

# An Opportune Moment for International Buyback Achievers

January 2024

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Statistics illustrate quite powerfully how vital buybacks have become in markets outside of the U.S., as a means of returning value to shareholders. Buybacks globally have tripled in value in ten years, compared to a 54% increase in dividends, with almost every region and sector across the globe increasing their use of buybacks. 2022 was a record year globally with share buybacks jumping to an all-time high of \$1.31 trillion<sup>1</sup>. While the U.S. still leads the world, buyback activity has increased in other countries such as the U.K., which recently saw a record high percentage of companies buying back at least 1% of their own shares, as well as in Japan, Germany, and France<sup>2</sup>.

Before we dive into the investment case for international buybacks, we provide some details into the nature of stock buybacks and announcements from major governments.

Stock buybacks, also commonly called share repurchases, refer to companies buying back a portion of their own shares. Typically, when companies make a profit, they have four ways of utilizing their profits, including issuing dividends, retiring outstanding debt, reinvesting profits, and buying back shares<sup>3</sup>. Buybacks reduce shares outstanding, and in turn, increase their earnings per share. Companies return excess cash to shareholders who have taken the risk of providing capital to the firm. To this end, buybacks offer an appealing option to companies to deploy excess cash when there are not enough growth opportunities or investment alternatives internally. Additionally, they help in consolidating ownership and provide a means of simplifying corporate governance<sup>4</sup>.

As companies across the world deploy share buybacks at a faster clip, they have come under more scrutiny by governments and the media. We are seeing the emergence of guidelines for the optimal implementation of buybacks. Major governments including that of the U.S., U.K. and Canada have imposed or are considering taxes on buybacks to encourage companies to reinvest in their workers and businesses. For example, in 2022, the U.S. Congress passed the Inflation Reduction Act, which included a provision for publicly traded companies to pay a 1% excise tax on stock buybacks. In 2023, President Biden proposed to increase the buyback tax to 4%, which would further reduce the tax advantages of buybacks over dividends – but no further action was taken. Canada followed suit with a new proposed share buyback tax of 2% that was introduced in the Federal Budget in 2023. A buyback tax in the U.K. is being considered, with a study conducted by leading think tanks suggesting that a windfall tax on buybacks will help in raising tax revenue and advancing economic justice goals. Such measures indicate that governments are encouraging companies to consider alternative strategies for distributing their profits, which may result in a change in the pace of buyback activity.

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<sup>1</sup> <https://www.janushenderson.com/en-us/advisor/press-releases/global-share-buybacks-surge-to-a-record-1-31-trillion-almost-equalling-dividends/>

<sup>2</sup> <https://www.bloomberg.com/news/newsletters/2023-09-05/uk-stock-market-is-catching-up-with-the-us-on-share-buybacks>

<sup>3</sup> <https://www.morningstar.ca/ca/news/233644/what-does-a-tax-on-share-buybacks-mean-for-canadian-investors.aspx>

<sup>4</sup> <https://ca.andersen.com/blog/2-share-buyback-tax-what-to-expect/>

Despite some concerns regarding their usage, buybacks are likely to continue to be an important vehicle for returning money to investors. As per an analysis by Professor Michael Roberts of the Wharton Business School, buybacks send a signal to the market that companies are well-disciplined, returning cash to investors while having a negligible short-run effect on stock prices<sup>5</sup>. They are as powerful as dividends in boosting shareholder value, as demonstrated by a study by McKinsey<sup>6</sup>.

In 2024, the market environment will likely be characterized by a continued normalization of the economy and markets as they recover from high inflation and several years of post-pandemic impacts on labor markets, supply chains, and spending patterns. To this end, investors looking for opportunities to add diversification to their equity portfolios, particularly those who are overweight Technology, might consider buyback indexes.

## **Nasdaq International Buyback Achievers™ Index**

The Nasdaq International Buyback Achievers Index (DRBXUS™) is comprised of international securities excluding the United States (U.S.) that have effected a net reduction in shares outstanding of 5% or more in the trailing 12 months. The index was launched on December 12, 2013. As of December 29, 2023 the index had 152 constituents.

