Morgan Stanley | RESEARCH

IDEA

June 28, 2026 10:29 PM GMT

Brands | Europe

US Marketing; "What's the Feedback?"

MORGAN STANLEY & CO. INTERNATIONAL PLC+

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BRANDS	
Europe	
Industry View	**In-Line**

Key Takeaways

- We hosted >20 investor meetings in NYC last week, split LOs (40%) and HFs (60%)
- Most discussed stocks: LVMH, CFR, RMS, RACE, KER, ITX, ADS
- Most discussed topics: Wealth effect, China, Brand Heat & Chanel, Middle East, World Cup

We hosted investor meetings in NYC last week, discussing European Consumer Discretionary stocks across luxury, sporting goods, general retail and eyewear.

Overall we found NY-based investors certainly interested in discussing the Luxury Goods sector (as evidenced by the fact that we met investors for almost an entire week). One of the arguments often mentioned during our meetings was the willingness to potentially deploy new money to non tech sectors (as portfolios have become increasingly concentrated), and particularly sectors benefiting from the wealth effect generated by tech. Related to that, positive developments mentioned by investors included booming luxury demand in Korea (where there is the most clear cut correlation between AI-induced wealth and spending on personal luxury goods), the fact that the Luxury sector should be an important beneficiary of Middle East reopening/international travel re-accelerating, improving FX developments, as well as the fact that sales expectations for the industry bellwether LVMH (for 2Q26 F&LG) have been revised up over the past five weeks (for the first time in months). As we discuss below, while expectations regarding LVMH's top line are for now relatively modest (from c.0% OSG in 2Q26 to c.2%), it is a symbolic improvement. However, while sentiment is certainly increasingly more positive towards Luxury, it is certainly not unanimous and a number of investors are still staying on the sidelines. Pushback from bears included: a) can the sector work without China? as followers of the industry will be aware, channel checks for 2Q in China have remained disappointing; b) can the sector - and leading brands such as Vuitton, Gucci, etc - work without the middle income consumer? c) in a still relatively pedestrian growth context (industry growth should be c.+2% at constant FX for the full year), how disruptive is Chanel (a $19bn turnover company)? Is Chanel's very strong growth in 2026 additive to the sector or is it coming from market share gains?

LVMH

Bulls: For investors who want to step in/add to the luxury sector, LVMH was often described as the default long among the Big 4. CFR was viewed as too expensive/consensual, RMS now potentially facing structural issues for the first time in decades and Kering being too much of a turnaround risk. Further, bulls point to the fact that 2Q sales could offer a catalyst: a) estimates for the F&LG division have inflected positively over the past four weeks for the first time in months (buy side consensus was around flat mid-May) and VA Consensus expectations of +1.5% OSG could be exceeded – should 1H be slightly positive, it would imply +3% in 2Q. Related to that, Dior looks set to turn positive (likely around +3% to +4% OSG) for the first time in about three years and management is very focused on this (given that Dior is the second biggest contributor to Group profits – c.16% including cosmetics – had and has been the problem child of LVMH in recent years). Lastly, bulls are pointing out that, should OSG for F&LG come in at +2% to +3% in 2Q26, given that the headwind from the Middle East will likely be 200 to 250 bps, it will give investors confidence that the run rate for F&LG was already MSD in 2Q26.

Bears are arguing that printing a c.+2% OSG for F&LG in 2Q26 would not be anything to get excited about given the 'very easy comp' of -9% in 2Q25 (with Dior likely down c.-15% in 2Q25). It would mean that the two-year stack has remained similar to 1Q26 (i.e. would not show underlying improvement). Further, bears are pointing to the comp base getting 700 bps more difficult in 3Q, and thus, that the VA consensus expectation of +2.6% for 3Q26 is unlikely to go up in the coming weeks. Regarding the F&LG division, other pushbacks from investors include: a) Lack of excitement regarding Vuitton's innovation/newness with investors questioning whether it is time for a change at the creative helm; b) Regarding Dior, while a positive top line in 2Q26 would certainly be welcome, the recovery overall is viewed as more pedestrian than initially anticipated back in September/October 2025 when Jonathan Anderson debuted his Womenswear show. Lastly, other pushbacks at the Group level included the view that the other four divisions (other than F&LG) are unlikely to lead to any material inflation in the Group's earnings trajectory in the coming 12 months, pedestrian change in the Group's scope, etc.

