

Share repurchases: Riding the wave of uncertainty

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Motivation

- Corporate decisions depend on economic conditions (cost of capital, growth rate, liquidity, uncertainty)
- Corporate payout policy events occur in procyclical waves as response to economic stimulus (GDP growth) (Dittmar and Dittmar (2008))
- Close relationship of corporate events with funding liquidity variables (Rau and Stouraitis (2011))

Research Questions

1. Influence of monetary policy on repurchase activity

- Importance of leveraged buybacks (Farre-Mensa et al. (2020), Elgouacem and Zago (2019), Acharya and Plantin (2019))
- Increasing shareholder distributions due to ECB's monetary policy (Cohen et al. (2019))

2. Influence of monetary policy uncertainty (MPU) on repurchase activity

- Negative relationship of MPU with real economy (Creal and Wu (2017))
- Negative influence of uncertainty on share repurchases (Pirgaip and Dinçergök (2019))

Data and Method

- 12 Euro countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain
- Open market share repurchase announcements (2000-2020): SDC Mergers and Acquisitions database
- Market data and accounting data: Refinitiv Eikon
- Logistic regression with binary variable $RS_{i,t}$ for repurchase likelihood in month t

$$RS_{i,t} = \alpha_{i,t} + \beta_1 * MPU_{t-1} + \beta_2 * Spread_{t-1} + \beta_3 * \Delta ECBrate_{t-1} + \beta_4 * \Delta M3_{t-1} + \beta_5 * Controls_{i,t-1} + \epsilon_{i,t}$$

- MPU_{t-1} : Newspaper-based monetary policy uncertainty index of Baker et al. (2016), $Spread_{t-1}$: Default Spread, $\Delta ECBrate_{t-1}$: ECB key rate, $\Delta M3_{t-1}$: ECB money supply M3
- Accounting controls: Cash, Leverage, Dividend, Market capitalization
- Dummies: Firm, Time
- Further specifications: Business cycle, Uncertainty, Misvaluation, Corporate Governance

Results

Table 1: Full sample (2000-2020)

	(1) RS	(2) RS
MPU	-0.002*** (0.000)	-0.002*** (0.002)
lnCash	0.245*** (0.000)	0.243*** (0.000)
leverage	-0.766** (0.030)	-0.806** (0.023)
dividend	-0.006 (0.915)	-0.006 (0.913)
lnMeap	0.186*** (0.000)	0.189*** (0.000)
Spread		-0.371** (0.013)
$\Delta ECBrate$		-0.206 (0.525)
$\Delta M3$		0.000 (0.382)
Time FE	Yes	Yes
Firm FE	Yes	Yes
N	155360	154718
Pseudo R^2	0.025	0.026

Table 2: Pre-QE (2000-2009) and QE sample (2010-2020)

	Pre-QE		QE	
	(1) RS	(2) RS	(3) RS	(4) RS
MPU	-0.001 (0.453)	-0.000 (0.916)	-0.006*** (0.000)	-0.005*** (0.000)
lnCash	0.291*** (0.000)	0.281*** (0.000)	0.274*** (0.000)	0.277*** (0.000)
leverage	-1.182* (0.059)	-1.273** (0.044)	-1.313** (0.032)	-1.327** (0.030)
dividend	-0.114 (0.320)	-0.113 (0.329)	0.019 (0.781)	0.020 (0.773)
lnMeap	0.099 (0.224)	0.113 (0.178)	0.189** (0.027)	0.183** (0.033)
Spread		-0.214 (0.227)		-0.499* (0.077)
$\Delta ECBrate$		0.291 (0.457)		-0.483 (0.453)
$\Delta M3$		-0.000 (0.563)		0.000* (0.077)
Time FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
N	37880	37529	56229	56229
Pseudo R^2	0.033	0.035	0.022	0.023

Conclusion

- Negative relationship between MPU and share repurchase activity: **Precautionary demand for cash**
- Uncertainty on **ECB's unconventional monetary policy** influences **payout policies**
- Pre-QE sample shows low influence
- **QE sample** shows highly significant influence of **MPU and funding liquidity**

Uncertainty contributes to waves of share repurchases, with monetary policy uncertainty playing a key role in influencing payout policy.

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