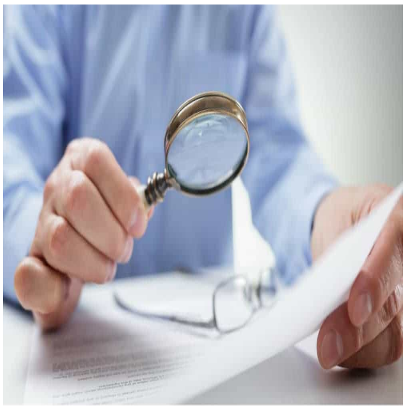

3 Things to Watch on the TSX Index on Thursday

Description

The U.S. stock futures were slightly negative Thursday morning, as worries about the inverted bond yield curve continue to spook investors.

A number of companies on both sides of the borders have announced quarterly earnings this week. Stocks should struggle Thursday, as the Federal Reserve appears done with interest rate cuts.

Here's what to watch on the TSX on Thursday.

Canadian banks begin quarterly reports

Royal Bank (TSX:RY)(NYSE:RY) reported its third-quarter earnings Wednesday, and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) reported its Q3 2019 earnings today.

Royal Bank's earnings were a mixed bag with a 5% increase in profits to $3.26 billion, prompting the bank to raise its dividend. However, earnings were lower than analyst expectations. Furthermore, it expects the company's lending margins to shrink in the coming quarters, as the Bank of Canada and Federal Reserve consider rate cuts.

As for CIBC, its third-quarter income rose 2% to $1.4 billion, or $3.06 a share. On an adjusted basis, earnings were $3.10 a share, $0.04 higher than analyst expectations. As a result of its latest earnings, CIBC increased its dividend by 2.9% to $1.44.

On the downside, the bank reported provisions for bad loans of $291 million — $36 million higher than in the previous quarter and 21% higher than in the same quarter last year. Analysts have been worried about CIBC's exposure to the Canadian residential mortgage market.

Thursday's trading in all the Canadian bank stocks should be interesting.

Will Pembina buy Trans Mountain?

Pembina Pipeline announced Wednesday that it was buying **Kinder Morgan Canada** for $2.3 billion. The deal includes Kinder Morgan Canada's ownership of the Canadian portion of the Cochin pipeline. In addition, it will pay $2.1 billion for **Kinder Morgan's** ownership of the Cochin pipeline on the U.S. side of the border.

While it's possible that Pembina could eventually purchase the Trans Mountain pipeline from the Federal government, at the moment, it's non-committal about its interest in the controversial pipeline.

The deal provides Kinder Morgan Canada shareholders a 38% premium on its share price before Wednesday's announcement.

Canadian companies thirsty for their stock

Large American companies have been in the news a lot in the past few years for ploughing all of their free cash flow into share repurchases.

Well, it appears that Canadian companies are also getting in on the act.

According to research done by the *National Post*, 15 TSX companies accounted for more than 60% of the stock repurchases of the S&P/TSX 60 between 2001 and 2019.

In 2018, the TSX 60 repurchased $58 billion in stock — 58% higher than in 2017 and 118% higher than in 2016. According to FactSet, TSX 60 companies are buying back more stock today than they have in the past two decades.

"While companies seem to be flush with incremental cash, they are quantifiably focusing more on a shareholder-friendly approach of returning capital rather than reinvesting in their businesses," said Arjun Deiva, a consulting manager at FactSet.

According to the *Post's* article, TSX companies are undertaking far more substantial issuer bids, which allows them to go above and beyond normal course issuer bids.

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