Who Will Win this Luxury Bidding War?

By TSViPhoto @ Shutterstock.com

According to the *Robin Report*, there's a bidding war on for Aesop, an Australian beauty brand founded in 1987. Vying for control of Aesop are luxury mega-conglomerate LVMH, mass market makeup brand L'Oreal, and Japanese beauty firm Shiseido.

Dana Wood writes in the Robin Report, "Of these three, which company will emerge triumphant, with a shiny new addition to its brand lineup? My crystal ball is telling me to take L'Oréal out of the equation, primarily because Aesop is, in my opinion, too closely ideologically aligned with Kiehl's. LVMH, which has virtually cornered the market on chic beauty brands and is an obvious master at creating aspirational retail environments, seems like a great fit. But never in a million years would I rule out the highly disciplined, quality-fixated Shiseido. There's nothing even remotely like Aesop in Shiseido's current portfolio, and that could make all the difference."

Jeremy Jones, our chief investment officer at Richard C. Young & Co., Ltd., sees similar benefits for Shiseido in the Aesop merger. He writes, "L'oreal probably brings the wrong culture and lens to make an acquisition successful. For LVMH, Aseop looks like a rounding error, unless they have some internal data that shows a strong affinity to the brand among their own customers. Shiseido looks like the most logical buyer based on size and business, but it's probably more of a merger than an acquisition." I agree with his concise assessment.

As an aside, LVMH is the luxury mega company founded by Bernard Arnault, who regularly trades places with Elon Musk as the world's wealthiest person. Arnault, along with Alain Chevalier and Henry Racamier founded LVMH in 1987, and since then, the company has made regular acquisitions of the world's top luxury brands. Today it owns Louis Vuitton, Moët & Chandon, Hennessy, Tiffany & Co., Christian Dior, Fendi, Sephora, TAG Heuer, Bulgari, and too many others to list here.

If you're looking for a reliable champagne you can give as a gift to someone you like, you can't do any better than LVMH's Veuve Clicquot. For reliability, you can hardly go wrong with a Clicquot Yellow Label. Of course, there are many grower champagnes out there offering a variety of quality, but unless you're tramping through the vineyards and trying them on-site, you want to rely on an expert like Mark Gambuzza, owner of UVA Wine Shoppe in Old Town, Key West. Mark is based on the tiny, semi-tropical island of Key West, just 90 miles from Cuba. Debbie and I have lived in Old Town Key West, only blocks from Mark's shop, for three decades. Mark specializes in case and half-case personal Old Town scooter delivery – a convenient door-to-door luxury service to be sure. I buy my French and Willamette Valley Pinot Noir and Rhone Valley Syrah from Mark.

If you're intent on choosing your own wines and you need to learn more about the subject, I suggest Raj Parr and Jordan Mackay's book *Secrets of the Sommeliers: How to Think and Drink Like the World's Top Wine Professionals*. It's my go-to wine reference book.

As for Aesop and its prospects as an acquisition by LVMH, certainly, it would benefit from the company's global scale, but it’s so small it simply wouldn’t make much of a difference to LVMH’s bottom line.

The prospect of mass-market L’Oreal buying specialty-focused Aesop seems like a recipe for brand power dilution.

Perhaps the not-too-big but still 151-years old Shiseido Company would be a better steward of Aesop’s brand value, without the company being lost among the acquirer’s other components.

Do Governments Cause Recessions On Purpose?

That’s a question I put to readers back in 1988, and which is now relevant to today’s economy. The Federal Reserve is rapidly raising rates, and that is good news for savers who want to invest in bonds with decent interest rates, but the implications for the greater economy are also noteworthy. Here’s what I wrote in response to that question then:

> ***Do Governments Cause Recessions On Purpose?***
>
> *A recession is a prospect in the second half of 1989 because smart presidents realize that it’s tough to get re-elected if the public is dealt a recession before a presidential election year. It’s wise to take the recession medicine in the first year of a new term. I can’t overemphasize this point. Ike and Jimmy Carter fouled up and dropped a recession on voters’ plates in the final year of a presidential term. The result: neither’s respective party was re-elected. Over and over again, recessions begin in the first year of a four-year presidential term. I see no reason why things should be*

different this time around.