### **Eligibility Criteria**

To be eligible for inclusion in the index, a security must meet the following criteria:

- Be included in the Nasdaq Global Ex-United States™ Index (NQGXUS™), excluding local Russian and Indian securities not represented by depository receipts. If depository receipts are represented for local Russian and Indian securities, then the receipts are reviewed for Index Inclusion instead of the local security and must meet the additional eligibility criteria below. Chinese securities are limited to H-Shares and N-Shares only
- Have a minimum market capitalization of \$250 million
- The issuer of the security must have effected a net reduction in shares outstanding of 5% or more in its latest fiscal year
- Have a minimum three-month average daily dollar trading volume of \$1 million
- The issuer of the security may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible
- The issuer of the security may not be issued by an issuer currently in bankruptcy proceedings.

### **DRBXUST™ vs. NQGXUST™ (Total Return Performance History)**

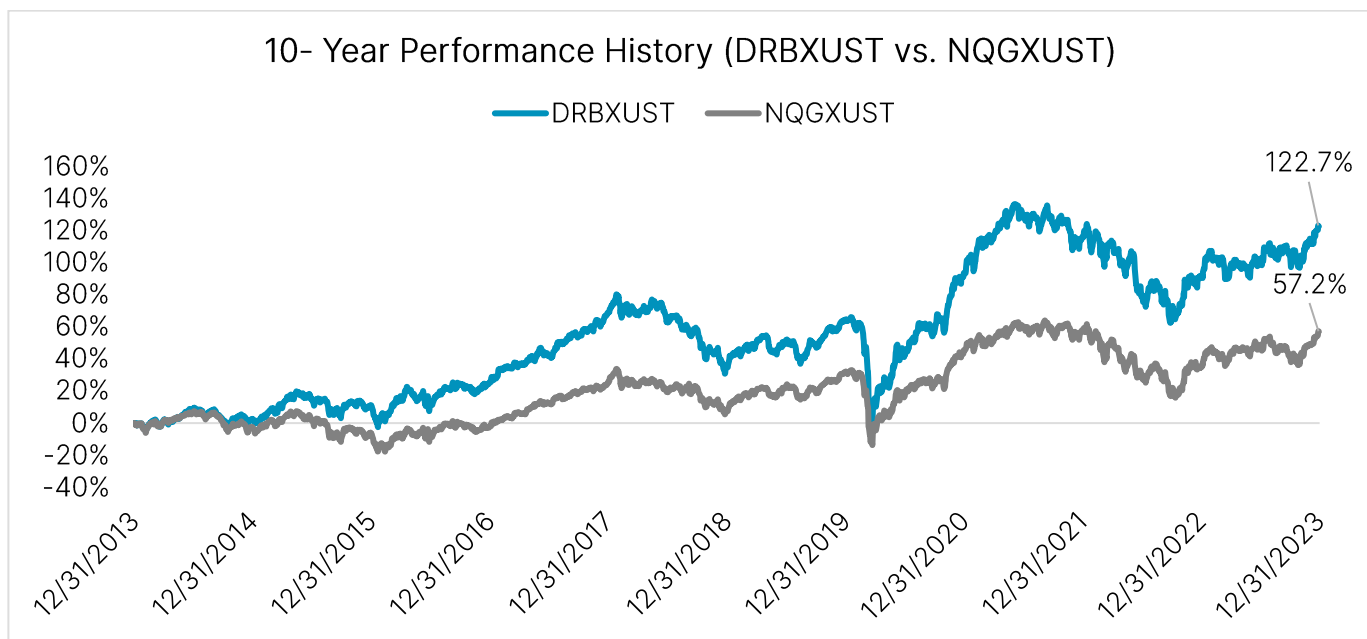
As indicated in the chart below, DRBXUST outperformed NQGXUST by an impressive 65 percentage points during the 10-year period ending December 31, 2023, while displaying marginally higher volatility during the same period. Its performance diverged markedly from that of NQGXUST in the immediate aftermath of the Covid-19 pandemic bear market in March 2020, continuing into mid-2021. 2015, 2016 and 2020 were particularly favorable years with the DRBXUST Index registering an average outperformance greater than 7 percentage points versus NQGXUST. As with our previous study, DRBXUST continues to outperform NQGXUST by a wide margin. It has registered a higher annualized return of 8.3% versus 4.6% for NQGXUST.

