GAM Multistock - GAM Luxury Brands Equity

Marketing material for professional / institutional / accredited investors

Market environment

In September, the S&P Global Luxury Index (EUR) rallied sharply following the announcement of stimulus measures in China during the last week of the month. The index posted a return of +4.3%, reflecting a sudden reassessment of the names previously seen as most vulnerable and exposed to the Chinese market. This led to significant moves in the last four trading days of the month, indicating aggressive covering of short positions and short-term vigour in the weaker names.

Global markets benefited from the greater-than expected 50 basis points (bps) cut in the US Federal Reserve (Fed) rates mid-month, with the MSCI World Index (USD) returning +1.7% overall. The consumer discretionary sector was one of the best performers, with a return of +5.1%, while consumer staples lagged behind at +0.8%, illustrating the skew in investor sentiment.

Performance

The GAM Luxury Brands Equity fund (EUR, C shares) climbed +0.7%, underperforming the benchmark index. The flight from quality into the 'value' end of the index at month-end, resulting from the China policy announcements, was the main source of underperformance given the portfolio's current positioning.

We continue to take a more cautious view on likely China developments, supported by a recent research visit to China. The visit confirmed that, while the short-term impact is inevitably positive, the underlying momentum was unlikely to shift. Our strategy of focusing on the more resilient growth segments while maintaining overweight exposure at the top end of our Luxury Pyramid remains intact. The main issue with the Chinese consumers of Luxury, still the world's prime cohort, is one of confidence and we believe the unexpected news flow will not alter the current status.

On the positive side of the contribution table, our only Chinese holding, **Kweichow Moutai**, delivered a strong +21.4% return, with HK-listed **Prada** also supported by the momentum at +7.0%. Other top contributors included **Ralph Lauren** and **Brunello Cucinelli**.

Ferrari (-6.1%) and **Puig** (-18.7%) were significant drags over the month. Other detractors included **Novo Nordisk** and **Campari** (not helped by the news of the exit of the newly appointed CEO).

While this rotation and subsequent portfolio underperformance is not ideal, we do not view the China announcements as fundamentally changing our longer-term views. We see this price volatility as creating interesting opportunities to add client alpha over the coming month.

Porfolio changes

During the month, we made no significant changes to the portfolio.

Outlook

Three fundamental China trends were confirmed by our recent research trip:

• Ongoing polarisation in the sector, with no reduction in the dispersion between outperformers and underperformers

• Continued weakness among aspirational consumers

• No trend reversal in China, with declining sales but improved metrics in what is likely to be a structural reassessment of spending drivers and patterns

Elsewhere, there are initial signs of improving metrics in the US, but this comes ahead of what will inevitably be a close and potentially controversial Presidential Election in the middle of luxury's crucial spend period just ahead of the holiday season.

Following a difficult summer with little in the way of positive news flow, the market is now in the process of adjusting expectations following the China news flow at the end of September, shifting its focus to the important October-to-December trading period. Undemanding comparisons and slightly more positive momentum towards year-end offer some relief, but we expect no change in the diverging dynamics between the winners and losers at this time and remain cautious on short-term performance. As a reminder, our FY24 growth expectations for the core personal luxury goods segment is only 1% to 2% versus a 30/20/10-year historical average just north of 6%.

Flavio Cereda
Investment Manager

Niall Gallagher
Investment Director

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GAM Investments

The more affluent consumer continues to deliver better metrics, as has been the case since Easter, and so we continue to see a return to more 'normal' growth rates next year of between 4% and 5%, with the 3-year moving average back in line with what we continue to see as a sustainable average of 6% as outlined.

Our investment strategy remains focused on companies that we believe are likely to continue their outperformance, thanks to their core customer base or unique product offerings. This highlights the importance of precise stock selection, a practice that we believe will continue to drive positive results. We remain confident in our research capabilities and our dedication to identifying the best stock names through our rigorous processes, aiming to deliver attractive returns for our clients.

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