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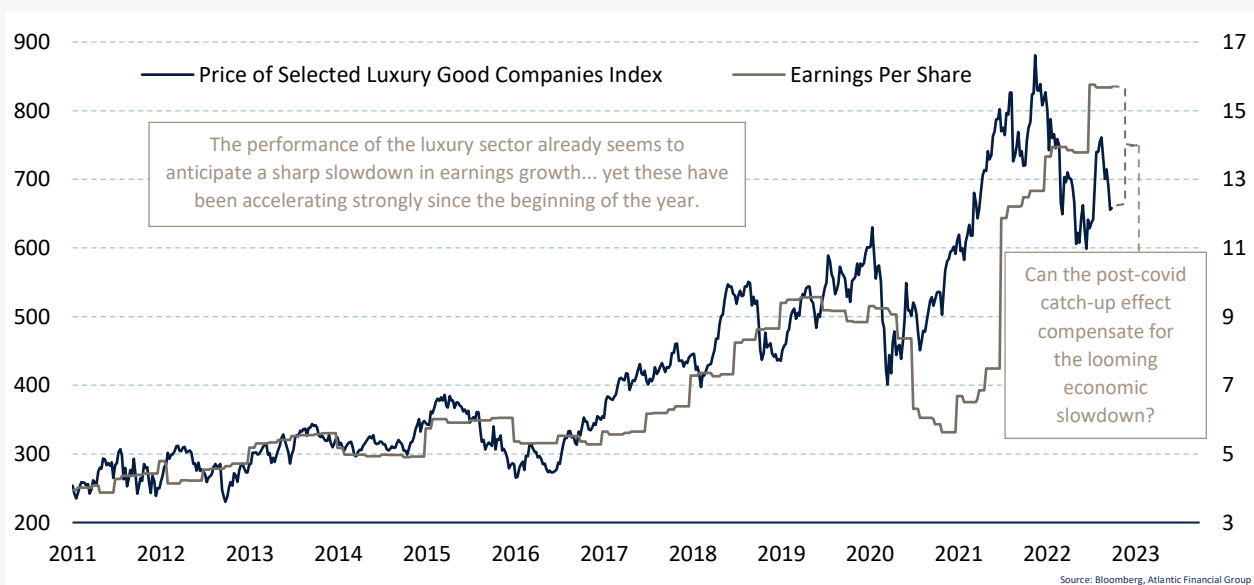
Weekly Investment Focus

3 October 2022

"FASHION WEEK ... HOW DOES THE 2023 SEASON LOOKS LIKE?"

- ◆ What is the right business model for a more sustainable fashion industry:
- ◆ Adopting the metaverse as an alternative to fashion weeks?
- ◆ Moving towards innovation in materials that consume less energy or water?
- ◆ Integrate services such as repair, recycling or garment exchange?

CHART OF THE WEEK: "The resilience of the luxury sector seems to be confirmed"



FINANCIAL MARKET ANALYSIS

While Fashion Weeks follow one another from New York to Milan and from London to Paris, **the industry is struggling to find a sustainable model between the energy crisis, economic slowdown and climate change.** The European luxury sector slightly underperformed the market, down 22% compared to the Euro Stoxx 600 index, but better than the consumer discretionary sector, which has massively underperformed (-27%) since the beginning of the year.

