsky. The paper will conclude with potential public policy lessons offered in bailout programs and their proper application as well as open questions on Federal Reserve policy and additional issues worthy of exploration in future papers.