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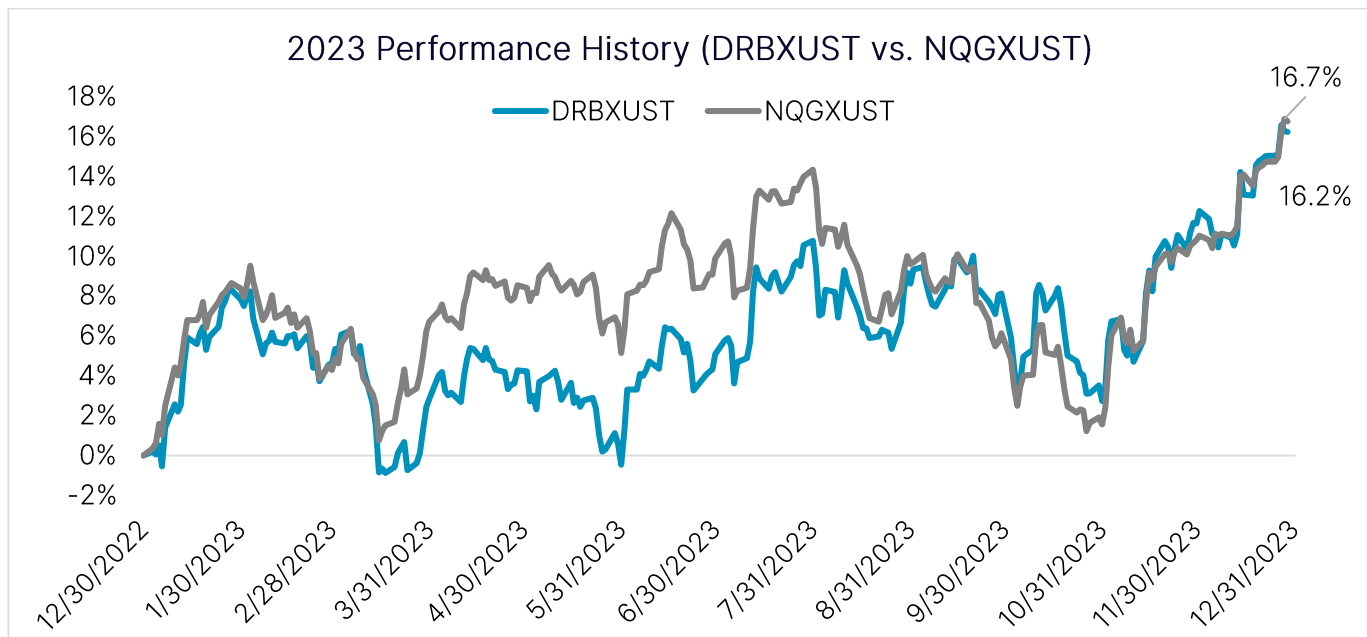
<sup>5</sup> <https://knowledge.wharton.upenn.edu/article/making-sense-of-stock-buybacks/>

<sup>6</sup> <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/the-strategy-and-corporate-finance-blog/share-repurchases-and-dividends-which-create-more-value>

Performance Metric	DRBXUST	NQGXUST
Cumulative Return	122.7%	57.2%
Annualized Return	8.3%	4.6%
Annualized Volatility	14.7%	13.7%



In 2023, DRBXUST registered returns marginally lower than that of NQGXUST, up 16.2% versus 16.7% for NQGXUST. Overall, DRBXUST has outperformed NQGXUST 8 of the last 10 calendar years, suggesting the potential for durable outperformance of companies leading in buyback activity.



## 10-Year Total Return Performance: DRBXUST vs. International Benchmark Indexes

The chart below displays the returns of DRBXUST vs. seven international indexes for the period 2014 to 2023. As seen below, Buyback (DRBXUST) has been a top-three performer seven out of 10 years, including an overall top ranking in 2015, 2016 and 2017. One international index, Momentum (Dorsey Wright DM Technical Leaders™ Index) figured in the top three six out of 10 years – close, but not quite as good as Buyback. (It was also the only index of the group to outperform DRXBUST on a cumulative, 10-year basis). These results suggest that the Nasdaq International Buyback Achievers Index not only has a long-run tendency for above-average performance versus other international benchmark indexes, but its outperformance potential is fairly consistent year-to-year.