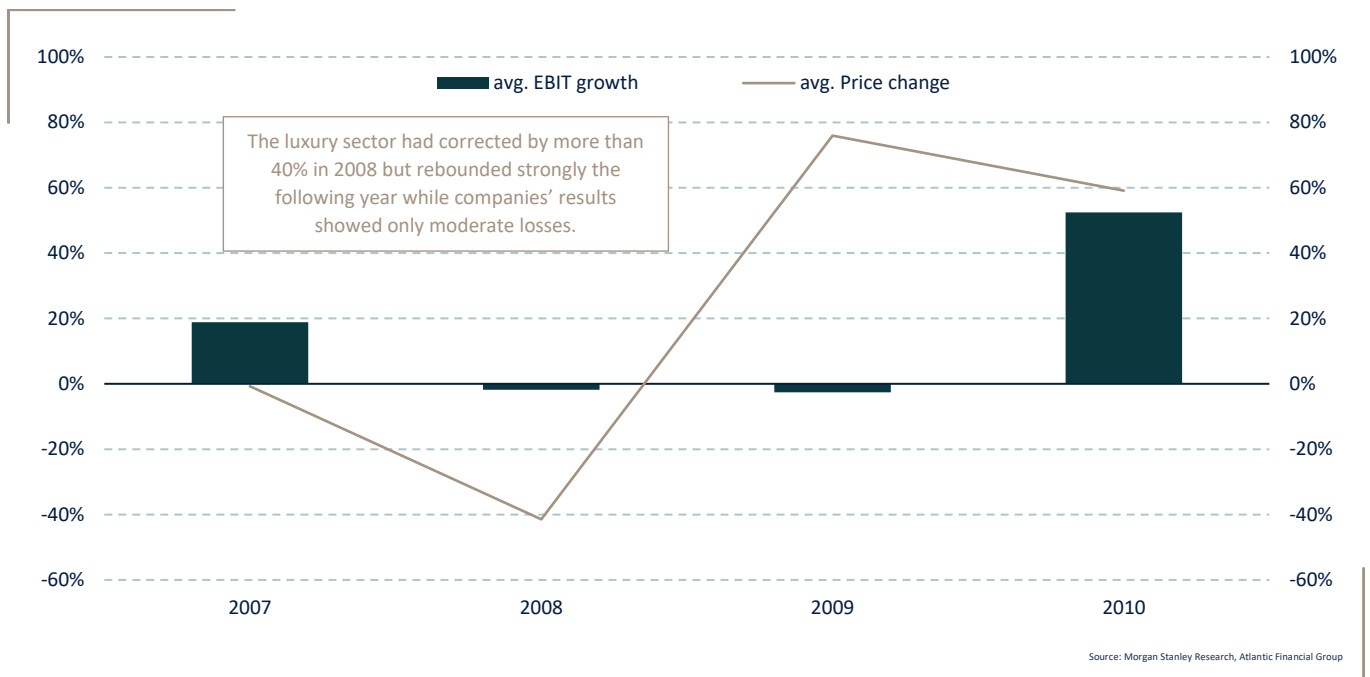


Sustainability and digitalisation of the sector are increasingly being emphasised in the strategies of luxury and ready-to-wear companies. In a highly competitive sector, these transformations, although costly, are crucial to ensure future success.

◆ Should the Metaverse be adopted as an alternative to Fashions Weeks?

The luxury industry is currently experiencing a moment of euphoria that culminates in the fashion weeks for the spring-summer 2023 season. Indeed, **after a gloomy start to the year under the shadow of the war in Ukraine, the sector is nonetheless posting strong growth in profits compared to 2021** (see Chart of the week). LVMH, Kering and Hermès saw their sales grow by 28%, 23% and 23% respectively **despite the new lockdowns in China and the closure of shops in Russia**. Sales in the US, Europe and Japan rebounded strongly as global tourism recovered. **The same resilience in results was observed during the great financial crisis** (see Fig. 2).

Fig. 2 - Luxury sector results more resilient than their share price



Luxury still sells dreams, but the digital transformation of the sector that accelerated during the Covid-19 pandemic, seems to have paused. Fashion shows are no longer held in the metaverse, even though the metaverse is increasingly attracting new generations. What will be the strategy of the major groups in this respect, and can the metaverse provide a solution to reducing their carbon footprint? We are hearing less about the **metaverse** shows for the spring-summer 2023 season, but it **undeniably offers many opportunities to make the sector more sustainable**: brands can reduce their waste by producing digital clothes, **by exchanging with other designers via virtual or augmented reality tools**. It also democratises the world of luxury, allowing fans to attend fashion shows without having to travel to the world's capitals.

