

# 11 Reasons The Luxury Market Is (Almost) Recession Proof

February 2026

With the recent bankruptcy of Saks, some are asking whether the luxury sector has lost its luster. On the surface, the collapse of the legendary luxury retailer and its subsidiaries, Neiman Marcus and Bergdorf Goodman, would suggest that to be the case. A deeper look, however, indicates Saks' challenges are due to failed strategy, rather than a weakening sector. Bain & Company is projecting the market for luxury goods, services, and experiences will grow between 3% and 5% in 2026, following a flat 2025, on the back of a strong Chinese market and the continued rise in the number of billionaires globally.

Based on recent history, a rebounding luxury market shouldn't be surprising. Across multiple downturns from the Great Recession of 2008-09 to the Covid shock in 2020 and the more recent cyclical wobble after the post-pandemic boom, the luxury sector has repeatedly shown a peculiar durability compared with mass-market retail. That does not mean luxury is immune from pressure. Compared with other sectors, however, luxury providers often weather downturns better and rebound faster. In fact, the pattern of contraction followed by expansion has fostered a resilient long-term CAGR of close to 7% for luxury over decades.

Why? The answer sits at the intersection of income distribution, behavioral psychology, pricing power, channel structure, the economics of scarcity, and the powerful brands that populate the sector.

Let's unpack the main mechanisms that produce luxury's relative resilience, using data and historical evidence that illustrate how those mechanisms operate in practice.

## **1. Demand concentration: wealthy consumers cushion revenue shocks**

A key reason luxury weathers downturns better than mainstream products and services is simple: demand is concentrated among wealthier households whose spending is less sensitive to short-term income shocks. Over the past decade, the number of high-net-worth individuals (HNWIs) and their wealth have grown, creating a more robust customer base for high-end goods. In fact, the most affluent customers account for a disproportionate share of luxury spending. Wealth reports from 2023–2024 show continued

growth in both the HNW population and aggregate wealth, even while many middle-income households saw stagnation. This concentration helps explain why a small drop in aspirational spending by middle-income buyers does negatively impact total luxury spending in the same way it would for mass-market categories.

## **2. Pricing power and margin durability**

LVMH, Rolls-Royce, Patek Philippe, and other luxury brands sell more than physical goods; they sell symbolic value. That translates into pricing power. In the post-2019 period, industry analyses found that price increases, not higher volumes, accounted for the lion's share of luxury revenue growth. Larger luxury houses have been able to raise prices and protect margins, which gives them room to absorb temporary volume declines. When consumers cut spending, luxury companies often protect margins by running fewer promotions, increasing scarcity, and maintaining list prices, a strategy that preserves both perceived exclusivity and profitability.

## **3. Brand equity, loyalty, and the investment/“snob” mindset**

Luxury purchases are frequently driven by intangible drivers: status, identity, and a perception of long-term value. A well-positioned luxury item like the latest Ferrari, Gucci handbag, or Boodles collection is often perceived as durable. In some cases, they're seen as an investment or at least as a long-lasting store of value. Consumers reluctant to replace a functioning luxury item will defer new purchases rather than switch brands. This means top brands preserve market share even when overall market size shrinks. At the same time, scarcity (real or perceived) and limited releases strengthen loyalty: brands with strong heritage and controlled supply often retain core customers in downturns. Academic and industry work on “snob” and bandwagon effects shows how exclusivity and signaling sustain demand during volatility.

## **4. Product substitution patterns — “trading down” is not always trading out**

During recessions, many consumers trade down, shifting from high-price luxury items to more affordable indulgences. They do not necessarily exit the luxury ecosystem entirely. The so-called “lipstick effect” (consumers buying smaller, affordable luxuries during hard times) explains part of the phenomenon: shoppers might pass on a new couture coat but continue to buy lipstick, perfume, or an entry-level branded accessory. This substitution concentrates spending in categories that still generate revenue for luxury conglomerates, many of which own both top-tier and more accessible premium brands. In short, luxury's



multi-tier brand portfolio captures residual discretionary spend better than monoculture mass retailers.

#### **5. Diversified luxury categories and cross-segment hedging**

“Luxury” is not a homogeneous market. It spans vehicles, fashion, watches and jewelry, beauty, travel and hospitality, fine wines and spirits, yachts, art, and other categories. This diversity matters economically. Some luxury categories are more cyclical than others: luxury travel and experiences rely heavily on tourism, and business travel and can be hit hard; but fine jewelry, watches, and beauty often hold up. Conglomerates and diversified luxury houses can reallocate resources to stronger categories or ride out sectoral weakness without collapsing their whole business.