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Momentum 12.9%	Buyback 8.0%	Buyback 13.5%	Buyback 34.6%	Momentum -5.3%	Momentum 34.0%	Momentum 36.5%	Dividend 25.3%	DM x US Value -4.9%	Momentum 21.5%
Buyback 2.5%	DM x US Growth 4.5%	Dividend 10.8%	DM x US Growth 29.3%	Low Vol -7.4%	DM x US Growth 28.4%	DM x US Growth 18.7%	Buyback 12.0%	Dividend -6.1%	DM x US Value 19.8%
Low Vol 2.3%	Momentum 2.0%	DM x US Value 5.7%	Global x US 27.7%	Dividend -10.2%	Dividend 26.6%	Buyback 17.8%	DM x US 11.7%	Buyback -11.4%	DM x US 18.3%
Dividend -0.6%	DM x US -1.3%	Global x US 5.1%	DM x US 26.1%	DM x US Growth -12.5%	DM x US 22.5%	Global X US 10.4%	DM x US Growth 11.6%	Low Vol -11.4%	DM x US Growth 18.0%
Global x US -3.0%	Low Vol -3.4%	Low Vol 4.0%	Momentum 24.2%	Global x US -13.8%	Buyback 21.7%	DM x US 10.3%	DM x US Value 11.6%	DM x US -14.9%	Global x US 16.7%
DM x US -3.8%	Global x US -3.8%	DM x US 3.7%	Low Vol 22.8%	DM x US Value -14.3%	Global x US 21.7%	DM x US Value -2.1%	Low Vol 10.3%	Global x US -14.9%	Buyback 16.2%
DM x US Growth -4.1%	DM x US Value -5.2%	Momentum 2.9%	DM x US Value 22.1%	DM x US -14.5%	Low Vol 21.4%	Dividend -5.7%	Global x US 9.1%	DM x US Growth -22.7%	Dividend 15.3%
DM x US Value -4.9%	Dividend -18.7%	DM x US Growth -2.7%	Dividend 20.0%	Buyback -20.3%	DM x US Value 16.8%	Low Vol -9.0%	Momentum 8.4%	Momentum -24.0%	Low Vol 9.9%

Global x US	Nasdaq Global Ex United States™ Index
DM x US	Nasdaq Developed Ex United States™ Index
DM x US Growth	MSCI EAFE Growth Index
DM x US Value	MSCI EAFE Value Index
Momentum	Dorsey Wright DM Technical Leaders Index
Buyback	Nasdaq International Buyback Achievers Index
Low Vol	S&P International Developed Low Volatility Index
Dividend	Nasdaq International Dividend Achievers™ Index

## Risk Statistics

The beta for the Nasdaq International Buyback Achievers Index (DRBXUS Index) relative to the NASDAQ Global Ex-US Index (NQGXUS) was 1.04 for the 10-year period ending December 29, 2023 suggesting marginally higher volatility than NQGXUS. Annualized volatility for the same 10-year period for DRBXUST was 14.7%, higher than that of NQGXUST, which came in at 13.7%. The sharpe ratio of DRBXUST Index was 0.41, substantially higher than that of NQGXUST Index which was 0.17.

Index Risk Metrics Comparison	DRBXUS	NQGXUS
Beta	1.04	1.00
Volatility	14.7%	13.7%
Sharpe Ratio	0.41	0.17

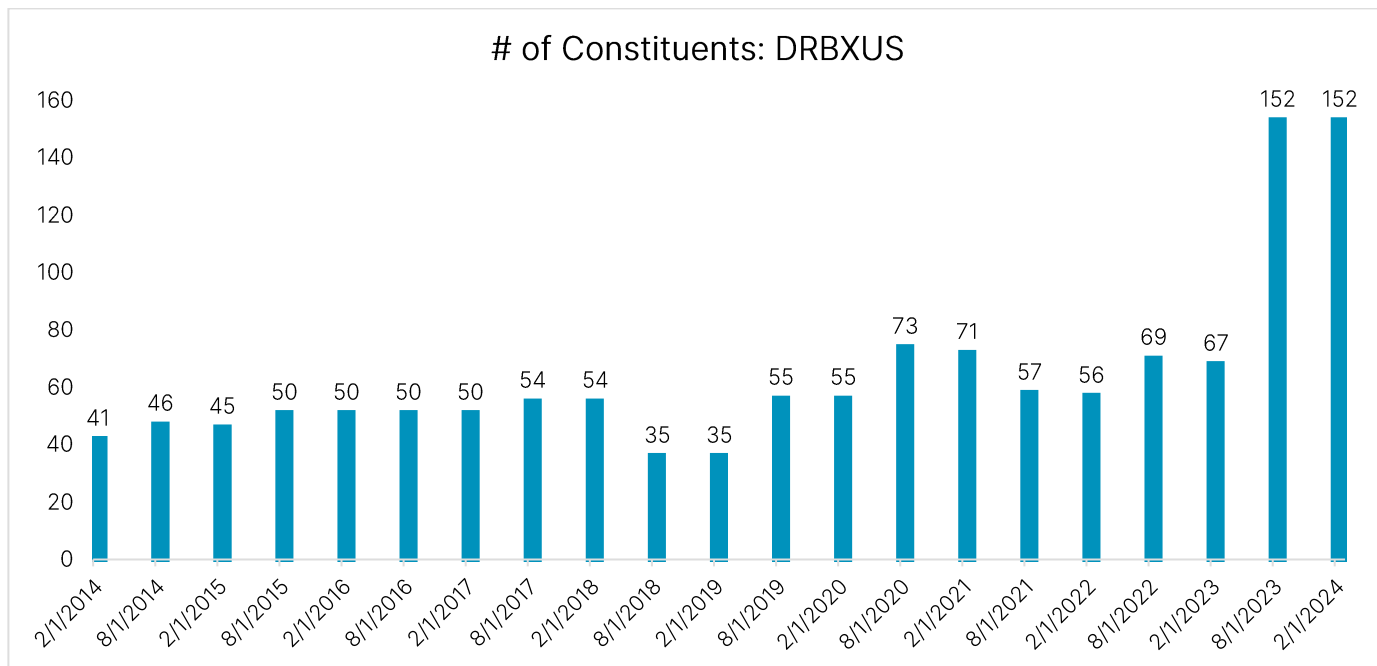
## Share Repurchase Volumes, DRBXUS Constituents