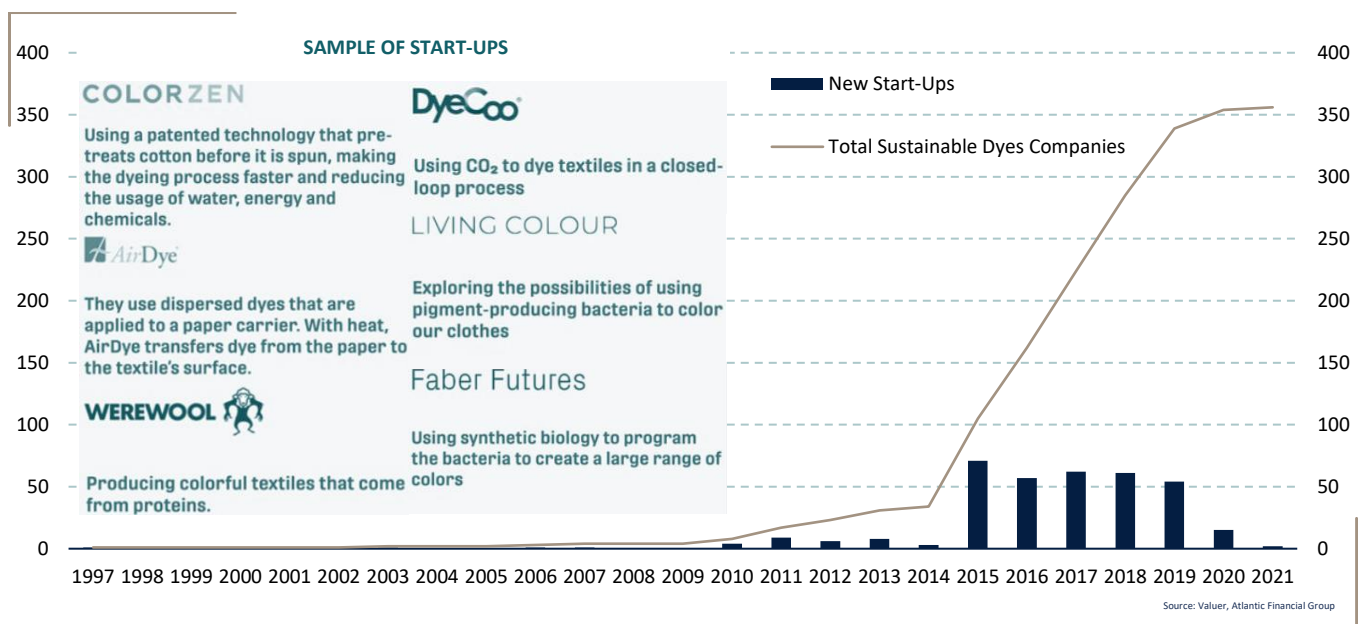


◆ Move towards innovation in materials that consume less energy or water

The current energy crisis in Europe, home to many luxury companies, is a reminder that the fashion industry is a major consumer of water and energy. Italy's famous textile industry, worth almost €100 billion a year, is at risk of seeing its small and medium-sized enterprises go out of business under the weight of gas costs. These SMEs are the backbone of French and Italian fashion houses.

It is therefore becoming increasingly urgent to find innovative or at least more sustainable materials and working methods. (see WIF of 2 May 2022). In the coming years, **one of the main challenges will be the ability of the players to adopt sustainable materials on a larger scale in order to reduce their costs compared to traditional materials.** There is also a need to change the mindset of designers to promote sustainable materials from the start of the product design. Increased use of sustainable materials will also have an impact on other factors, including water consumption and pollution, land and fertiliser use, and eutrophication. The dyeing and printing of textiles is particularly energy intensive. Many start-ups are looking for innovative treatments to make this step less polluting and more economical (see Fig. 3).

Fig. 3 - Number of sustainable clothing dye and coloring start-ups



The textile industry is taking steps to encourage the shift to more sustainable materials. The Corporate Fiber & Materials Benchmark (CFMB) programme, launched 7 years ago, is the textile industry's largest peer comparison initiative, generating, among other things, the Material Change Index (MCI). It tracks the progress of the apparel, footwear and home textiles sector towards more sustainable material sourcing, as well as alignment with global efforts such as the Sustainable Development Goals (SDGs) and the transition to the circular economy.



◆ Integrate services such as repair, recycling or clothing exchange

The service offering further integrates the fashion sector into the circular economy. Second-hand clothing shops can extend the average life of products by 1.7x. Clothing rental is assumed to extend the life of products by 1.8x, based on the average number of rentals during the life of a product. Repair, on the other hand, offers a more modest extension of 1.3x, assuming professional repairs. Finally, refurbishment has the potential to double the lifetime extension, reflecting potential collaborations between brands and manufacturers around recycling.

Hermès, like most luxury brands, already offers repair services to its customers to ensure that their purchase lasts over time, even over generations.

Brands will have to rethink their business models. For example, renting or selling second-hand clothes requires new logistical capabilities. Repair and refurbishment models require garment skills. **All actors in the value chain need to be involved in circular economy models, from the retailer to the artisan, if brands are to retain control of their products and their value after the sale.**

Fig. 4 - The circular economy, increasingly a source of value creation for brands



According to a survey of 292 brands and retailers by the Textile Exchange, the number of items incorporating a form of circular economy has risen sharply between 2019 and 2020. Items repaired or resold as second hand have increased by 149% and 136% respectively (see Fig. 4).

◆ What is the right business model for a more sustainable fashion industry?

Luxury companies are once again remarkably resilient, but the energy crisis threatens to erode their margins. Indeed, the entire value chain is likely to suffer from this crisis, particularly in Europe. **Climate change and inflation could also change the paradigm of a well-established sector.**

The luxury sector must lead the way for the rest of the clothing industry. Its generous margins allow it to test more environmentally friendly materials before they are produced on a large scale.

