

Record high gold prices: implications for the luxury sector.

Precious metals have and will always remain firmly at the heart of the global luxury goods industry. Yet record high gold and silver prices, which briefly touched \$5594.82 and \$121.64 per ounce respectively, in late January, is creating conflicting pressures for the sector. Luxury brands have the distinct advantage of being able to maintain very high profit margins thanks mainly to an affluent clientele of global millionaires. However, as input costs rise, the ensuing margin squeeze is forcing luxury companies to raise prices to defend profits. This article will focus on JSE-listed CF Richemont (CFR) to illustrate the impact of high gold prices along with other headwinds to determine whether the company is still worth holding in portfolios



**Nick
Rogers**

It is important to understand what is driving the rally in the gold price.

1. Supply. If you were able to melt down all the gold ever mined (219,891 tonnes according to the World Gold Council), it would only fill the area of a single football field to a depth of roughly one metre. Unmined reserves are currently estimated to be approximately 64,000 tonnes. In 2025, the average cost of producing gold was c\$2000 which is why gold miners have been 'printing money' of late given prices at \$5000. But since most gold reserves now lie deeper below the earth's surface, mining it will become more expensive, coupled with the fact that new mines take 6 – 9 years to develop. This illustrates the relative scarcity of gold as well as production constraints versus abundant commodities like coal and iron ore which are comparatively easy to mine.
2. Demand. In 2022, after witnessing how swiftly the US government froze Russian assets, central banks around the world started to increase gold reserves in a bid to diversify away from US assets, moving from accumulating gold at a rate of c400 tonnes p.a. to 1,100 tonnes in 2025. Gold increased from 11% of central banks' global reserves to 20% by late 2025. As tariffs ramped up global tensions, foreign holders of US assets down-weighted exposure further and gold was one of the main beneficiaries. The three fundamental drivers of the gold price are all currently near-perfectly aligned to propel the price higher. These include a weakening Dollar which makes metals cheaper for non-US investors, expectations that the US Federal Reserve may aggressively cut interest rates makes non-yielding

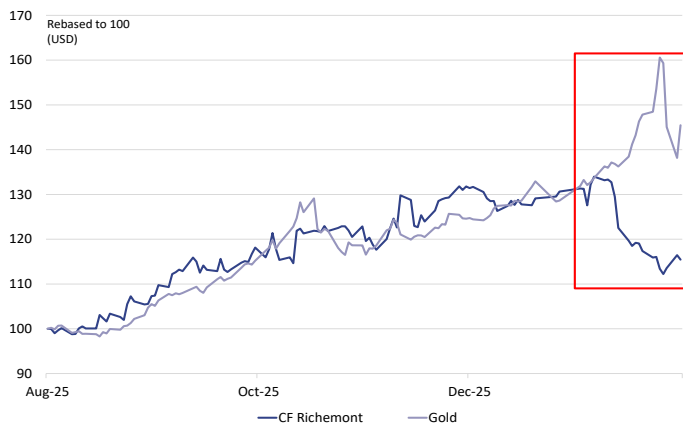
SPEED READ

- To illustrate gold's scarcity, if you were able to melt down all the gold ever mined (219,891 tonnes according to the World Gold Council), it would only fill an area the size of a single football field, to a depth of roughly one metre.
- Gold's meteoric rise to record highs in January is placing pressure on the luxury sector's traditionally high profit margins and share prices have reacted negatively.
- Richemont's 8% price increase in the 3rd quarter, to mitigate gold prices, has been met with volume declines.
- US tariffs on Switzerland, where Richemont is based, reached 39% last year, up from 2% previously. A reduction to 15% in November has bought some relief.
- The luxury sector is experiencing a period of polarization. "Hard Luxury" (75% of Richemont's sales) is seen as a better store of value versus "Soft Luxury" (Pricey fashion and leather goods). Richemont remains best positioned versus peers over the medium term.

metals relatively more attractive, and heightened geopolitics which is pushing investors towards 'safe-haven' physical assets where gold remains the historical go-to commodity.

Consequently, with very few sellers around, the basic theory of Economics 101 follows that where demand exceeds supply, the price of a good/service will rise. In gold's case, it has been a meteoric rise recently. JP Morgan sees gold heading to \$6,300 by the end of 2026, up over 20% from previous estimates. CEOs of the large luxury companies have had very limited time to adjust to what could become a multi-year theme.

RICHEMONT SHARE PRICE VS GOLD



Despite the share price rising as results were announced, RicheMont's share price has since fallen sharply from R3,600 down to R3,150 (-12.5%) which has coincided with gold soaring to a record high of \$5,594 over the same period."