HERMES

Bulls are arguing that Hermes remains the top-quality buy and hold in the sector and that the significant derating (33.8x forward PE ratio currently vs. an average of 44.5x over the past 10 years) offers an interesting entry point. Further, the bulls are siding with management when it comes to the poor performance of the non-Leather Goods product categories (e.g. RTW is expected to grow another c.+3% YoY in 2Q26): even Hermes is exposed to middle income consumers and this cohort has been under pressure for the past two years or so (for example, bulls cite the fact that jewellery has now reached c.€1.5bn sales, or ~9% of total, and a significant portion of that is silver/~$500 bangle). Thus, the current top line slowdown is viewed as cyclical. Further, the bulls argue that Hermes' current weakness (exposure to the middle income consumer) is in fact one of Hermes' long term strengths: an ability to expand its product line (perfume/cosmetics, watches, silk, jewellery, etc.) and grow its TAM by recruiting from the middle income consumer, without diluting the brand's equity.

Bears are pointing to two issues. First, like Dior, Hermes is viewed as being a market share donor to Chanel currently and likely for the remainder of the year. Second, bears think that it is increasingly clear that there is a structural issue emerging at Hermes: the brand is now viewed as less desirable and it translate in lower consumer willingness to spend on non-leather goods products in order to buy quota bags (BKC) – as evidenced by "pre-spend ratio" coming down in key countries like China. Thus, the updated 2Q26 sales consensus added fuel to the fire. As per the bears, CEO Dumas is now in a "Catch 22 situation": should he stand up and announce that that Hermes' handbag production will no longer grow at +6% CAGR (similar to what Ferrari's CEO did in October 2025) but at LSD, the stock is likely to react negatively (as Ferrari's stock did back then). On the other hand, should unit growth continue unabated, the bears see that as an important risk to the brand equity long term (which should translate to further de-rating) given how critical quota bags are to drive sales for other product categories.

RICHEMONT

Bulls… well a lot of bulls on this name (!). Bulls argue many things: 1) **Long term**, appointment of Nicolas Bos as group CEO, along with changes in reporting lines/ group structure was a fundamental game changer for the stock. Prior to this, corporate governance/management structure was generally cited by institutional investors as the number one issue preventing them from owning the shares. Today, Richemont is viewed as having one of the best management teams in the industry, with multi year visibility. 2) **Medium term**: Cartier and Van Cleef are viewed as gaining further market share in the fundamentally attractive jewellery category. Latest sell side estimates are at c.+16% constant FX for the quarter ending June for the key Jewellery Maisons division and we would say that the buy side is more or less there (16% to 17% we would say), partially on the back of the exceptional strength of the division in Korea. With regard to the Specialist Watchmaker division (lightly discussed last week, to be fair) some think there is now light at the end of the tunnel following management changes there (product range rationalization and "shrink to grow" strategy is viewed as potentially yielding fruit; 3) **Short term: gold prices** coming down is view positively (by most investors) as the overly rapid and material increase in gold prices over the past two years is viewed as the number one reason why there has been downwards earnings revision to consensus EPS. Thus the gross margin trajectory in FY27 and FY28 was the number one debate among investors last week. Further, when it comes to gold prices coming down, some investors were pointing to the fact that a number of Chinese jewellery brands' share prices (such as Laopu, etc.) have been under significant pressure YTD. These investors believe that it is further proof that barriers to entry in the Luxury Goods sector remain high, protecting European brands such as Cartier or Van Cleef. Short term: very positive nationality mix given the fact that Richemont over indexes US and under indexes Chinese, but is also benefiting from very strong demand in Korea and should benefit soon from Middle East reopening (see our note here).

