The huge 'blackout' that may be deepening market turbulence

Matt Egan, Jordan Valinsky, CNN Business

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New York (CNN Business) — 1. Who turned out the lights? Here's a little-known fact: The biggest buyer of shares during the bull market hasn't been individual investors nor large institutions. It's been Corporate America itself.

Encouraged by low rates and record profits, US companies have bought back $4.3 trillion of their own stock since 2009, according to Yardeni Research. That enormous source of demand has helped the S&P 500 to quadruple off its financial crisis low.

But what happens when stock buybacks get turned off?

To avoid tripping insider trading rules, companies typically avoid buyback shares during the two weeks prior to reporting earnings. Last week's market storm -- the Nasdaq's worst week since March -- occurred during the darkest part of these so-called "blackout" windows.

"Right now, we're pretty much at a trough in corporate liquidity," said Keith Parker, head of US equity strategy at UBS.

Parker said that previous market tailspins, including the scary sell-offs in February as well as the one in April, coincided with buyback blackouts. "Almost to the day," he said.

Buybacks have been especially powerful lately. Flush with excess cash from tax cuts and the strong economy, US companies are on track to repurchase $1 trillion of stock this year for the first time ever, according to Goldman Sachs. Last month Goldman Sachs even warned that the looming blackout period posed a "near-term risk" to the market.

So are buyback blackouts causing the markets to nosedive? No. There needs to be a catalyst first. Last week's tumble was triggered mostly by fears about spiking Treasury rates and the US-China trade war.

'No coincidence'

But the lack of demand from Corporate America allowed stocks to keep tumbling.

"The blackout period can contribute to sell-offs," said Ed Yardeni, president of investment advisory Yardeni Research.

Christopher Cole, founder of hedge fund Artemis Capital Management, agrees.

"It is no coincidence that the markets are struggling the most when this financial engineering technique is removed," said Cole, a vocal critic of buybacks.

a ɔress volatility. Every time the market drops you have a price insensitive buyer that lifts the t e.

In other words, Corporate America is the buyer-of-last resort.

The matter of buyback timing even came up during Wells Fargo's earnings call on Friday. The bank is one of the most aggressive buyers of its own stock, with repurchases tripling last quarter to nearly $7 billion.

Noting the pre-earnings blackout window, Sandler O'Neil analyst Scott Siefers asked Wells Fargo finance chief John Shrewsberry when the company can turn buybacks back on.

"Monday," Shrewsberry responded.

Just like Wells Fargo (WFC), US companies will soon be able to resume purchasing gobs of their own shares. The flow of buybacks and dividends will triple over the next six weeks, spiking to $48 billion by mid-November, according to UBS.

That's welcome news for a market that increasingly looks hooked on buybacks.

2. Tears for Sears: Sears (SHLD) appears to be nearing bankruptcy and it could come as soon as Sunday. Its parent company, which also owns Kmart, faces an October 15 deadline to pay $134 million on its debt.

If it misses the deadline, the 125-year-old company could use the court process to shed debt and unaffordable leases or liquidate and shutter for good. The stock is down a staggering 89% for the year.

3. Will earnings rejuvenate tech stocks? A busy week of earnings kicks off, including some tech heavyweights such as IBM, Netflix, eBay and PayPal.

Investors are eagerly anticipating Netflix to keep increasing its revenue and global growth. Its stock is up 76% for the year. But it's not so rosy for eBay. Its stock hit a 52-week low last week because of continued weak growth in its marketplace.

4. Non-tech earnings: Lots of those, too. A flurry of financial companies are reporting, including Bank of America, Goldman Sachs, Charles Schwab, Morgan Stanley and American Express. It'll be the first report card for Goldman Sachs under new CEO David Solomon, who is attempting to turn around the investment bank's trading division.

Domino's Pizza, which has enjoyed a stock spike of nearly 50% for the year, reports Tuesday too. And investors will keep an eye on United Airlines. It's having a good year but could hit turbulence with the rising cost of fuel and labor.

5. Coming this week:

Monday — Bank of America (BAC) and Charles Schwab (SCHW) earnings

Tuesday — IBM (IBM), BlackRock (BLK), United Airlines (UAL), eBay (EBAY), Domino's Pizza (DPZ), UnitedHealth (UNH), Goldman Sachs (GS), Netflix (NFLX), Johnson and Johnson (JNJ) and Morgan Stanley (MS) earnings

Wednesday — Alcoa (AA) and Winnebago (WGO) earnings

Thursday — American Express (AXP), Blackstone (BX), Bank of New York (BK), E*TRADE (ETFC) and PayPal (PYPL) earnings

Friday — Procter & Gamble (PG), VF Corp (VFC) and State Street (STT) earnings