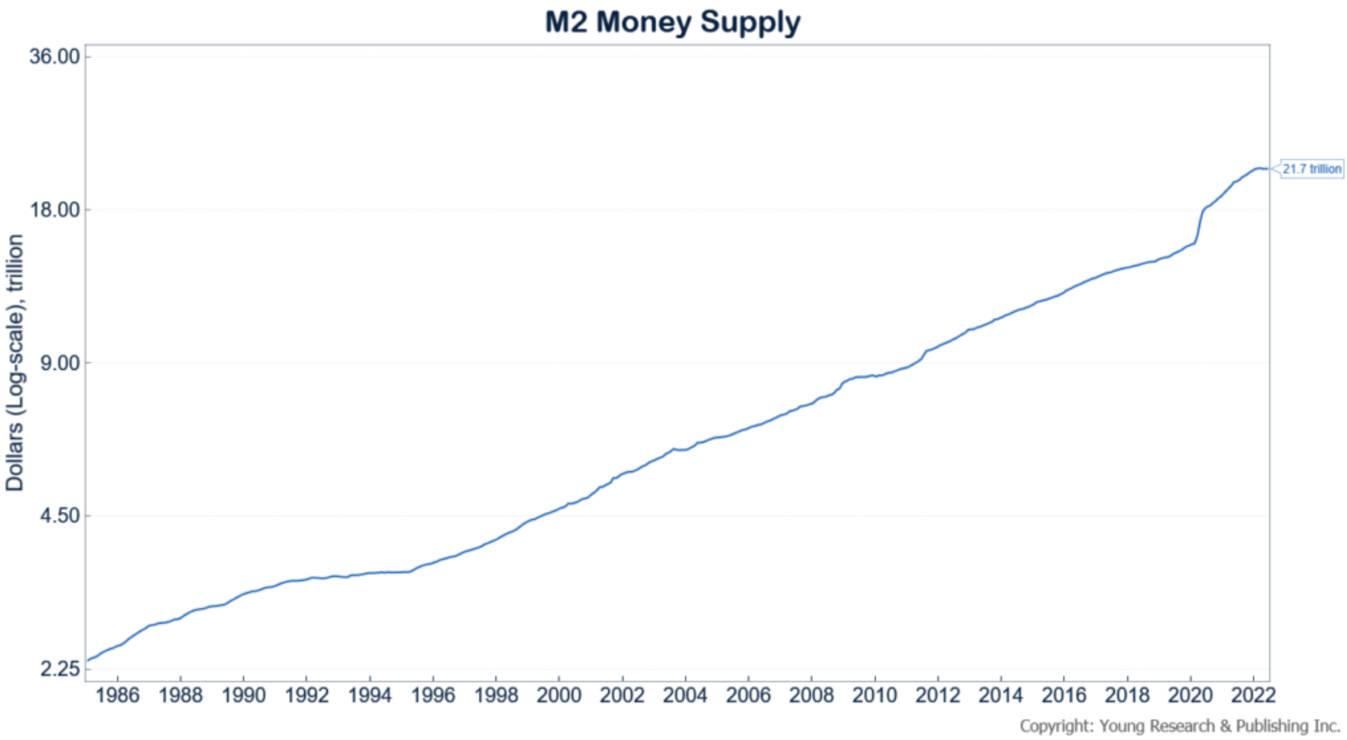
“Wait a minute,” you ask. “Are you saying, Young, that governments cause recession on purpose?” Oh, yes! And here is adequate evidence to support this view.