#### **6. Channel resilience: DTC, wholesale control, and inventory sophistication**

Unlike fast fashion or broad retail, many luxury houses tightly control distribution, using their influence to work with select boutiques, strict wholesale partners, and brand-run e-commerce. That control brings two advantages in downturns: firms can reduce discounting to preserve brand integrity; and they can manage inventory more tightly to avoid painful writedowns. The post-2008 and post-Covid evolution of inventory management created better forecasting, more direct online channels, and CRM-driven loyalty which have empowered brands to be better prepared to flex production and promotions when demand softens. Boutique networks and direct relationships with high-value clients also make it easier to maintain service levels and margin.

#### **7. International demand mix: tourism, wealthy domestic consumers, and cyclical geography**

Luxury’s geography matters. Wealth concentration in the U.S., parts of Europe, and Greater China create a mosaic of demand that does not move in perfect synchrony. When combined with the growth in the number of affluent tourists who buy high-end goods while traveling, it’s become clear that a downturn in one market can be offset by strength elsewhere. After Covid, the bounceback in cross-border tourism helped European luxury recover faster than many expected. This geographic dispersion is a natural hedge compared with domestic-only retail sectors that are fully exposed to a single national business cycle.

#### **8. The role of wealth dynamics: more wealthy households = bigger “buffer”**



Recent reports document steady increases in both the number and combined wealth of millionaires and billionaires, a structural backdrop that cushions luxury demand relative to the mass market. To put it plainly, affluent shoppers buy more when they notice an increase in the value of their financial assets (equities, real estate, etc.). And since the pandemic ended, most asset classes have surged upward. The purchasing power of this demographic continues to grow even as GDP or middle class wages soften, enabling continued purchases of high-end goods.

### **9. Marketing, scarcity, and self-reinforcing desirability**

Luxury's marketing model, tightly curated storytelling and scarcity mixed with celebrity and influencer signaling, keeps brands desirable. When brands maintain scarcity and avoid discounting, the social meaning of ownership remains high; after a downturn, when consumers resume discretionary spending, the brands that kept their aura tend to capture the first wave of renewed buying. This advantage compounds: scarcity preserves margins today and generates pent-up demand for tomorrow. However, analysts have warned that over-pricing and complacency (e.g., a brand's lack of creativity or innovation) can shrink the customer base — a vulnerability brands must avoid.

### **10. Limits and conditions: when resilience breaks down**

It's important to be candid: luxury is not completely recession-proof. If an economic downturn is severe enough to crater asset values for a prolonged period or political moves such as tariffs and trade barriers materially raise the price of foreign goods for U.S. buyers, luxury can fall sharply. Recent analyses by Bain & Company flagged that a contraction in middle class aspirational spending, regulatory/tariff shocks, or a persistent loss of creative momentum among brands could lengthen recovery time and even structurally shrink the market. Companies that over-expanded, over-promoted, or diluted brand exclusivity faced the most risk during the 2024 softening.

### **11. Attributes of brands that survive in tough times**

When analyzing data on luxury spending over time, several factors stand out as best practices for brands that can sustain or even grow consumer demand even when the overall economy stumbles. Here are five strengths to look for in brands that can shield themselves from trouble:



1. **Protect pricing and scarcity.** Preserving list prices and avoiding wide promotions maintains brand equity and margins. Investments in limited runs and controlled distribution pay off in downturns.
2. **Lean into core customers.** Use CRM to nurture high-value clients; VIP servicing is a stronger recession hedge than mass promotions.
3. **Diversify product and geographic exposure.** A multi-category luxury portfolio and geographically diversified revenue stream provide resilience when regions decouple.
4. **Manage inventory and costs.** Better inventory control, shorter production cycles for fashion, and flexibility in manufacturing reduce the risk of markdown-driven margin erosion.
5. **Monitor wealth indicators.** Keep an eye on the sentiment of the HNW population, asset markets, and tourism flow; these are early signals for demand shifts in luxury.

### **What it all means**

There's no question that downturns can and do hit luxury. But thanks to concentrated wealth, pricing power, brand equity, diversified category exposure, and superior channel and inventory control, luxury often absorbs and recovers from shocks faster than mainstream brands. But like any industry, smart strategies, flawless execution, and thoughtful leadership differentiate the companies that thrive over the long term and those that don't – like Saks.