Bears. Again, the stock is very well owned in the US (as in Europe) and we did not hear much on the name from actively bearish investors. In fact, no investor last week told us they were "short" the shares (short interest stood at 1% at the end of last week). **Valuation**. The main arguments from investors on the sidelines is the fact that the stock has done well over the past two years despite the fact that consensus EPS has gradually come down. Hence, if post the publication of 1Q27 sales on July 15th, the company is not encouraging consensus upgrades, it will be difficult for the stock to go up much in the medium term. The bears point to the fact that the argument that Richemont should continue to re-rate further given the fact that Cartier and Van Cleef (which account for >100% of Group profit) should trade at a similar valuation multiple to Hermes is now less powerful following the de-rating of Hermes (Richemont now trades on 27.8x 12 month forward P/E vs. Hermes at 33.8x). **How sustainable is Jewellery Maisons' top line?** A small number of investors were pointing to the fact that JM's +14% constant FX growth in FY26 was essentially driven by Cartier Watches (up +19% as per MS estimates) and Van Cleef (up +16% as per MS estimates). They think it raises multiples questions: a) why is Cartier Jewellery not growing faster given multiple price increases? Are key iconic lines such as Love not as desirable as they use to be? (we would argue though that, as per MS estimates, Cartier Jewellery grew c.+10% at constant FX in FY26); b) how sustainable is Cartier Watches' momentum? See our note here and c) Van Cleef's turnover reached €5bn in FY26, which could imply that Alhambra itself (~40% of VC&A sales as per MS estimates) is now a ~€2bn line. While the debate about Alhambra's ubiquity/desirability is not new, it is gathering momentum amongst investors (anectodally, we have heard a number customers in the US, but also in China recently, telling us they had switched from Van Cleef to Buccellati).

KERING

Bulls. Long term, the number one argument for investors to go long on Kering remains the fact that the Group owns fundamentally strong brands and that the change in management over the past 12 months is fundamentally a positive. Last week, the main positive being discussed was the surprisingly strong pace of recovery of Gucci in the US in 2Q (as per credit card data). This has led some HFs to close their short positions and some other HFs or LOs to actually buy the shares (although we think the number of marginal buyers remains limited for now).

Bears: Related to Gucci recovery mentioned above, the two main pushbacks we heard from investors are 1) Can the stock work if its main brand, Gucci, is only really gaining traction in one geography (the US accounted for ~25% of Gucci sales in 2025, as per MS estimates). Related to that, Gucci's (and Kering more broadly) performance in Greater China seem to have remained mediocre in 2Q: to what extent will that matter for investors? (As per MS estimates, Greater China accounted for ~24% of Gucci sales in 2025.); 2) Gucci's recovery in the US seems to be mainly driven by aspirational customers (likely a function of the fact that Gucci has played with the mix in recent months, introducing more affordable bags and thus being opportunistic – as a number of luxury peers remain in denial regarding the fact that they have increased prices excessively over the past five years). As per bears, this should lead to investors remaining cautious about the sustainability of Gucci/Kering's recovery and should translate to valuation multiples remaining capped (at a high level: 12 month forward P/E is currently 33x).

BURBERRY

Bulls argue Burberry's turnaround is still in early stages with significant opportunities ahead to drive ongoing improved top-line and margin recovery (w/ Burberry' HSD EBIT margin still well below high-teens+ margins previously).

Investors welcome new management's pragmatic approach to the Burberry brand and the strategy put in place for the company. Bulls see upside to medium-term consensus estimates as Burberry takes market-share from a low base in the medium-term, which combined with ongoing opex control, can drive stronger than expected margin recovery.