For openers, the gentlemen who control the money switches at the Fed can throw the economy on a recession course by slowing the money supply growth and raising short-term interest rates. And if you have missed it, that is precisely what has been going on over the past year.

M2 growth has been cut from 7% to 1%. High powered money (currency and bank reserves) growth has been cut sharply, and for good medicine, interest rates have been forced up literally from the day 1988 got under way. Your most important benchmark rates, the rates on 90-day CDs and 90-day T-bills, have soared in 1988 even though you were told by an unfortunately large number of advisors and brokers that just the reverse would occur in 1988. The 90-day CD rate has gone through the roof, climbing to 8.5% from 6.6% last February. You can now get 8% on risk-free 90-day T-bills versus only 5.6% last February. Some rate decline, wasn’t it!

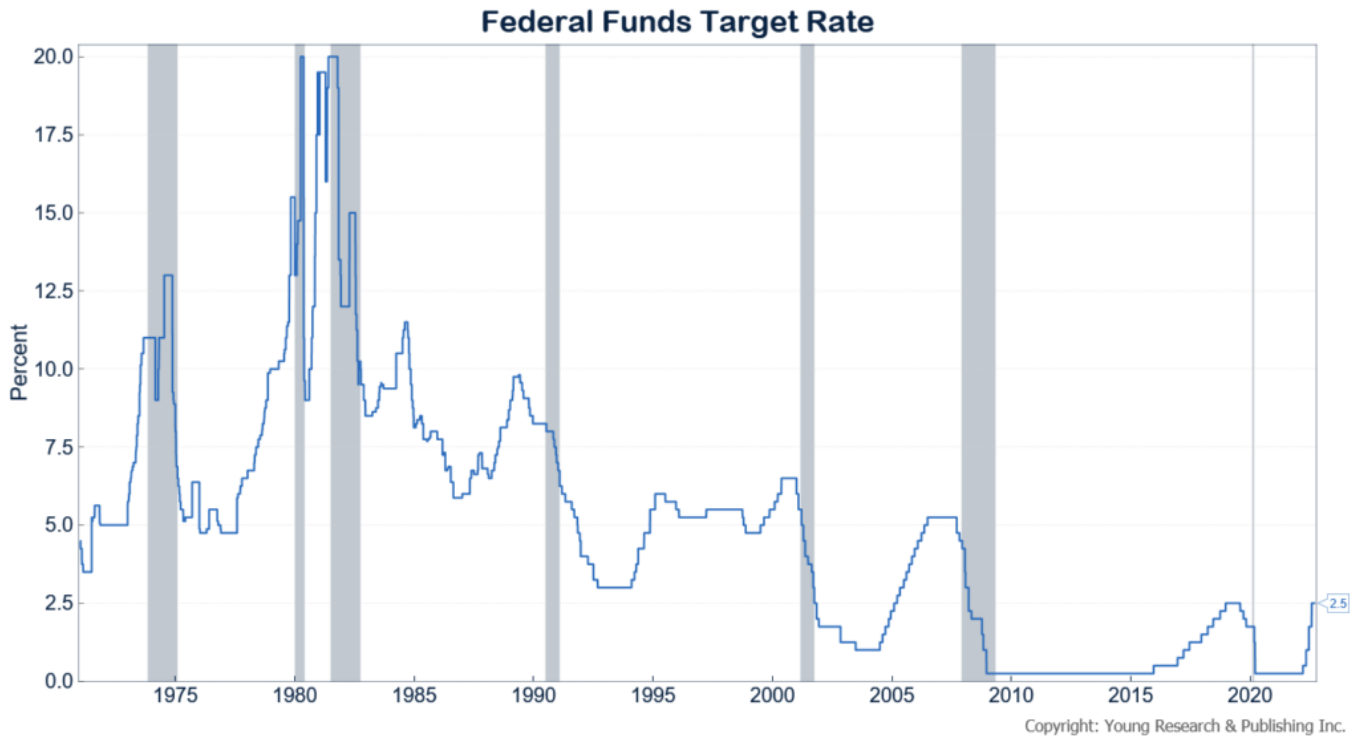
So is Joe Biden attempting to avoid the mistake made by Carter, to whom he is so often compared? It’s too late to take a recession in his first year, but it’s better now than later.