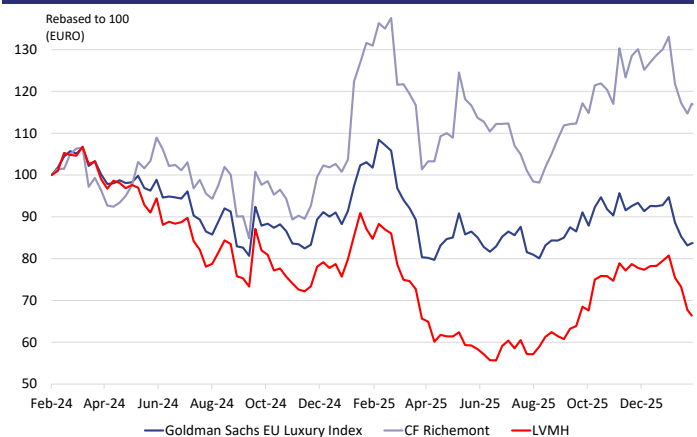
Gold is the most malleable and ductile of all precious metals. One ounce of pure gold (24 karat) can be hammered into a sheet stretching over 300 square feet or stretched 80km without breaking. High-end gold jewellery, especially pieces from renowned designers and brands, is increasingly viewed as both a luxury item and an investment, driven by rarity, craftsmanship, and brand prestige. Of all the global luxury companies, RicheMont is the most exposed to the jewellery sector or "Hard Luxury" (72% of Group sales). RicheMont's three main jewellery maisons, namely Cartier (founded in 1847), Van Cleef & Arpels (founded in 1906) and Buccellati (founded in 1919), are renowned for their timeless luxury creations by master jewellers. Contributing 72% of sales, jewellery enjoyed a combined 14% rise in Q3 sales (easily beating consensus estimates of 9.5%). This was mainly due to price increases and a successful festive/gifting season. What was telling was that although management raised prices by 8%, volumes declined from a growth rate of 13% in the previous quarter to just 6% this quarter. Yes, it seems even the wealthy have limits. Management have explicitly noted that high precious metal prices will weigh on margins over 2026.

Specialist watches (15% of sales) rose 7% year-on-year, comfortably beating consensus estimates of 0.6%. Growth in Swiss watch exports was negative for most of 2025 thanks to the imposition of 39% US tariffs on Switzerland, the highest amongst developed countries. Sales reacted positively after a reduction in the tariff in November to 15%, yet that is still much higher than the 2% level prior to Trump. RicheMont's strong brand momentum was given a further boost when pop icon Taylor Swift wore a vintage Cartier Santos Demoiselle (worth \$27,000) alongside her engagement ring. To further mitigate pressure in this sector,

management announced the sale of low-margin Baume & Mercier (founded in 1830) which had been underperforming for years. The move reflects RicheMont's strategy to focus on its high margin and high-growth brands.

In times of economic uncertainty such as we are experiencing today, high-end jewellery is often viewed as a better store of value than pricey apparel and leather goods. LVMH is the world's largest luxury company with brands which include Louis Vuitton, Dior and Tiffany & Co. LVMH has just reported a 3% drop in sales from its Fashion & Leather Goods division or "Soft Luxury" (c47% of Group sales) whilst Hard Luxury only contributes 13% of sales. Consequently, RicheMont has weathered the downturn in the luxury industry better than most rivals thanks to its 75% exposure to jewellery. It is for this reason that RicheMont is rated as the company best positioned to navigate the current environment, especially as this structural trend shows no signs of easing.

RICHEMONT VS LVMH



Louis Vuitton Moët Hennessy (LVMH) became the world's most valuable company in April 2023, but it has underperformed both the EU Luxury Goods Index and rival CF RicheMont, due mainly to its under-exposure to "Hard Luxury"

If the world's millionaire population consisted of 10 people, four would live in the United States, one in China followed by France, Japan and Germany, the UK and Canada. Americans splurged on luxury gifts over the Christmas period (sales grew 14%) whilst wealthy Middle Eastern tourists boosted sales in Europe (+8%). Demand recovery in China is "on the right path" despite the slow pace of broader economic recovery. Affluent Chinese consumers have traditionally favoured gold-backed pieces (over 50% of Chinese jewellery sales) as a wearable store of value. Local Chinese competitors, Laopu Gold & Chow Tai Fook, both raised prices three times over 2025. This may amplify Chinese shoppers' buying impulse over the upcoming

Number of US\$ Millionaires (in millions)				Number of US\$ Billionaires	
Rank	Country	Number	Global %	Country	Number
1	United States	23.8	40%	United States	924 (worth \$6.9 trillion)
2	China	6.3	11%	China	470 (\$1.8 trillion)
3	France	2.9	5%	India	188 (\$0.89 trillion)
4	Japan	2.7	5%	Germany	156
5	Germany	2.7	5%	United Kingdom	91
6	United Kingdom	2.6	4%	Switzerland	84
7	Canada	2.1	4%	Hong Kong	76
8	Australia	1.9	3%	Italy	61
9	Italy	1.3	2%	Singapore	55
10	South Korea	1.3	2%	Taiwan	51
11	All Other regions	12.4	21%		
	World Total	60.0	100%		

Source: Visual Capitalist

The United States remains the most important market for Luxury Goods companies whilst the much-anticipated recovery of the Chinese consumer remains a drag. India is becoming an exciting market for future growth in the sector."

Chinese New Year, to avoid higher replacement costs which are certain to play out given that gold is now \$5,000 an ounce. China accounts for just under 20% of global luxury sales, ranking second behind the US. Nonetheless, it remains a near -term drag on earnings for the sector as well as a catalyst for a recovery over the medium term.

In conclusion, despite the high cost of precious metals, timeless brands like Cartier and Van Cleef & Arpels will

continue to benefit from the jewellery segment's strong long-term fundamentals. I continue to back Richemont's quality management team to navigate the challenging environment. A strong Rand and Swiss Franc are adding to the current headwinds. As much as the short-term negatives will keep a lid on the share price, Richemont is well placed to capitalise on the growing wealth across emerging markets. Consequently, the company remains a core holding for growth clients.



Cartier is a Richemont brand.



The topic for our first Insight presentation for the year, to be held in March, is “The Trend is Your Friend”. More detail will follow but we will explore trends across various topics



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Topic: **The trend is your friend.**

Natal Midlands

Date:	12 March 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	10 March 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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