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FINANCIAL SERVICES

Challenging geopolitical climate causes luxury stocks to slip

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Capri Holdings saw the steepest stock price decline in May among the SLI. Image courtesy of Michael Kors

By SARAH JONES

Luxury stocks fell in May as geopolitical developments created doubts about the growth outlook for some of the business' biggest companies.

The Savigny Luxury Index, which tracks the stock price of 17 luxury companies, decreased 6 percent last month. Around the world, tensions including trade wars, government debt and uncertainty are casting a cloud over the business' prospects.

"One of these developments would be sufficient to have investors shaking in their boots combine them all and we might have chaos," said Pierre Mallevays, managing partner of Savigny Partners, in the report.

Overcast outlook

Almost all of the luxury companies tracked by Savigny saw their stock prices fall in May.

Only eyewear maker Safilo saw a bump, as it delivered better than expected results. The company also revealed plans to sell off its underperforming Solstice retail division (see story), helping to boost its stock price 3.7 percent for the month.

Some of the reasons for lessening stock prices have been tied to geopolitical issues.

The United States is in an ongoing trade war with China, which recently escalated as the U.S. levied more tariffs on $200 billion worth of Chinese goods (see story).

Tiffany & Co.'s stocks were down 17 percent, and Este Lauder's stock price was down 6.3 percent. Apparel groups Capri Holdings, Ralph Lauren and Tapestry saw respective drops of 26.3 percent, 20.1 percent and 11.5 percent.

Tiffany's spring 2019 campaign. Image courtesy of Tiffany

Beyond the two nations, this is impacting luxury stocks. Swatch Group's share price dropped 19 percent over worries about its U.S. sales, which made up 38 percent of its total revenues in 2018.

In Europe, Italy is facing a growing debt. Meanwhile, uncertainty still surrounds Brexit, as the United Kingdom still has not passed a deal to leave the European Union and the country searches for a new prime minister following Theresa May's resignation.

Britain's Burberry saw its stocks fall 16 percent. While the brand has stressed the need for a Brexit deal, its stock price also reflects softening sales in the U.S. and Asia, amid more positive financial results.

Overall, luxury companies have seen mixed sales results.

While Richemont's sales for the year were up 27 percent year-over-year, its profitability was not as impressive to investors. The company's stock dipped 1 percent during the month.

Both Kering and LVMH have seen sales growth, but their stocks fell a respective 11.6 percent and 3 percent.

Louis Vuitton's parent company LVMH was among the companies with lower stock prices at the end of last month. Image credit: Louis Vuitton

During the month, LVMH announced it had increased its stake in jeweler Repossi, bringing it to 69 percent from 42 percent.

Luxury stocks were not alone in facing challenges this past month. The 6 percent decline was in line with the MSCI, which dropped 5.6 percent.

Tax trend

One of the factors that Savigny is watching is the Italian tax authority. After earlier investigations into Prada and Dolce & Gabbana, the Italian Revenue Agency launched an inquiry into Gucci and its parent company Kering in December.

Italian tax authorities conducted a search of Kering's offices in Milan and Florence. Authorities claimed that by attributing levies on profits from sales in Italy to Switzerland, Gucci was able to save 1.3 billion euros, or $1.5 billion over a number of years.

Gucci's official headquarters is in Switzerland rather than its native Italy, and Switzerland's tax policies are more favorable than Italy's (see story).

In May, Kering settled with the Italian Revenue Agency after an audit.

Following the investigation, Kering agreed to pay taxes and fines totaling 1.25 billion euros, or about $1.4 billion (see story).

Per Savigny, this is the largest tax settlement ever paid to the Italian government by a single company.

"While Kering has the financial wherewithal to stomach this fine, it is pretty clear that the Italian government is on the hunt for money," Mr. Mallevays said. "What would happen if some of the smaller luxury companies based in Italy were to be embroiled in protracted tax investigations?"