However, there are divergences between brands in terms of performance linked to the growing attraction of the clientele, particularly Chinese, for "grand luxury" items such as Hermès, Chanel and Dior. Beyond the growth in revenues, which is excellent for all the players in the sector, margins are evolving differently.



Gucci, from which **Kering** extracts two thirds of its turnover, **announced a less positive outlook for its margins** than its counterparts Louis Vuitton and Hermès. Thus, despite solid fundamentals, an almost debt-free balance sheet and an expected increase in free cash flow generation, Kering is struggling to recover valuation multiples in line with its peers. Investors are therefore watching for the slightest weakness, even in the biggest brands.

Conclusion:

Fashion is changing and Kering needs to prove that Gucci and its other houses can attract a sustainable customer base. The best way to do this today is to make the luxury industry more sustainable and to sell products that appeal to generations. To do this, the entire value chain needs to be involved, from cotton plantations to designers. There is a real shift in attitude and more conscious choices towards a conscious and sustainable lifestyle. The volatility of the markets should not make us forget the long-term efforts to achieve sustainable development goals.





RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2022 Year-to-Date (%)	2021 (%)	2020 (%)
Equities							
World (MSCI)	553.4	24.58	-2.5%	-9.5%	-25.3%	19.0%	16.9%
USA (S&P 500)	3 586	28.47	-2.9%	-9.2%	-23.9%	28.7%	18.4%
USA (Dow Jones)	28 726	27.29	-2.9%	-8.8%	-19.7%	20.9%	9.7%
USA (Nasdaq)	10 576	29.86	-2.7%	-10.4%	-32.0%	22.2%	45.0%
Euro Area (DJ EuroStoxx)	364.6	32.41	-1.0%	-6.2%	-21.6%	23.5%	0.8%
UK (FTSE 100)	6 894	29.07	-1.7%	-5.2%	-3.8%	18.4%	-11.4%
Switzerland (SMI)	10 268	36.98	1.3%	-5.3%	-18.0%	23.7%	4.3%
Japan (Nikkei)	26 216	31.04	-3.8%	-7.0%	-8.2%	6.7%	18.3%
Emerging (MSCI)	876	21.53	-3.3%	-11.7%	-27.0%	-2.3%	18.8%
Brasil (IBOVESPA)	110 037	49.66	-1.5%	0.5%	5.0%	-11.9%	2.9%
Russia (MOEX)	1 957	28.37	-6.1%	-18.2%	-46.9%	21.9%	14.8%
India (SENSEX)	57 189	42.60	-1.2%	-3.5%	-0.3%	23.2%	17.2%
China (CSI)	3 805	28.43	-1.3%	-6.7%	-21.4%	-3.5%	29.9%
Communication Serv. (MSCI World)	68.93	24.12	-2.9%	-12.3%	-36.9%	10.9%	24.2%
Consumer Discret. (MSCI World)	279.9	28.42	-2.4%	-9.8%	-31.1%	9.2%	37.0%
Consumer Staples (MSCI World)	241.4	21.20	-2.2%	-7.5%	-15.6%	11.7%	8.8%
Energy (MSCI World)	206.4	36.92	1.2%	-9.4%	14.0%	37.5%	-27.7%
Financials (MSCI World)	116.1	25.07	-3.0%	-8.1%	-20.7%	25.1%	-3.1%
Health Care (MSCI World)	303.3	33.40	-0.5%	-4.2%	-16.7%	18.0%	15.4%
Industrials (MSCI World)	242.2	24.54	-2.1%	-10.4%	-25.7%	16.6%	11.8%
Info. Tech. (MSCI World)	371.9	23.62	-3.9%	-12.4%	-34.7%	27.6%	46.2%
