



# When Will Luxury's Perfect Storm Pass?

The bling industry's reporting season will be grim. But there are signs the worst might soon be over.

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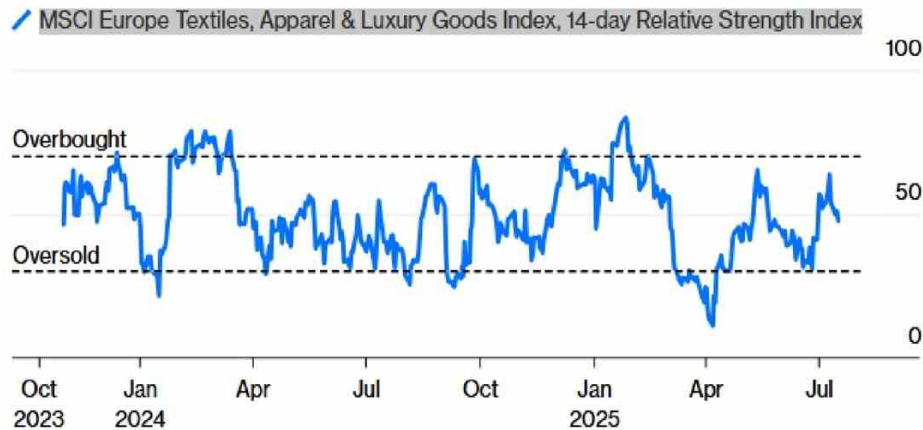
Luxury is out of fashion.

The sector is facing a perfect storm. Chinese spending, the industry's growth engine for so long, has stalled. There are question marks over whether US shoppers, who held much promise after President Donald Trump's election in November, will pick up the bling baton. And over-aggressive pricing has shut out many younger customers who gorged on Gucci handbags and Rolex watches during the pandemic. It will take time for this indigestion to work its way out of the system.

Add in the threat from tariffs and a weak dollar, which translates into less revenue in euros, and it's little wonder the MSCI Europe Textiles, Apparel and Luxury Goods Index has lost about a quarter of its value since February.

## Is Bling Back from the Brink?

Investors have become a little less negative on luxury stocks



Source: Bloomberg

Note: Relative Strength Index is a momentum indicator based on the number and magnitude of daily price moves

The second-quarter reporting season, which starts in earnest this week, is likely to be grim. But over the past week, there have been some glimmers of hope. The worst isn't over exactly, but it might soon be.

For a start, appetite among Chinese consumers for Cartier Love bangles and Burberry trench coats doesn't seem to be getting any worse.

Chinese spending in Japan is contracting — with Richemont's sales in the country down 15% in the three months to the end of June, compared with a 59% increase in the year earlier period — due to the stronger yen. This will be a drag on sales across the industry.

But Swatch AG said it had seen the first signs of improvement in China, with a pickup in online sales and a reduction in stocks of watches at third party retailers.

Swatch Chief Executive Officer Nick Hayek often looks on the bright side. But Richemont also saw a 7% fall in sales in China, Hong Kong and Macau in its fiscal first quarter, about half the rate of decline in the preceding three months. This was echoed by Burberry Group Plc, which generates about 30% of sales from Chinese consumers at home and abroad. Chief Financial Officer Kate Ferry said the British luxury brand was also seeing a quarter-on-quarter improvement and "a little bit of stabilization" in China.

In the US, financial markets appear to be shrugging off the tariff trauma, with the S&P 500 Index reaching a new high and Bitcoin touching a record \$120,000. Given that US luxury demand is correlated with financial wealth, this bodes well. It's possible this is feeding into demand for Brunello Cucinelli SpA's cashmere already: The tech bros' favorite outfitter said sales excluding currency movements rose 11% in the second quarter, and it forecast a 10% increase this year.

Investors shouldn't get ahead of themselves, though. Some of the surprises so far have been company specific.

Cucinelli sells to the 1%, and while it might not have a logo, it has become a signifier that the wearer is part of an exclusive club that can afford to pay \$400 for a T-shirt and \$8,000 for a cable knit cardigan. Not many other brands command this type of clientele.

