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Opinion: Luxury Is More Resilient Than the Market Suggests

The luxury industry is facing another lost year, according to Bain's latest luxury update, but investors are being too gloomy on the sector's long-term prospects, argues Andrea Felsted.

By Andrea Felsted

The luxury industry faces another lost year, according to a new report from Bain & Co. and Altagamma, the Italian luxury association. But investors are being too gloomy on top-end goods. For those prepared to take a long-term view, there may be ways to benefit from the bling bloodbath.

Sales of personal luxury goods are expected to have fallen between 2 percent and 4 percent, excluding currency movements, in the first quarter of 2025, according to Bain. This was before the turmoil in global bond and equity markets unleashed by Donald Trump's tariff onslaught. The second quarter may be even more painful.

The most likely scenario for the whole of 2025 is for industry sales excluding currency movements to be down between 2 percent and 5 percent, according to the report. This would be even weaker than 2024, and the worst downturn since the financial crisis, excluding the pandemic dip. And Bain ascribes a 20 percent probability to an even sharper drop in the second half of the year, with only a 20 percent chance of a latter-half rebound.

The mini US luxury boom around the turn of the year evaporated amid Trump's tariffs and as stock and bond markets slumped. Meanwhile, demand from Chinese consumers, which had stabilised, was also hurt by the trade war. This leaves both engines of growth "bruised," according to Bain. Yet it says neither market is "broken."

That assessment looks right. Indeed, some recent data points have been more positive.

Citigroup Inc. credit-card spending on US top luxury brands was flat in May, compared with the year earlier, after three months of declines. High-end jewellery and, crucially, leather goods improved compared with the previous month. This likely reflects stock markets bouncing back from their lows and Bitcoin continuing to gain. Chinese retail sales were also better than expected in May. The worst whiplash from so-called "Liberation Day" might now be in the rear-view mirror.

Luca Solca, analyst at Bernstein, actually upgraded his forecast of global luxury demand this year to flat — hardly shooting the lights out but still better than the -2 percent he previously expected.

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Bain also points to some self-help measures across the industry. For a start, price increases are becoming more moderate — a much needed although rather belated recognition by big bling of how the "greedflation" of the past five years priced out many comfortable but not super-wealthy consumers and left even the rich asking whether handbags and other goods were still worth the outlay.

Generally, uplifts have been around 2 percent-3 percent so far this year, including the impact of tariffs, according to Bain. Not all companies will be able to raise prices. Those that have been more cautious in inflating, such as Hermes International SCA have already put through increases. Others, such as privately held Chanel Ltd., which has raised the price of its classic handbags over the past five years, are holding off.

Bain also notes that 25 percent-30 percent of brands are reinforcing their ranges of more affordable products, with new items including beauty, premium fragrance and some smaller non-leather goods.

And don't forget: This fall is set to see a slew of brands unveiling renewed creative visions, as new designers at Chanel, Kering SA's Gucci and Balenciaga, and LVMH's Dior and Loewe send their styles down the catwalk. Recent speculation has centred on whether Gucci would make some of Demna Gvasalia's first collection immediately available to buy. Given the need to turbocharge sales, such a strategy for those overhauling their aesthetics would be a good tactic ahead of the peak holiday spending period.

Of course, none of this will compensate for the tariff-related turmoil of the first half of the year. We buy luxury goods when we are feeling wealthy and confident, and both sentiments are in short supply right now. The escalation of tensions in the Middle East could also threaten places like Dubai, one of the few regions that is still prospering.

Second-quarter results are set to be dismal at many groups. Even industry leader LVMH warned investors in May that there may be no improvement over its disappointing first three months.

But investors seem to be overblowing the doom — and distributing it unevenly. LVMH has seen its shares lose almost 40 percent of their value since late January. They trade on a price-to-earnings ratio of about 18.5 times, at the bottom of the last five years' valuation range. True, LVMH is grappling with a downturn at Dior, and according to Erwan Rambourg, analyst at HSBC Holdings Ltd, potentially Louis Vuitton, as well as difficulties in its drinks division. Even if the earnings side of the equation falls further, that valuation looks harsh.

In contrast, shares in industry straggler Kering SA rose 12 percent on Monday, after it named Renault SA's Luca de Meo as its new chief executive officer. While he has a good chance of reviving Kering, the scale of its challenges, including €10.5 billion ($12 billion) of net debt and likely further management upheaval, mean this won't be instant. In the meantime, any new CEO can benefit from getting all of the bad news out of the way early — so things could get worse before they get better. Little wonder the shares have given up much of their gains.

The best recipe for luxury is classic with a twist — an aesthetic that combines heritage with being on the right side of fashion trends. Investors would be smart to take a similar approach to the industry's travails.