Bears argue that Burberry's top-line momentum is not sustainable – with top-line momentum key to Burberry's ongoing margin recovery that is now predominately dependent on top-line and operating leverage (rather than gross-margin expansion). Investors look for more detail on drivers of improved sales densities, in particular additional details on Burberry's envisaged actions for the company's store base as well as CRM and clienteling. Near-term, investors worry about a lack of catalysts for the shares and remain nervous around Q1 LFL growth (MSe +5%), and how a lack of sequential improvement in LFLs will be perceived (in particular if other luxury names begin to accelerate) – and how Burberry will be able to achieve ongoing LFL momentum against a tougher H2 comparison base – and whether the stock can work absent near-term earnings upgrades.

We also hosted Burberry CEO/CFO in NYC last week - see our note here: Burberry: Live from NYC; Q1 Preview

ESSILORLUXOTTICA

Bulls argue that the shares' derating has been overdone and the shares now offer a compelling valuation, with EssilorLuxottica's core business unchanged and unlikely to be at risk. Further, bulls see potential for EssilorLuxottica's core business and competitive moat to further strengthen, driven by ongoing investments in surgical, diagnostics and oculonomics as EssilorLuxottica looks to own the full patient eyecare journey. Near-term, some investors pointed to a potential reassuring H1 print, in particular on H1 margins - and that recent downwards earnings revisions provide a clearing event for the shares (see our note - *EssilorLuxottica: Rebasing Expectations*).

Bears remain concerned that competition from smart-glasses will disrupt not only EssilorLuxottica's smart-glasses business but also the company's core traditional business. Investors point to a lack of catalysts to change the bearish sentiment on EssilorLuxottica near-term, which could lead to shares trading sideways amid ongoing overhanging competitive risk from tech players; and in particular the near-term overhang risk from lapping a very tough comparison base in Q4 26. While consensus has began to move down, some bearish investors still see some ongoing downward earnings revisions risks to estimates. Further, several investors flagged ongoing newsflow at Delfin as unhelpful for the shares.

ADIDAS

Bulls pointed to very strong momentum near-term, especially in the US, off the back of a strong World Cup marketing campaign and product offering. Bulls see potential for this to be a real medium-term catalyst to unlock market share with US retailers and consumers for the brand, which could provide a multi-year tailwind to adidas' top-line growth. Amid broader bearishness on the sporting goods sector and the increased fragmentation of the marketplace, bulls argue adidas could in fact benefit from the ongoing fragmentation, in particular in the US. Bulls also pointed to strong execution on running, training, apparel and adidas' Greater China business.

Bears concerns on adidas remain the same as they have done for some time. Investors continue to worry on growth drivers for adidas' top-line growth beyond the World Cup into 2027 if terrace momentum continues to fade, apparel momentum slows (w/ apparel typically seen as more fashion / cyclical and hence current strength not seen as durable/sustainable) and absent a material pick-up in another footwear lifestyle franchise with some investors still sceptical on the potential success of Stan Smith and/or Superstar. Near-term, investors are concerned that the "bar" is too high for Q2 constant-currency growth (we raised our estimate to +14% last week, noting further upside risk to this forecast) - and that EBIT flow-through will be limited by increased marketing spend.

We remain in the Bull Camp - see our note last week raising estimates here: The World Cup Winner; Stay OW

INDITEX

Bulls remain of the view that Inditex is a high-quality compounding growth story with strong P&L visibility with a rare medium-term growth rate that investors are willing to underpin; with investors seeing potential for Inditex to continue to re-rate overtime as the company continues to prove its consistency and resilience, akin to some marquee US consumer names. As investors increasingly look for portfolio diversification away from AI concentration, Inditex is seen as a key quality holding to broaden out portfolios. Bulls see potential for upside risk to forecasts, with the potential for Inditex to continue to outperform the company's top-line growth algo of 6-8%.

