Companies in the Standard & Poor’s 500 Index (SPX) really love their shareholders. Maybe too much.

They’re poised to spend $914 billion on share buybacks and dividends this year, or about 95 percent of earnings, data compiled by Bloomberg and S&P Dow Jones Indices show. Money returned to stock owners exceeded profits in the first quarter and may again in the third. The proportion of cash flow used for repurchases has almost doubled over the last decade while it’s slipped for capital investments, according to Jonathan Glionna, head of U.S. equity strategy research at Barclays Plc.

Buybacks have helped fuel one of the strongest rallies of the past 50 years as stocks with the most repurchases gained more than 300 percent since March 2009. Now, with returns slowing, investors say executives risk snuffing out the bull market unless they start plowing money into their businesses.

“You can only go so far with financial engineering before you actually have to have a business with real growth,” Chris Bouffard, chief investment officer who oversees $9 billion at Mutual Fund Store in Overland Park, Kansas, said by phone on Oct. 2. “Companies have done about all that they can in terms of maximizing the ability to do those buybacks.”

S&P 500 constituents will probably say earnings rose 4.9 percent in the third quarter when they begin reporting results this week, according to more than 10,000 analyst estimates compiled by Bloomberg. Alcoa Inc., Yum! Brands Inc. and Monsanto Co. are among nine companies scheduled to announce financial details.

**Buyback Index**

U.S. equities retreated last week, with the S&P 500 losing 0.8 percent to 1,967.9. The S&P 500 Buyback Index fell 0.7 percent. The gauge is up 7.5 percent this year, compared with the 6.5 percent advance in the S&P 500, after beating it by an average of 9.5 percentage points every year since 2009.

While the ratio to earnings shows how buybacks and dividends compare to past economic expansions, it doesn’t indicate companies are struggling to fund them. Five years of profit growth have left S&P 500 constituents with $3.59 trillion in cash and marketable securities and they’ve raised almost $1.28 trillion in 2014 through bond sales, headed for a record.

“Buybacks are something corporations can take control of and at low borrowing costs, they’re a viable option,” Randy Bateman, chief investment officer of Huntington Asset Advisors, which manages about $2.8 billion, said by phone on Oct. 1. At the same time, he said, “If management can’t unearth future
opportunities for growth, as a shareholder, I lose confidence.”

**Earnings Barrier**

S&P 500 companies will spend $565 billion on repurchases this year and raise dividends by 12 percent to $349 billion, based on estimates by Howard Silverblatt, an index analyst at S&P. Profits would reach $964 billion should the 8 percent growth forecast by analysts tracked by Bloomberg come true.

Profits climbed to about $230 billion over the last three months, based on analyst forecasts. That compares with total buybacks and dividends of about $235 billion, assuming repurchases estimated by Silverblatt are evenly divided between the third and fourth quarters. Cash returned to shareholders exceeded profits in the first quarter for the first time since 2009, data compiled by Bloomberg and S&P show.

“We’re at a point you sort of question whether they can continue to rise from here,” Glionna said in a phone interview on Oct. 1 from New York. “This kind of 100 percent earnings is a barrier. It can bounce around here and there, but it doesn’t go much above that.”

**Aging Plants**

Excluding the recession years 2001 and 2008, dividends and stock buybacks have represented, on average, 85 percent of corporate earnings since 1998. The last time payouts exceeded income in 2007, the buyback index fell 4.7 percent, compared with a 3.5 percent gain in the S&P 500. Equities peaked that October before losing more than half their value.

CEOs have increased the proportion of cash flow allocated to stock buybacks to more than 30 percent, almost double where it was in 2002, data from Barclays show. During the same period, the portion used for capital spending has fallen to about 40 percent from more than 50 percent.

The reluctance to raise capital investment has left companies with the oldest plants and equipment in almost 60 years. The average age of fixed assets reached 22 years in 2013, the highest level since 1956, according to annual data compiled by the Commerce Department.

**‘C Suite’**

Stock repurchases worth almost $2 trillion have helped buoy the bull market since March 2009. The S&P 500 has gone without a 10 percent decline for three years and is up 191 percent amid a 5 1/2-year bull run. Even as sales were stuck at an average growth rate of 2.6 percent a quarter in the past two years, per-share earnings expanded more than twice as fast, 6.1 percent, data compiled by Bloomberg show.

During the first half of 2014, more than one-fifth of S&P 500 companies cut their share count by at least 4 percent in the first half, Silverblatt estimated.

“Buybacks have become sort of the low-risk medicine in the C suite,” David Lafferty, the chief market strategist for Natixis Global Asset Management in Boston, said by phone on Oct. 2. His firm manages
about $930 billion. “The reality is capital expenditure comes with risk, significant amount of risk, especially in a slow-growth world. Buybacks offer a lot of flexibility.”

**FedEx, Juniper**

FedEx Corp. added 15 cents, or 7 percent, to its EPS in the latest quarter through buybacks. The Memphis, Tennessee-based shipping company authorized a repurchase program of as many as 15 million shares last month while keeping its capital spending for the fiscal year at $4.2 billion.

Juniper Networks Inc., bowing to pressure by activist hedge funds Elliott Management Corp. and Jana Partners LLC, announced plans in February to return at least $3 billion to shareholders. In August, the Sunnyvale, California-based maker of networking equipment said it will complete $2 billion of buybacks by the end of this year, achieving the target earlier than expected.

The company had “an unusually high” cash flow of $425 million during the second quarter, Chief Financial Officer Robyn Denholm said in a conference call on Aug. 12. “We obviously have accelerated our buyback not just because of the cash results, but also because of the opportunistic nature of the capital returns that we’re doing at the moment.”

Juniper Networks offered buybacks equivalent to 10.9 percent of its stock price over the 12 months through June, more than double its earnings yield of 3.96 percent, data compiled by Bloomberg and S&P show.

“It’s going to be harder and harder to justify using that capital to buy back stocks at record highs,” Tim Courtney, who helps oversee about $1.3 billion as chief investment officer of Exencial Wealth Advisors, said in a phone interview from Oklahoma City on Oct. 1. “Money has to be diverted to other places to keep operations going. The point of concern is where the future growth is going to come from.”

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