The table below provides data on the amount of shares repurchased by DRBXUS constituents for the period 2013-2022. 2014 and 2015 saw an uptick in buyback activity followed by a period of decline for the next three years. 2019 saw another surge in buyback activity. While it is less common to see firms cut dividends as investors view them as a dependable source of income, buybacks can be suspended more readily and to this end, they offer companies more flexibility. This feature of buybacks likely explains why we see fluctuations in buyback activity over the years.

Year End	Shares Repurchased (\$B)
2013	\$8.5
2014	\$21.5
2015	\$26.4
2016	\$12.6
2017	\$10.9
2018	\$10.0
2019	\$50.6
2020	\$48.5
2021	\$32.2
2022	\$51.9

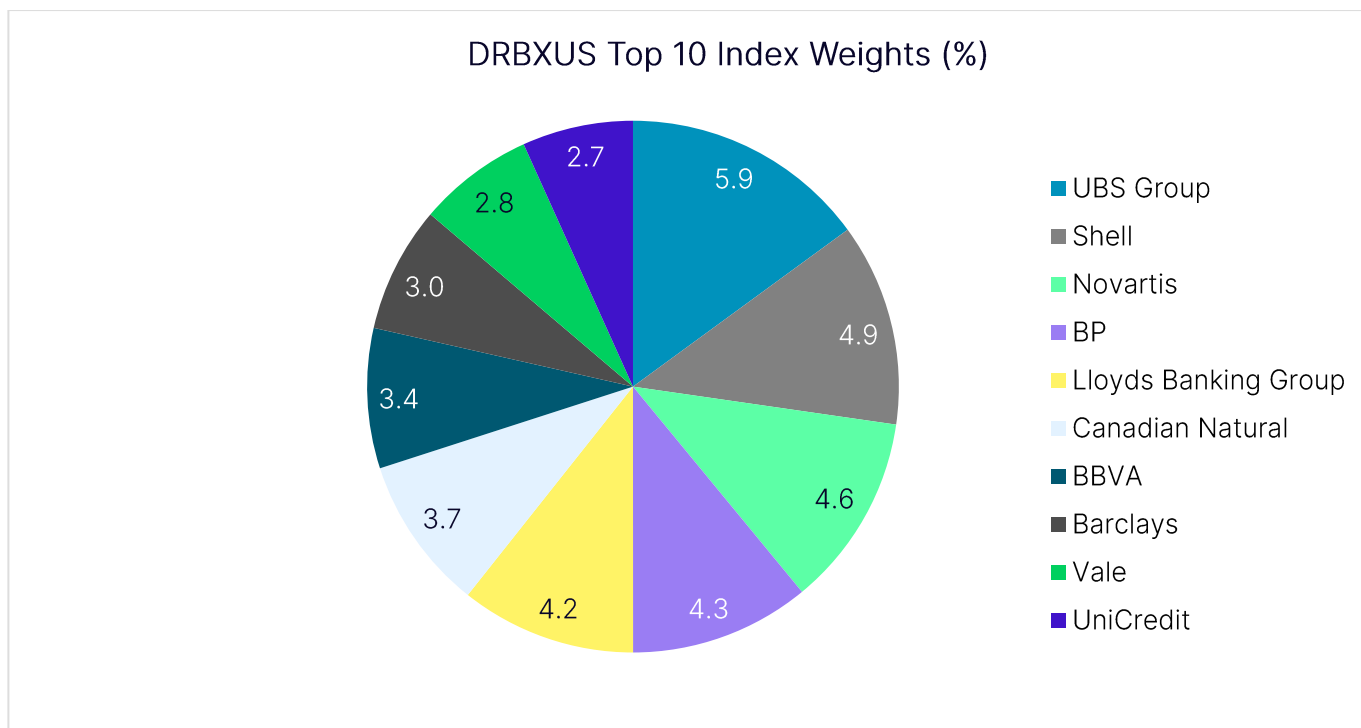
## Sharp Recent Growth in Constituent Count

