

Fine Wine Market Report

Q3 2022 INVESTMENT UPDATE

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WINE

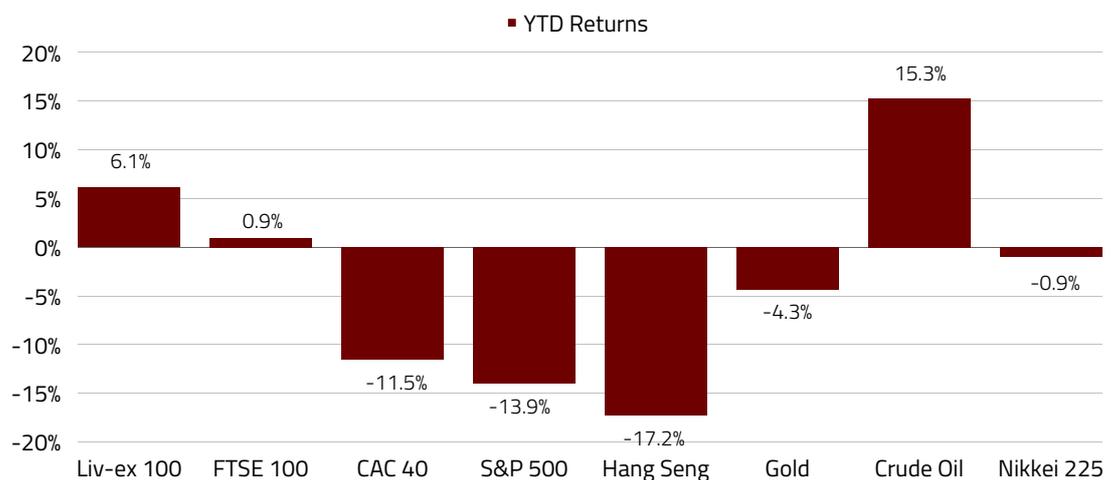


Q3 2022 MARKET UPDATE

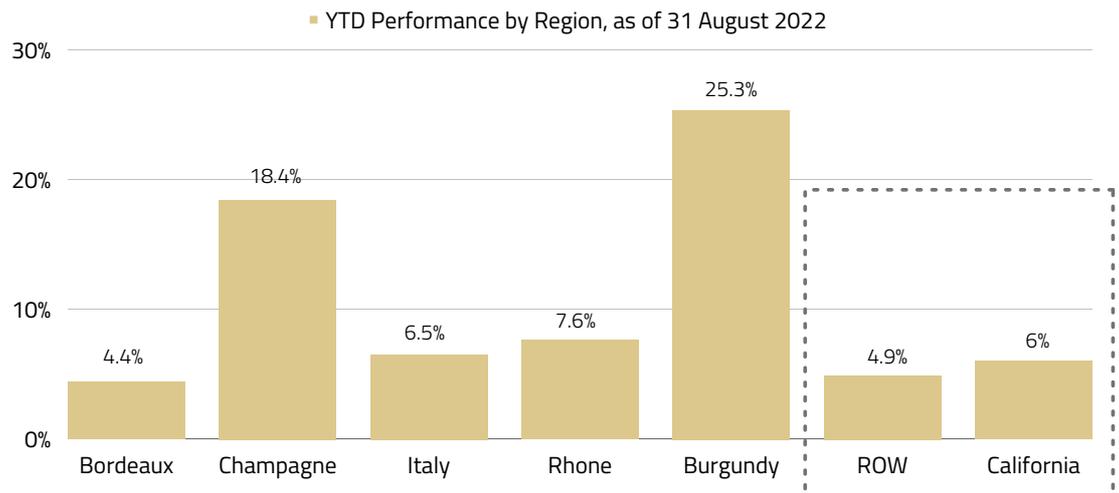
Since our last update, turbulence has continued to weigh on global markets, with sharp sell-offs across mainstream assets. Uncertainties driven by higher costs of living and central bank policies induced wobbles in the market, even oil was not untouchable, starting its slump in June on the back of demand concerns and falling over 25% since then. Sentiment-wise, there was a heightened level of bearishness and recessionary whispers picked up pace.

Yet, fine wine remained a safe harbour, registering steady gains and buffering against losses in investment portfolios, dipping slightly in the summer months after 24 straight months of rises. It's less clear that the pause is directly related to caution in the market, but rather driven by a host of factors including a quieter summer and currency effects from a USD that stands at an all time high. Still, it is one of the few assets that has delivered positive returns for investors this year, even against gold, up 6.1%.

LIV-EX 100 PERFORMANCE (AS OF 31 AUGUST 2022)



YEAR TO DATE PERFORMANCE BY REGION



What is most noticeable of the chart above is that every region has seen positive performance this year, led by Burgundy and Champagne, which made further gains after an impressive 2021. Their market shares have broken records year-to-date, with Burgundy accounting for 36.3% and Champagne 14.5%.