Richemont's jewelry is also shining bright, thanks to the luxury market maturing — many who bought bags 20 years ago are shifting to baubles — and the fact that price increases for leather goods have made bangles and necklaces better value for money.

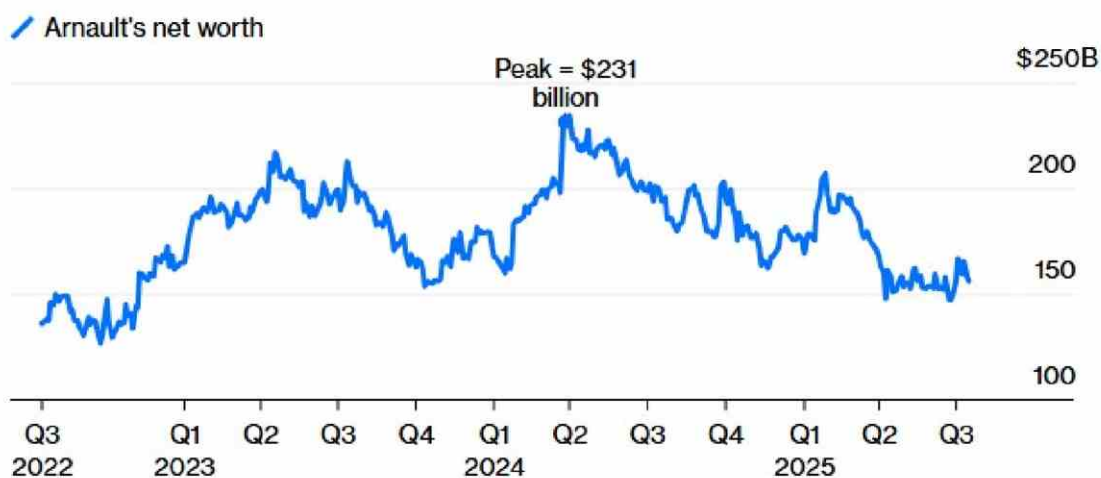
As for Burberry, which reported a 1% decline in fiscal first-quarter same-store sales — less than the almost 4% fall that analysts had expected — this compares with a period a year ago when same store sales slumped 21%.



LVMH, the industry bellwether, reports second-quarter earnings this week, and they won't be pretty. The behemoth has gone from being one of the strongest performers to one of the weakest, thanks to its reliance on leather goods, which are suffering the most from consumer fatigue. It is also facing some company-specific issues, such as a hard landing after spectacular growth at Dior, difficulties in its drinks division, and supply chain problems at Loro Piana, a rival to Cucinelli.

## LVMH Chief Is Poorer Than He Was

Bernard Arnault's net worth has declined by almost a third since its March 2024 peak



Source: Bloomberg

Yet even though we are probably closer to the bottom of the bling bloodbath than the top, many valuations are pricing in the worst.

LVMH is trading on a forward price-to-earnings ratio of about 19.5 times, toward the bottom of its five-year average, while Prada SpA shares have lost about 30% since February, as investors took fright at its €1.25 billion (\$1.5 billion) purchase of Versace. While the earnings side of the equation could fall further, this looks harsh.

Not all luxury stocks are showing a bust. Investors in Hermes International SCA are paying about 50 times the next 12 months' earnings because the brand typically outperforms in tough times, given that demand for its iconic Birkin and Kelly bags outstrip supply. Burberry's shares have more than doubled since September. A successful turnaround, and the company being able to keep any challenges in check, is already priced in.

Kering SA stock has risen about 14% since the Gucci owner named Renault's Luca de Meo as its new CEO last month. That looks optimistic. Even if De Meo is able to sell Kering's 30% stake in Valentino, he still has €10.5 billion of net debt and creative transitions at most of the company's brands to deal with.

For investors, a return to bling's boom years still looks far off. But by the time we get to fashion month in September, conditions might look a little less grim. New designers at Chanel, Dior and Gucci are likely to delve into the archives for inspiration this fall. A brighter luxury market would be another retro trend worth embracing.