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RETAIL

Luxury’s main houses are doing well, but investors are scared

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Major luxury groups including LVMH are seeing positive earnings. Image credit: Louis Vuitton

By BRIELLE JAEKEL

Luxury is having its long-awaited comeback, but this past month investors have been scared thanks to Trump's tariffs, according to Savigny Partners.

The Savigny Luxury Index for July says that luxury's bounce back is clear, as major luxury groups such as LVMH, Kering, Swatch and Hrmes see surprisingly positive earnings. However, while these groups are seeing success around the board, the SLI only saw marginal increases.

"The luxury sector has never had it so good with the strongest set of results by the big groups, so this muted performance for the SLI is really down to trade fears and other external factors," said Pierre Mallevays, managing partner at Savigny Partners LLP, London.

Luxury and profit

Last month, the SLI saw a drop of 4 percent, likely due to fears related to President Trump's trade policies affecting Europe. Investors' worries could continue to cause slow growth in the SLI, as pending tariffs continue to dominate the news cycle.

While Kering saw its first half operating profit rise by 53 percent, its target for sales within the period was missed. This, coupled with Moncler announcing that it might struggle in the second half, are also reasons investors are wary.

Moncler is nervous for the upcoming half. Image credit: Moncler

LVMH saw its operating profits increase 41 percent within the first half, while Swatch saw its net profit grow 67 percent.

Investors were looking to beauty more than anything this month, with major acquisitions and sales happening all over the sector. Private equity firms Eurazeo, Peninsula Capital Partners and Blue Gem Capital Partners invested in Pat McGrath Labs, Kiko Cosmetics and Iconic London, respectively.

Astral Brands also acquired Butter London, and P&G bought First Aid Beauty.

Ralph Lauren and Louis Vuitton have seen strong bounce backs this month for investors, with the former's stock ending July with a 7 percent growth. Louis Vuitton helped LVMH reach a 5 percent share price increase.

While these brands are flourishing, investors should keep a watch on Mulberry, Bruno Cucinelli and Kering.

Mulberry wants to continue UK manufacturing despite rising cost. Image credit: Mulberry

Mulberry's stock price dropped 16 percent, Bruno Cucinelli ended July with a 7 percent fall and Kering saw a 6 percent decrease in share value, due to its sales-target miss.

Additional insight
Recent positive financial results from the world's leading luxury houses reinstated sector optimism for the first time

in years in the beginning of 2018, according to Savigny Partners.

In January, for the fourth consecutive month, Savigny Partner's Savigny Luxury Index (SLI) gained by nearly 4 percent, while the MSCI World Index (MSCI), a global equity benchmark, remained flat. After a challenging 2016, forecasts are being corrected thanks to a bounceback in China, President Trump's campaign promise of lower taxes for the wealthy and higher oil prices, among other factors (see story).

Despite strong showings from Kering, Moncler and Herms earlier in the year, the overall luxury industry also took a slight hit due to fears of inflation across the globe back in February.

According to London's Savigny Partners, its global luxury index fell by 2.2 points in February, likely due to fears of inflation and interest rates, particularly in the U.S., which has a major role in the global luxury business. However, this slight decline was expected and Savigny points out that the decline is minor in the grand scheme of things (see story).

"Volatility has returned to the Savigny Luxury Index (SLI) with strong results tempered by concerns over outlook and mounting global trade tensions," Savigny Partners' Mr. Mallevays said. "Our index rose 1.3 percent this month. Nevertheless, this was a robust performance relative to a decline of 1.5 percent for the MSCI."