As of year-end 2023, there were 152 securities in the index, the most the index has had since launch. The total number of securities that make up the index has varied over time. Outside of the most recent reconstitution, the previous peak of 70 was after the July 31, 2021 reconstitution, and the fewest number of securities was on July 31, 2019 at 35. With the general rise in global buyback activity over the past decade, it is safe to say that the eligible pool of international securities has grown and will continue to.



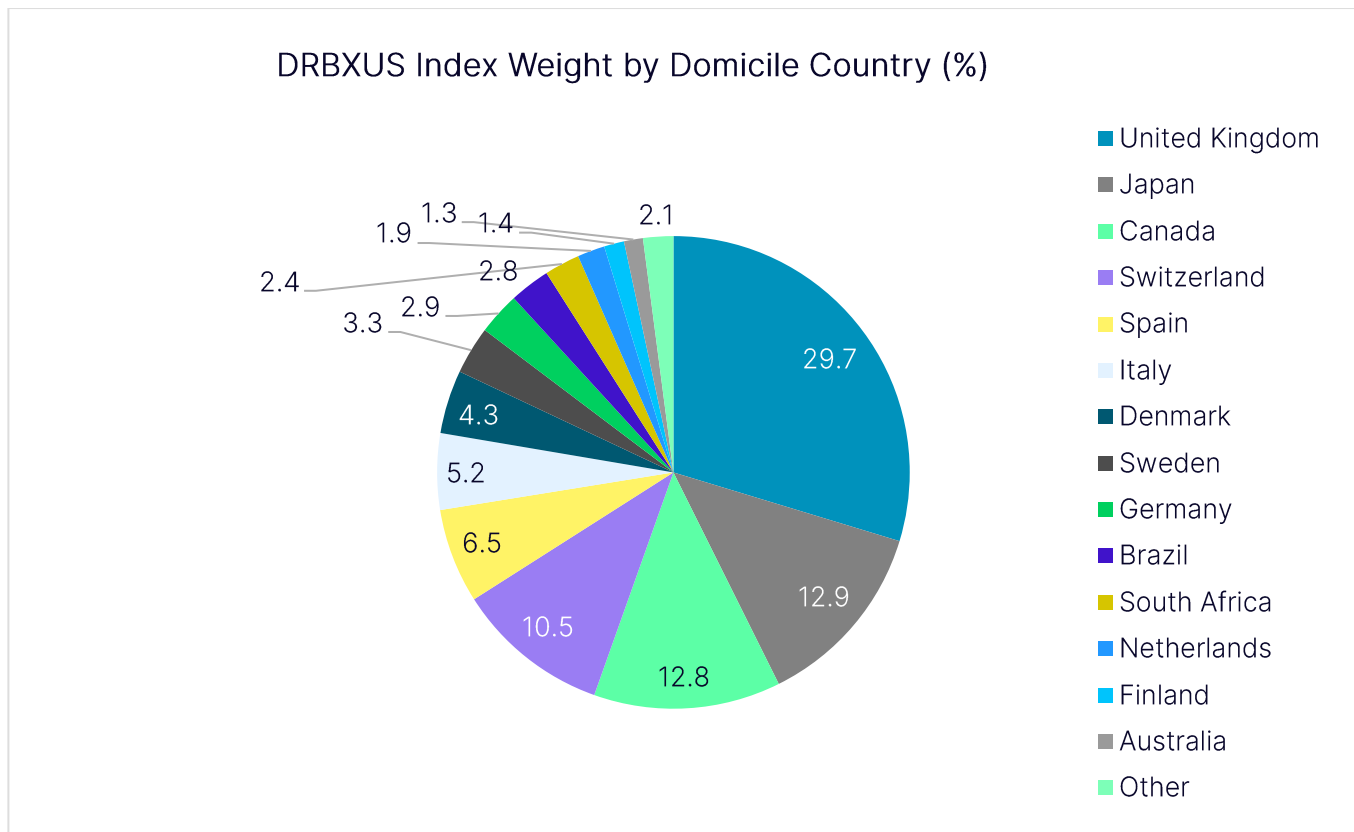
### Top 10 Allocations

The top 10 names of the Nasdaq International Buyback Achievers Index (DRBXUS) comprise 39.5% of the total index weight. The top ten names are tilted towards Financials and Energy, with an index weight of 19.2% and 12.9% respectively. There is representation from other sectors including Healthcare and Basic Materials suggesting that there is significant diversification within the top 10 names. The top three names include UBS group, a Swiss multinational investment bank, with an index weight of 5.9%, followed by Shell, a British multinational oil and gas company, with an index weight of 4.9% and Novartis, a Swiss multinational pharmaceutical company, with an index weight of 4.6%. These are large established players with strong product portfolios and a long track record of bringing to the market best-in-class products and services.



## Country Allocations

As of December 29<sup>th</sup>, 2023, the Nasdaq International Buyback Achievers Index (DRBXUS) is tilted heavily towards the United Kingdom with an index weight of 29.7%, Japan with an index weight of 12.9% and Canada with an index weight of 12.8%. The countries with the smallest allocations include Turkey with an index weight of 0.11%, Taiwan with an index weight of 0.06% and Singapore with an index weight of 0.04%. While the U.S. has been the leader in terms of buyback activity, other countries have been increasingly deploying buybacks at a faster clip, particularly the U.K. and Japan<sup>7</sup>. Between 2012 and 2022, repurchases by the biggest UK-listed companies more than tripled from \$22bn to \$70bn<sup>8</sup>. This change in buyback activity explains the shift in allocations since the last time we published the study (August 25, 2017) when the highest allocation was towards Japan, with an index weight of 29.4%.

