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The unsustainable trend in stock market indices and shareholder returns

Since 2013 in the United States and since 2018 in Europe, stock market indices have been rising sharply. This poses a challenge for companies, as shareholder returns are naturally falling relative to share prices. Companies have therefore responded by boosting shareholder returns, in the form of dividends or share buybacks, to maintain the attractiveness of equity investments. Indeed, the capital gains resulting from rising indices are not regarded in the same way as a cash distribution, in the form of dividends or share buybacks. However, this increase in shareholder returns has come at the expense of investment and research and development in Europe, and at the expense of wage increases in the United States.

A more satisfactory balance would entail, in Europe, limiting short-term shareholder returns in exchange for greater investment and, in the United States, limiting shareholder returns in exchange for a fairer sharing of income between employees and companies.

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Stock market indices have soared since 2013 in the United States and since 2018 in the euro zone

There has been a **marked acceleration in the rise** of stock market indices since 2013 in the United States (**Chart 1A**) and since 2019 in the euro zone (**Chart 1B**). Of course, the Covid-19 pandemic caused stock market indices to fall significantly, albeit temporarily, in 2020.

Chart 1A
United States: Stock market indices (01.01.2010 = 100)

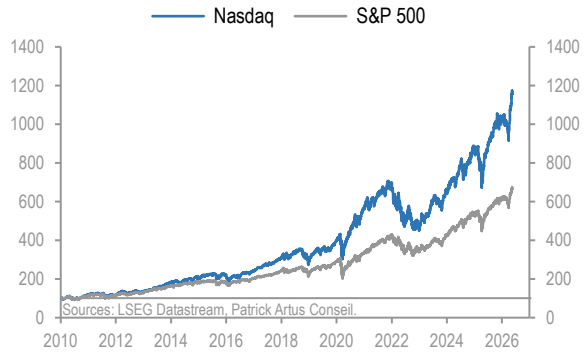
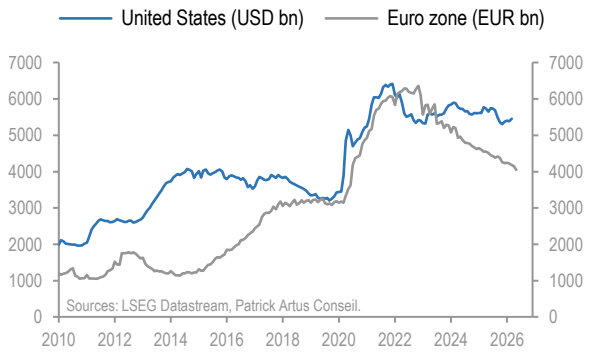


Chart 1B
Euro Stoxx 50 (01.01.2010 = 100)



This rise in stock market indices is due to several factors: a return to growth and liquidity injections by central banks (**Chart 2**).

Chart 2
Monetary base



Mechanically, a rise in stock market indices pushes down dividend yields

Rising stock market indices increase the total return associated with holding shares. However, the capital gain component linked to rising indices is of a different nature to the component linked to dividends and share buybacks. In the first case, it is a random return, which may disappear if stock market indices fall; in the latter case, it is **an irreversible distribution of cash to shareholders**. This explains why c**ompanies do not want the total return to shareholders (dividends and share buybacks) to fall as a percentage of market capitalisation**, which would be the case if they did not respond to rising stock market indices by increasing the return to shareholders.

When dividends and share buybacks are taken together, there is therefore an **upward trend** (excluding the effects of the economic cycle) from 2010 onwards in the United States and from 2020 onwards in the euro zone (**Charts 3A/B**).

Chart 3A
United States: Non-financial corporations' shareholder returns (share buybacks and dividends, as % of GDP)

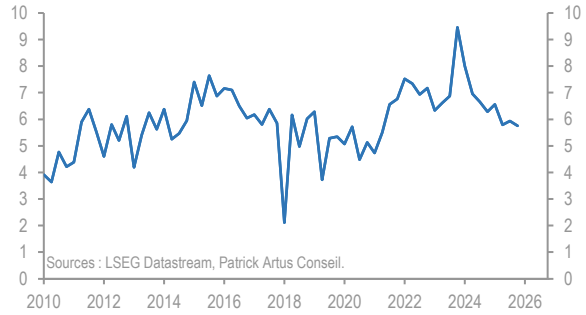
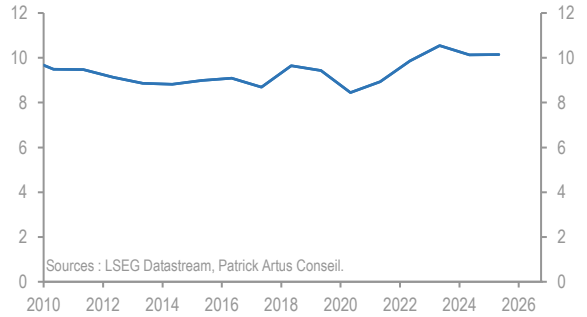


Chart 3B
Euro Zone: Non-financial corporations' shareholder returns (share buybacks and dividends, as % of GDP)



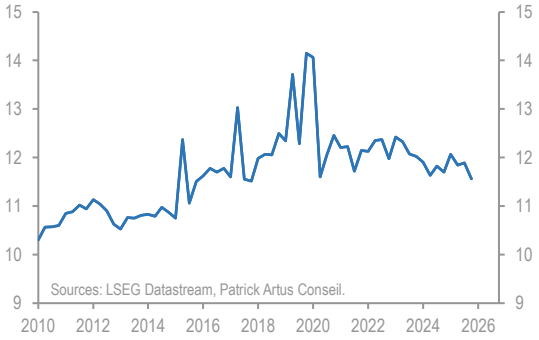
This increase in dividends and share buybacks is therefore intended to stabilise the return to shareholders as a percentage of market capitalisation.

What are the implications of the increase in shareholder returns?

1. In the euro zone

An increase in returns to shareholders (dividends and share buybacks) has therefore been observed in the euro zone since 2020. **It appears that this rise in shareholder return has come at the expense of investment** (**Chart 4**).

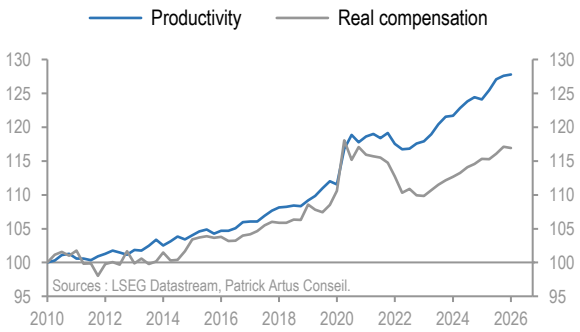
Chart 4
Euro zone: Investment of corporations (in value terms, as % of nominal GDP)



2. In the United States

The increase in returns to shareholders in the United States has come at the expense of wage growth, as illustrated by the shift in the distribution of income between employees and companies since 2012 and, in particular, since 2020 (**Chart 5**).

Chart 5
United States : Real compensation per hour and productivity per hour (business sector, 2010.Q1 = 100)



Summary: a dangerous spiral

We are therefore seeing the following trend emerge in the United States and Europe:

- Rising stock market indices;
- Prompting companies to increase returns to shareholders (dividends and share buybacks) in order to stabilise them as a percentage of market capitalisation;
- Leading to increased attractiveness of equities and a continued rise in stock market indices;
- But a reduction in investment in the euro zone and a reduction in employee remuneration in the United States, allowing the increased returns to shareholders to be financed.

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