Markets

Robinhood Traders Step Into Void Left by Dearth of Buybacks

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- Net corporate-demand seen tumbling 80% this year amid pandemic
- Households, foreigners may become top buyers of U.S. stocks

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When people wondered in March who would make up for the buying power lost in the stock market when companies stopped doing buybacks, "small-time day traders" wasn't the answer that popped most readily to mind. But that's what's happening.

As American companies retreat from buying their own shares to preserve cash during the coronavirus pandemic, retail investors are stepping in, lured by a flood of economic stimulus. While net corporate demand is likely to plunge 80% to $100 billion this year as repurchases slow and share offerings increase, Goldman Sachs Group Inc. says, the decline is being partly offset by a roughly $270 billion increase in buying by households. Foreign investors are also much bigger buyers in 2020, the bank says.

"Broker data show a surge in retail equity trading activity," strategists led by David Kostin wrote in a note to clients. "Foreign investors and households will supplant corporations as the largest 2020 source of U.S. equity demand."

Exhibit 4: Buyers and sellers of US stocks
as of June 19, 2020

	Net US equity demand ($ billions)					
Category	**2016**	**2017**	**2018**	**2019**	**1Q 2020**	**2020E**
Foreign Investors	$ (186)	$ 117	$ 96	$ (190)	$ 187	**$ 300**
Households	(7)	133	(96)	11	7	**280**
Corporations	677	285	610	537	129	**100**
Mutual Funds	(112)	(133)	(121)	(221)	(66)	**(130)**
Pension Funds	(213)	(109)	(148)	(206)	(119)	**(200)**
Life Insurance	(25)	(6)	(45)	1	(5)	**-**
Other	(17)	(24)	(3)	(26)	2	**-**
less						
Foreign equities by US	22	140	194	(251)	115	**250**
Credit ETFs	96	124	101	157	22	**100**
Included among holders above are:						
Equity ETF purchases	188	347	210	$ 166	$ 50	**150**

Source: Federal Reserve Board and Goldman Sachs Global Investment Research

It's a turnaround from the previous four years, when companies spent more than $2 trillion buying back their stocks, dwarfing every other category of investors, according to Federal Reserve data compiled by Goldman. Over the stretch, households bought only $41 billion of stocks, mostly in 2017, and overseas investors were net sellers.

While the analysis of equity holdings by household investors also includes hedge funds, Goldman put a spotlight on the role that retail traders have played in the S&P 500's nearly 40% surge from its March bottom. The fear-of-missing-out has been fueling buying by day traders, such as those on the commission-free brokerage Robinhood, who pounce on companies with little or no profit and send their stock price surging. With mom-and-pop investors opening record numbers of new trading accounts, Wall Street pros are trying to figure out to what degree retail appetite has become a self-fulfilling prophecy in many parts of the market and what risks it poses to the rally.

While Kostin says the participation of individual investors would be a big driver of equity demand this year, Morgan Stanley's Mike Wilson suggests the focus on their contribution is overdone.

Read: Robinhood Midas Touch in Stocks Disputed by Barclays Researcher

Despite a surge in retail account openings, their actual dollar flows are probably small, Wilson said in a note to clients, adding that Morgan Stanley's wealthy clients still hold new-record cash levels and show "little in the way of outsized risk appetite or speculative behavior."

"The data supporting the 'retail driving the rally' is incomplete, circumstantial and tends to leave out some important considerations," Wilson wrote. "There is surely some impact but this is more at the stock than the market level."

To Goldman's Kostin, his team's prediction on robust retail inflows isn't without caveat.

"The pace of viral spread and path of economic normalization will be key determinants of household equity flows," Kostin said. "In addition, political uncertainty, particularly regarding personal tax rates, represents a risk to our forecast."

(Adds flow details in fourth paragraph)