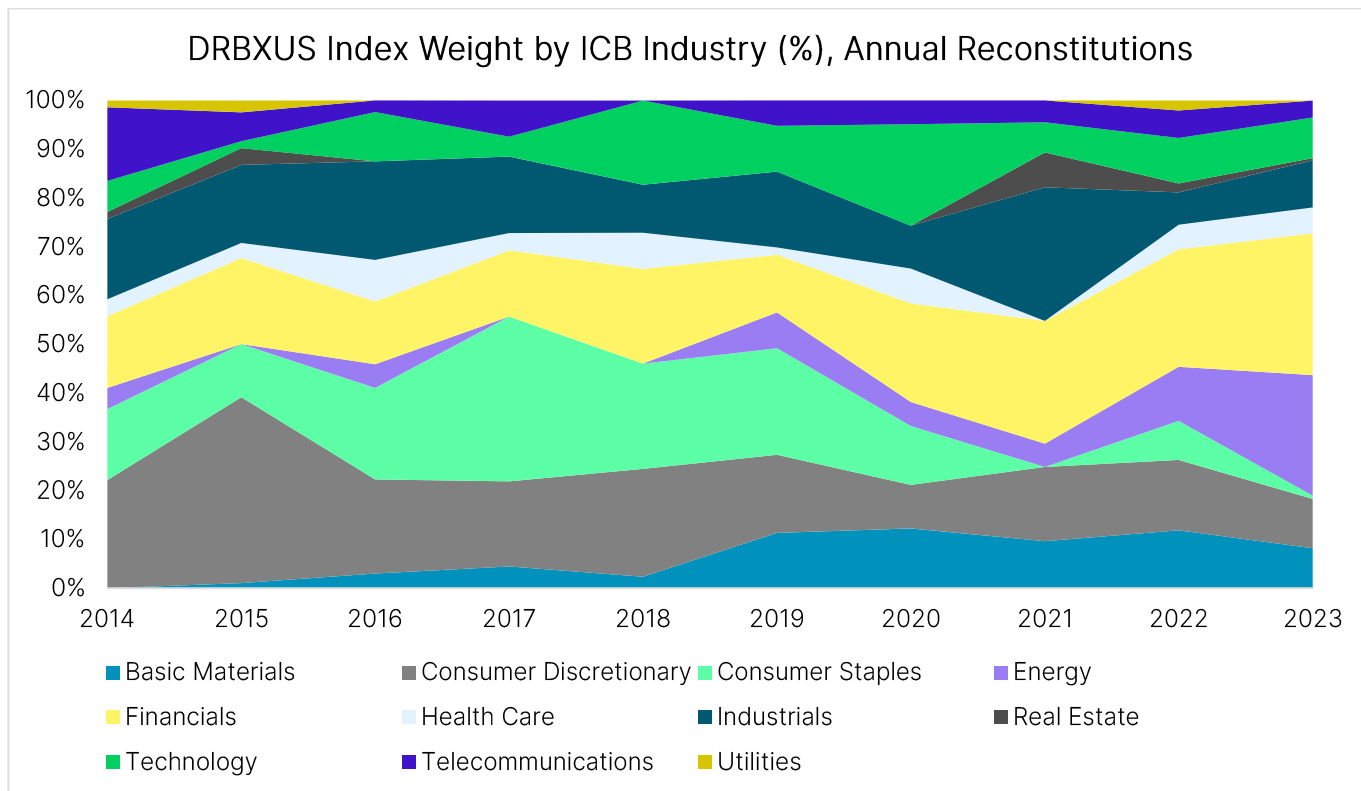


## ICB Industry Allocations

There has been a noticeable shift in the industry allocations in recent years, particularly in the top 3 sector allocations. As seen in the chart below, prior to 2020, Financials and Energy always had a combined index weight of less than 20%, while Consumer Discretionary and Consumer Staples usually had a combined index weight of around 40% (as high as 50% following the annual reconstitution in 2017). 2020 marked a shift with the index tilting steadily higher towards Financials and Energy for a combined index weight of greater than 50% by year-end 2023, and away from Consumer Discretionary and Consumer Staples for a combined index weight of just barely over 10%. As of December 29, 2023, the top three sectors include Financials with an index weight of 33.9%, followed by Energy with an index weight of 23.1% and Consumer Discretionary with an index weight of 11.3%.

<sup>7</sup> <https://www.schroders.com/en-gb/uk/intermediary/insights/the-increasing-popularity-of-share-buybacks-outside-the-us/>

<sup>8</sup> <https://www.ft.com/content/ea1a31c-580c-405b-b438-a59504198ac8>



## Conclusion

The Nasdaq International Buyback Achievers Index (DRBXUS) generated impressive total returns of 16.2% in 2023, a year when AI optimism largely favored big technology incumbents. Investors who have been underweight international buyback equities are likely to be encouraged by its strong return profile over the last decade, during which DRBXUS outperformed its global ex-U.S. benchmark by an impressive 65 percentage points, or 3.7% annualized. Additionally, as indicated in our research on International Dividend Achievers (DAT<sup>™</sup>)<sup>9</sup>, extended US outperformance may be near its end, which provides an opportune time for investors to increase exposure to international