GAM Multistock - GAM Luxury Brands Equity

Marketing material for professional / institutional / accredited investors

Market environment

In January, the S&P Global Luxury Brand Net Total Return Index (EUR) experienced a significant uptick, mostly following the Richemont Q3 beat which pointed to better sector momentum than was thought and a rethink on likely underlying trends. The Index posted a return of +7.4%, almost entirely in the second half of the month, also supported by improving US metrics and talk of a sequential deceleration in Chinese underperformance.

Performance

The GAM Luxury Brands Equity fund (EUR, C shares) rose 9.9%, outperforming the benchmark index and more than recovering lost ground in December. Although volatility remained high, there was growing awareness that luxury news flow was starting to stabilise or even reverse in some cases, with better-than-expected prints from Richemont (as flagged, the main impact), Cucinelli, Burberry and Zegna.

On the positive side, Brunello Cucinelli, Viking and our non-holdings in Las Vegas Sands, were the top contributors in terms of relative performance.

Detractors for the month included Kweichow Moutai, Prada and our non-holdings in Royal Caribbean. 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. The improving US momentum is not yet a tide to lift all boats. We continue to monitor volatility to identify opportunities in the names where we have high conviction.

Porfolio changes

In January, we primarily added to Richemont ahead of the Q3 results. Channel checks throughout the holiday season flagged very solid performance at their Jewellery Maisons, hence we managed our exposure accordingly. We also added to LVMH and added a small position in Intercontinental Hotels Group (IHG) to be neutral versus the benchmark, and increased our exposure to the Travel/Experiences segment further.

We made three divestments, exiting our small positions in Puig (although we continue to see fragrances - Puig's core segment - outperforming, as we have growing concerns over liquidity and communication as well as the two-tier share structure), Lindt (a legacy position that did not fit well given improving sentiment in Luxury) and Novo Nordisk (we maintain our holding in Eli Lilly at this time as the preferred play on expensive weight-loss treatments favoured by the high-spend consumer cohort).

Outlook

We have not changed our view that luxury consumption in China is gradually stabilising at lower levels and we expect a low-single digit drop in spend only on the Mainland this year. The start of the Q4 reporting season appears to validate this expected gradual sequential improvement.

Momentum in the US has been improving for some time, and both Q4 and Q1 show a return to healthy mid/high-single digit growth, admittedly on easy comps.

Our full-year forecast for growth in luxury spend stands at +4%, 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%.

Flavio Cereda
Investment Manager

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