Materials (MSCI World)	269.2	33.17	-0.1%	-8.1%	-23.5%	15.4%	21.6%
Real Estate (MSCI World)	163.8	22.81	-4.1%	-12.5%	-28.4%	23.6%	-5.7%
Utilities (MSCI World)	138.1	18.95	-7.4%	-11.4%	-12.9%	11.1%	4.8%
Bonds (FTSE)							
USA (7-10 Yr)	3.77%	32.97	-1.1%	-4.7%	-14.9%	-2.4%	9.3%
Euro Area (7-10 Yr)	2.90%	30.95	-0.8%	-4.4%	-17.5%	-2.9%	4.5%
Germany (7-10 Yr)	2.10%	29.56	-0.8%	-3.9%	-15.3%	-2.7%	3.0%
UK (7-10 Yr)	4.09%	24.89	-2.2%	-9.7%	-20.8%	-4.9%	5.4%
Switzerland (7-10 Yr)	1.23%	40.96	1.0%	-3.0%	-11.4%	-2.3%	0.4%
Japan (5-10 Yr)	0.25%	41.99	-0.2%	-0.4%	-1.4%	0.0%	-0.1%
Emerging (5-10 Yr)	8.74%	19.32	-1.5%	-5.8%	-23.7%	-2.3%	5.2%
USA (IG Corp.)	5.69%	28.25	-0.6%	-4.8%	-18.7%	-1.0%	9.9%
Euro Area (IG Corp.)	4.24%	23.00	-0.5%	-3.5%	-14.6%	-1.0%	2.8%
Emerging (IG Corp.)	8.84%	11.69	-1.5%	-4.9%	-19.7%	-3.0%	8.1%
USA (HY Corp.)	9.68%	24.80	-0.5%	-3.8%	-14.7%	5.3%	7.1%
Euro Area (HY Corp.)	8.70%	19.29	-1.2%	-3.4%	-14.7%	3.4%	2.3%
Emerging (HY Corp.)	12.60%	19.51	-1.9%	-5.7%	-20.9%	-3.2%	4.3%
World (Convertibles)	344.3	26.58	-1.0%	-6.0%	-21.4%	2.4%	38.8%
USA (Convertibles)	463.6	29.02	-1.2%	-6.0%	-21.8%	3.1%	54.5%
Euro Area (Convertibles)	3 361	20.92	-1.0%	-5.5%	-18.1%	-0.3%	6.1%
Switzerland (Convertibles)	169.7	36.46	0.4%	-1.7%	-8.7%	-0.5%	0.5%
Japan (Convertibles)	196.8	37.97	-1.2%	-0.9%	-1.9%	3.3%	2.8%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	725	65.35	n.a.	0.5%	n.a.	8.2%	6.4%
Distressed	930	57.78	n.a.	1.7%	n.a.	12.5%	3.8%
Event Driven	750	54.00	n.a.	0.7%	n.a.	12.9%	7.0%
Fixed Income	382	57.96	n.a.	0.0%	n.a.	5.2%	3.6%
Global Macro	1420	79.24	n.a.	2.1%	n.a.	9.6%	6.5%
Long/Short	852	47.45	n.a.	-1.3%	n.a.	8.3%	7.9%
CTA's	405	75.95	n.a.	3.1%	n.a.	8.2%	1.9%
Market Neutral	287	41.52	n.a.	1.5%	n.a.	6.2%	1.7%
Multi-Strategy	687	58.97	n.a.	0.8%	n.a.	7.0%	5.6%
Volatility							
VIX	31.62	63.87	5.7%	22.2%	83.6%	-24.3%	65.1%
VSTOXX	30.71	59.97	2.4%	9.9%	59.4%	-17.6%	67.5%
Commodities							
Commodities (CRB)	559.5	n.a.	-0.2%	-4.9%	-3.3%	30.3%	10.5%
Gold (Troy Ounce)	1 664	42.31	2.5%	-2.8%	-9.1%	-3.6%	25.1%
Oil (WTI, Barrel)	79.49	38.93	3.6%	-11.2%	3.3%	58.7%	-20.5%
Oil (Brent, Barrel)	87.95	43.99	0.5%	-10.0%	11.2%	51.4%	-23.0%
Currencies (vs USD)							
USD (Dollar Index)	111.89	59.49	-1.9%	2.2%	17.0%	6.4%	-6.7%
EUR	0.9810	43.72	2.1%	-1.2%	-13.7%	-7.5%	9.7%
JPY	144.93	35.81	-0.1%	-3.0%	-20.6%	-10.2%	5.1%
GBP	1.1202	43.97	4.8%	-2.7%	-17.2%	-1.0%	3.1%
AUD	0.6434	32.76	-0.3%	-5.3%	-11.4%	-5.6%	9.6%
CAD	1.3769	28.36	-0.2%	-4.6%	-8.2%	0.7%	2.1%
CHF	0.9878	39.29	0.6%	-0.8%	-7.6%	-3.0%	9.4%
CNY	7.1160	33.13	0.2%	-3.2%	-10.7%	2.7%	6.7%
MXN	20.105	49.92	1.3%	-0.6%	2.1%	-3.0%	-5.0%
EM (Emerging Index)	1 592.1	32.21	-0.4%	-3.1%	-8.2%	0.9%	3.3%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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