equities. The DRBXUS Index offers exposure to a differentiated portfolio of international equities that have effected a net reduction in shares outstanding of 5% or more over a trailing one-year period, with about half of the index constituents hailing from countries such as Canada, United Kingdom, and Japan – countries which are seeing a surge in buyback activity in recent years. While expectations for growth in 2024 remain a bit lower compared to the U.S., some of the headwinds that weighed on the minds of international markets in 2023 are expected to recede. For example, Japan is undergoing a profound shift from decades of deflation and depressed growth, to durable signs of stronger nominal growth accompanied by healthy levels of inflation, all while its culture of corporate governance is shifting to be more focused on increasing valuations and shareholder returns – driving its benchmark index to three-decade highs. Canada and the U.K., on the other hand, are likely to continue to see headwinds from historically high inflation and rate hikes recede. These shifts in the economic environment may help to act as a tailwind for a number of constituents of the DRBXUS Index, which has demonstrated the ability to not only outperform the broadest international benchmarks, but is also able to often rank in the top tier of performance across a wide range of international indexes, year in and year out.

ETFs currently tracking the DRBXUS Index include the Invesco Buyback Achievers ETF (Nasdaq: IPKW).

Sources: Nasdaq Global Indexes, FactSet, Bloomberg

<sup>9</sup>[https://indexes.nasdaqomx.com/docs/International%20Dividend%20Achievers\\_Legal%20Approved\\_August%202023.pdf](https://indexes.nasdaqomx.com/docs/International%20Dividend%20Achievers_Legal%20Approved_August%202023.pdf)



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