Of Biden’s intentions, your guess is as good as mine. What shouldn’t be in doubt is the ability of the Federal Reserve to drive the economy into recession. As I wrote, “the Fed can throw the economy on a recession course by slowing the money supply growth and raising short-term interest rates.” Take a look at my chart of M2 going back to 1985 below:



You can see that not only has M2 growth slowed, but it has also begun to decline. This is a significant event for the economy.

Now take a look at the Fed Funds Target Rate with recessions shaded over in grey (below). As you can see, a recession occurred shortly after nearly every significant increase in the Fed Funds rate.



The Fed has both slowed the growth of the money supply and raised short-term interest rates. Fed Chairman Jerome Powell may say there's no recession and that the Advance GDP estimate should be "taken with a grain of salt," but only history can sit in judgment of those statements.

PRICES SOAR: Diesel Shortage Could Cripple America's Economy

Prices for diesel fuel are soaring, and shortages of the critical transportation fuel could leave economies, including America's, in shambles. At *MarketWatch*, Dan Molinski reports on the fears of a shortage of diesel, writing:

> *One of the U.S.'s largest truck stops, Love's, said Wednesday it is closely watching its diesel fuel supplies in the Northeast amid growing concerns of industry-wide shortages, but said it has no plans to limit purchases.*
>
> *"Love's is monitoring the fluid situation on the East Coast, we have experienced minimal outages during low traffic hours," Oklahoma-based Love's Travel Stops said in an emailed statement. "The company has no plans to restrict purchases of diesel."*
>
> *Inventories of diesel fuel, which in the U.S. is mostly used by truckers, have been on the decline since the pandemic began, but those declines have accelerated since the start of this year. Analysts attribute the declines to reduced refining capacity, robust demand for the trucker fuel during the pandemic, and a recent rise in diesel exports.*
>
> *Earlier on Wednesday, the U.S. government's Energy Information Administration said total inventories of distillates, which is mainly diesel fuel but also heating oil, fell last week to a 17-year low of 104 million barrels, which is 23% below normal.*
>
> *On the East Coast, the situation is even worse. The EIA said distillate fuel oil inventories in the so-called PADD 1 district that covers the Northeastern states fell by 1.1 million barrels last week to just 21 million barrels, the lowest ever recorded in data going back to 1990.*
>
> *Love's truck stops, with some 550 locations across 41 states, also seemed to confirm reports on social media Wednesday that said Love's and other truck stops such as Pilot were informing their fleet operators that shortages of diesel fuel on the East Coast may happen in the coming week at some stores.*

In *The Wall Street Journal*, Paul Page details the price spike for diesel that has followed its scarcity, writing:

> *Diesel costs are reaching new highs across the U.S., straining the operations of trucking companies and wrecking the transportation budgets of businesses that need to ship goods.*
>
> *The price of the fuel that powers heavy-duty trucks has increased by more than $1.50 a gallon in roughly two months, according to the U.S. Energy Information Administration. The national average price has climbed to $5.62 a gallon, setting a record for the second week in a row, as prices at the pump surpassed $6 in some markets.*
>
> *“These fuel costs are the biggest thing we’re facing right now,” said Jake Phipps, chief executive of Phipps & Co., a West Palm Beach, Fla.-based manufacturer of interior finishes and building materials for real-estate developers.*
>
> *He said the company’s shipping costs within the U.S. have risen 15% to 20% from last year, pushing it to make changes to its distribution operations as some customers reconsider projects because of rising costs.*

You can see the staggering spike in diesel prices on my chart below.

Average Price of No. 2 Diesel (On-Highway) in America