Bears pointed to fading P&L momentum with expectations for Inditex's top-line growth to fade with current trading boosted by a calendar tailwind and Inditex's comparison base set to toughen through H2. In addition, the gross-margin strength seen in Q1 is also expected to moderate as FX tailwinds fade and incremental headwinds from product and freight costs may start to filter through. While this is already embedded in consensus, investors worry on the optical nature of the top-line / gross-margin slowdown and whether that could constrain shares near-term. Bears also pointed to limited upside to estimates, and whether the stock can work absent earnings upgrades. Investors also pointed to concerns on whether Inditex could suffer from an exit of investor interest and flows if investors turn more constructive on luxury,

We are in the bull camp - see our recent upgrade note here: Showcasing Resilience - Upgrade to Overweight

Valuation Methodology and Risks

Adidas (ADSGn.DE)

Our price target is derived from our base case scenario, which uses a discounted cash flow methodology to capture the group's long-term margin evolution. In our DCF, we assume a WACC of 8.1%, in line with peers, and a long-term growth rate of 1.5%.

Risks to Upside

- A quicker-than-expected sales recovery of the Adidas brand
- Strong pick-up in the product innovation and pipeline
- Faster-than-expected market share gains in the running category

Risks to Downside

- Further competitive pressure in the Chinese market leading to prolonged share losses
- Lack of investments into product innovation could lead to continued underperformance vs. peers

Inditex (ITX.MC)

Our price target is based on the average of our DCF and P/E multiple valuations. Our DCF valuation is based on a WACC of 8.5% and terminal growth rate of 1%. Our applied P/E of 26x is a slight premium to Inditex's historical 24x multiple to reflect the company's resilient performance and strong positioning amid ongoing polarisation in the marketplace.

Risks to Upside

- Stronger-than-expected macro and fashion tailwinds
- Stronger-than-expected cost control, fueled by AI efficiencies, leading to greater operating leverage

Risks to Downside

- Despite resilience to date, worsening macro, in particular in a scenario where AI leads to widespread increases in middle-income unemployment
- Stronger than expected headwinds from freight, input costs and lower offsets

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(as of May 31, 2026)

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Adidas (ADSGn.DE) - As of 06/28/26 GMT in EUR
Industry : Brands

Stock Rating History: 6/1/21 : E/I; 8/4/22 : E/I; 10/25/22 : U/I; 4/15/24 : O/I

Price Target History: 5/18/21 : 295; 7/2/21 : 320; 10/1/21 : 300; 1/27/22 : 280; 4/12/22 : 255; 5/6/22 : 235; 8/4/22 : 190; 10/25/22 : 101; 11/10/22 : 115; 2/10/23 : 110; 3/9/23 : 125; 5/5/23 : 135; 11/10/23 : 145; 3/15/24 : 175; 4/15/24 : 235; 4/30/24 : 258; 4/29/25 : 245; 7/30/25 : 230; 3/10/26 : 208; 6/26/26 : 215

