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Wall Street cries wolf

Overview

The climate has remained supportive for risk assets despite the continuing hardship resulting from the pandemic. Some concerns exist about the economic impact of the state of emergency declared in Japan in response to the sharp local increase in Covid cases, barely months before the Olympic Games are due to go ahead. Nevertheless, most macroeconomic data in Europe and the US point to a solid recovery. US GDP for the first quarter of 2021 is expected to increase by 5.6% on a 12-month basis, streaking past the 4.3% reported for Q4 2020. In addition, the earnings and guidance numbers posted by most large companies for the first quarter of 2021 have been solid. So far, roughly one-quarter of S&P 500 companies have reported their figures, of which 84% posted earnings in excess of consensus estimates.

Concerns about the economic impact from Japan's state of emergency

Last week investors suddenly cried wolf, shaken by Joe Biden's proposal to raise the rate of capital gains tax from 20% to 39.6% on those earning more than USD 1 million a year. In total, the tax take on their investment gains would rise to 43.4%, which could make fine-tuning more expensive in the long term and have repercussions on overall valuations. But every time the White House announces more tax pressure for investors, such as this mooted increase in capital gains tax, or for companies, in the form of higher corporation tax, Wall Street plays scare tactics, sending stocks down sharply. But a few weeks later, we can see that the damage is not long lasting. On 31 March, the Biden administration proposed raising corporation tax from 21% to 28%. Since then, the S&P 500 has risen by 5.6% and the Nasdaq by 7.5%. Historically, there has been neither a lasting dampening effect on stock performance nor a correlation between the level of capital gains tax and equity valuations. Moreover, it is unlikely that such a plan will pass through Congress as it stands, as some Democrats and most Republicans are opposed to it. A trade-off will be needed, resulting in a final rate somewhere below 30%.

Investors shaken by Biden's proposal to raise capital gain tax from 20% to 39.6%

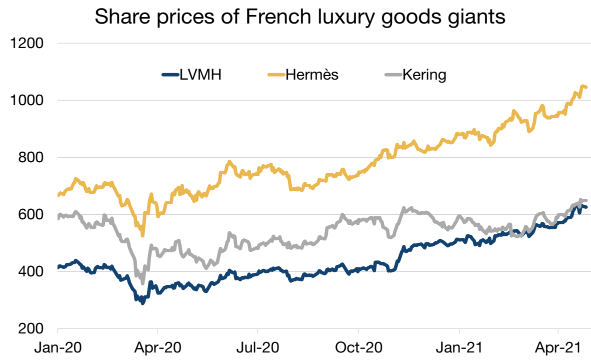
The main event this week is the Fed monetary policy meeting, where a policy hold is expected. The Fed has reiterated its intention to leave rates at zero until 2023 despite rising bond yields and projected 6.5% GDP growth this year. Fed Chief Jerome Powell is keeping a close eye on the job market, stressing repeatedly that 8 million jobs were lost during the pandemic and the wage gap has widened.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.91	1.11	11'200.54	4'013.34	15'279.62	6'257.94	6'938.56	4'180.17	14'016.81	29'020.63	1'353.02
Trend	↓	→	→	↑	→	↑	↑	↑	↑	↓	↑
YTD	3.25%	2.20%	4.64%	12.97%	11.38%	12.73%	7.40%	11.29%	8.76%	5.74%	4.78%

(values from the Friday preceding publication)

Luxury goods on a roll



LVMH, Kering and Hermès – French luxury goods houses – hold dominant positions around the globe. In the wake of Q1 2021 results, the stock prices of these big fashion names are trading on all-time highs. Together they represent 22% of the value of the CAC 40. Granted, their multiples are rather lavish, but sales growth has also been strong, rising sharply as lockdowns have been lifted – especially in China – and thanks to burgeoning middle classes in emerging economies.

These groups' numbers were boosted by the sales surge in Asia and the recovery in US consumer spending. By contrast, they are struggling in Europe as tourism languishes at a low level and shops stay closed because of the pandemic. Strong online demand also supported their sales. Industry-wide sales of luxury goods through e-commerce channels expanded from USD 40bn in 2019 to USD 60bn in 2020.

Kering was buoyed by sales of its flagship brand, Gucci, which posted a 26% increase in sales. LVMH, announcing top-line growth of 32%, has expanded its business through acquisitions as it seeks to remain on the crest of the wave. The remarkable performance of leather goods, with the arrival of new ranges, and the excellent performance of watchmaking enabled Hermès to post sales of EUR 2.08 billion (+38%) in the first quarter.

The three groups are confident about 2021, encouraged by balanced distribution networks, upcoming new collections and the customer brand loyalty. Though they remain highly dependent on China, the emergence of middle classes in emerging economies as well as the next generation of influencers and the relaxation of lockdown measures all suggest that the luxury goods market still has a bright future ahead of it.

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