Burgundy is the top performer overall, as the anticipation of reduced supply over future vintages drives demand, with usual suspects including Armand Rousseau, Leflaive and Domaine de la Romanee-Conti seeing some of the biggest increases in value. Domaine Leflaive Bienvenues-Bâtard-Montrachet 2018 is the best-performing wine in the first half of the year, up 45.2%. Labels like Arnoux Lachaux and Hubert Lamy have also been very popular with our own clients.

Champagne also rose, similarly owing demand propelled by concerns of future vintage shortages. Cristal and Dom Perignon still dominate top of the charts in terms of most traded by value or volume, but Bollinger and Krug also lead in terms of price performance in 1H.

Rhone made a comeback, with back vintages among the top performing wines. The 2014 Chapoutier Ermitage Le Pavillon in fact enjoyed the biggest price appreciation among Liv-Ex 1000 constituents, along with 2015 Jean Louis Chave Hermitage and 2010 Beaucastel Chateauneuf-du-Pape.

California wines also continued to shine. It has risen 6.0% this year and 18.6% in the last one year. The 2018 Harlan Estate, which we initiated a position in Q1 has risen over 40% in investment portfolios in just a short 6 months. This is a cult producer we are very excited about- its wines super rare and standing at only 1.5% of all Napa Valley production- and we are one of the few UK fine wine specialists to have access to a direction allocation.



2021 EN PRIMEUR

The vintage had its work cut out before the campaign officially kicked off, given the reputation of the challenging growing season and the impact on the size of the crop. Pricing did not provide the support we believe the campaign needed, and many hoped, to reflect the market backdrop, similar to 2019. Demand targeted fewer producers this season and buyers were much more discerning. For investments, it meant we needed to be more selective than usual of the right opportunities, while managing allocations ever more closely. A few notable themes about this vintage:

- The whites stood out as the best received wines by critics
- Production was reduced, dramatically so for certain producers, particularly sweet wines which were practically non-existent
- There was more heterogeneity among the reds but we still found excellence, with just more concentration among the few

When the 2021 en primeur was more mixed in terms of perceptible value, their back vintages drew interest from collectors. The best performing wines in June, according to Liv-Ex, were driven by older, lesser vintages, such as 2011, 2013 and 2017.

LA PLACE RELEASES

We are currently in the midst of La Place releases, a much-anticipated season in fine wine, where new vintages and re-releases are distributed to reach an international audience. La Place has been instrumental in the expansion of the fine wine market, where negotiants with global reach, given their experience and network, help promote emerging producers and non-Bordeaux estates and accelerate their market penetration. Brand development and increased international recognition contribute to the development of a secondary market and price appreciation for these producers.

Italy and the US are the most represented countries in the La Place campaign, where the likes of Masseto and Opus One have risen to prominence. Rest of the World also gets meaningful representation and has seen considerable growth over the years. In total, close to 108 wines from 32 regions across 11 countries are planned for release via La Place this autumn alone.



So far, some of the biggest names have released their latest vintages, such as 2019's from Napa favourites Opus One and Inglenook as well as 2020's from blue-chip South American producers Seña and Almaviva. The 2010 Latour has been re-released with a staggering 500 points from critics. The likes of Palmer, Lanson and Promontory are still yet to come.

OUTLOOK

Economic forecasts for the rest of the year look less rosy than it did at the beginning of the year. While some of the negative sentiment could be priced in, uncertainty still breeds volatility. Now is an ideal time to get exposure to fine wine or build up further allocation to weather what is likely to be a fickle market in the short- intermediate term.

Currently, the bid-offer ratio on the Liv-ex trading exchange is 0.9, down from its highs coming into 2022. While this may signal incremental softness from buyers, it is nowhere near the levels of 0.2 during the onset of Covid-19 in 2020. Additionally, it suggests buying opportunities for those who can look past market turbulence and position for market inflections.

As is the case with other asset classes, timing the market is not a slice of cake. What this year has shown in spades is the essential role wine can play in your investment portfolio. It has not only proved effective with capital preservation, but also successfully delivered capital appreciation.



COMPANY UPDATE

We have moved to an integrated B2C platform where our investors have the option to list, trade and sell their wines at discretion. This offers additional flexibility and liquidity around the wines in their portfolio, while retaining full portfolio management services.

For our investors, the primary objective remains investment returns, but the enhanced capabilities widens the spectrum of optionality. Additionally, as a result of this alignment, we have moved to a new pricing structure as well to continually enhance investment experience, where there are no upfront fees on new investment purchases, effective 1st August 2022, with a flat exit fee of 5% maximum on total sales value (reduced for qualified mandates). This strengthens the flexibility to maximize returns for our investors. Company wide communication was shared in August so for anyone with any additional questions, please don't hesitate to get in touch with your portfolio manager.





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