GAM Multistock - GAM Luxury Brands Equity

Marketing material for professional / institutional / accredited investors

Market environment

In December, the S&P Global Luxury Net Total Return Index (EUR) performed well in the first half, on the back of November momentum but fell back slightly towards year-end, rising by 4.64% over the month. Volatility persists as the market attempts to digest very mixed news flow out of China, with improving data from the US, albeit with uncertainty over the Trump tariff risk.

Performance

The GAM Luxury Brands Equity fund (EUR, C shares) slightly underperformed the benchmark index by 34 basis points (bps). Although volatility remained high across different geographies, there was mixed performance from the more cautious stance taken on China as the market briefly turned more positive (a view we do not yet share) but better metrics from the increased exposure to the US cluster. On the positive side, 'pure' luxury names such as Prada, Cucinelli and Ferragamo performed strongly.

Detractors for the month included recent outperformers Viking, as well as Novo Nordisk and On Holding after recent runs. We continue to like all three names at this time.

Full year 2024 performance was back close to the late Q1 highs at +533 bps versus the benchmark.

Porfolio changes

In December, we added to Richemont, Hermes and LVMH, returning to full benchmark weighting or thereabouts, as we believe momentum in core names will turn gradually more positive in H1 2025. We tweaked our Ferrari stake down slightly (a more defensive name) after the recent retreat and (in our view) overoptimistic expectations for China. We also reduced Prada (to match with limited liquidity but remain overweight) and Lindt.

We made one divestment, exiting our small position in Ferragamo given a bounce in the stock and added to a small holding in Diageo and therefore the drinks segment after many months.

Outlook

As outlined last few months, we have not changed our view that luxury consumption in China is under considerable pressure, and we expect a high-teen drop in spend last year and no significant recovery in 2025, with positives likely skewed towards H2 given easy comparisons. While the start of the Q4 reporting season may continue to flag an easing of the pressure, and undemanding comparisons will result in improving momentum, this is not enough to take a more positive stance just yet in the absence of further stimulus-like measures.

Momentum in the US had been slowly improving for some time, and the outcome of the election had delivered a stock market bounce again, which reinforces a more positive momentum. That said, uncertainty over the outcome of the possible implementation of tariffs adds volatility. We think the US cluster will be the strongest in 2025, also with possible FX support.

Our full-year forecast for growth in luxury spend still stands at +0% to +1%, which we continue to argue is in line with expected normalisation and should lead us to a 2023 to 2025 average growth back at +5/6%.

We retain our view that a sharp polarisation in performance will continue to characterise the sector for some time unless the magnitude of the China stimulus effort is significantly enhanced. We continue to monitor volatility to identify opportunities in the names where we have high conviction and seek opportunities as we have recently done in US-listed names to gain more exposure there.

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GAM Investments

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S&P Global Luxury Index tracks the performance of 80 of the biggest publicly traded companies that produce or distribute luxury goods or services.