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
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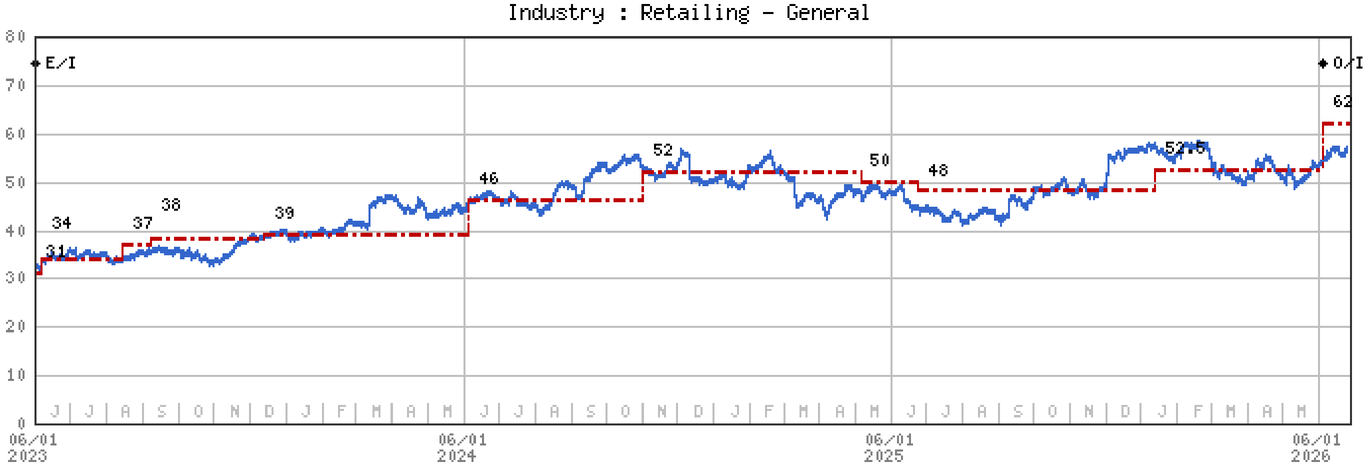
Inditex (ITX.MC) - As of 06/28/26 GMT in EUR
Industry : Retailing - General



Stock Rating History: 6/1/21 : U/C; 6/11/21 : E/C; 4/5/23 : E/I; 6/5/26 : O/I

Price Target History: 5/12/20 : 18; 6/11/21 : 31; 9/20/21 : 32; 10/19/21 : 29; 3/11/22 : 24.5; 5/13/22 : 23.5; 6/9/22 : 25.5; 10/7/22 : 24.5; 12/1/22 : 27; 1/6/23 : 28; 3/28/23 : 31; 6/7/23 : 34; 8/15/23 : 37; 9/8/23 : 38; 12/13/23 : 39; 6/5/24 : 46; 11/1/24 : 52; 5/6/25 : 50; 6/24/25 : 48; 1/13/26 : 52.5; 6/5/26 : 62

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INDUSTRY COVERAGE: Brands

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/26/2026)
Edouard Aubin		
Adidas (ADSGn.DE)	O (04/15/2024)	€181.70
Birkenstock Holding plc (BIRK.N)	E (11/06/2023)	US$44.42
Ferrari NV (RACE.N)	O (06/15/2026)	US$368.34

Ferrari NV (RACE.MI)	O (06/15/2026)	€322.15
Hermes International S.C.A. (HRMS.PA)	E (10/06/2025)	€1,626.00
Kering (PRTP.PA)	E (04/10/2026)	€267.05
LVMH Moet Hennessy Louis Vuitton SA (LVMH.PA)	E (01/19/2026)	€495.75
Prada SpA (1913.HK)	E (10/06/2025)	HK$38.24
Richemont SA (CFR.S)	O (02/05/2025)	SFr 186.80
Grace Smalley, CFA		
Burberry (BRBY.L)	O (05/18/2026)	1,109p
EssilorLuxottica SA (ESLX.PA)	O (07/05/2023)	€168.65
Hugo Boss AG (BOSSn.DE)	E (07/09/2024)	€37.78
Luxexperience BV (LUXE.N)	E (09/15/2023)	US$7.50
Pandora A/S (PNDORA.CO)	E (01/16/2023)	DKr 743.20
PUMA SE (PUMG.DE)	++	€26.80
Natasha Bonnet		
Avolta AG (AVOL.S)	E (04/24/2026)	SFr 53.75
Brunello Cucinelli (BCU.MI)	O (01/27/2026)	€81.92
Ermenegildo Zegna (ZGN.N)	E (02/12/2026)	US$13.15
Moncler SpA (MONC.MI)	E (06/22/2026)	€51.32
Salvatore Ferragamo Spa (SFER.MI)	U (02/12/2026)	€10.81

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* Historical prices are not split adjusted.