

Fine Wine Market Report

Q2 2023 INVESTMENT UPDATE

CRU
WINE

2023 | JULY

CRU WINE LIMITED

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Q2 2023 MARKET UPDATE

CAUTION AND UNCERTAINTY IN MAINSTREAM MARKETS

Q2 started in the same way Q1 ended with another US bank closure. San Francisco based First Republic Bank became the next victim to surging US interest rates, while congress were locked in political arbitrage to prevent a default in US debt payments.

Despite this macro uncertainty US equity markets rallied driven by the fervour around AI technologies. Amazingly the “magnificent seven” (Apple, Google, Meta, Tesla, Microsoft, NVDA and Amazon) have added 30% to the value of the S&P500 this year.

UK equities fell over the quarter. Sterling strength caused by the Bank of England increasing the base rate by 75 basis points over Q2 weighed on the FTSE. Rate rises were triggered by stronger-than-expected UK jobs market numbers, wage growth and core inflation readings. This data suggested the BoE remained some way off getting on top of inflation on a sustainable basis and this sentiment is echoed by financial markets who are pricing in peak interest rates in the U.K. of 6.5%, increasing the probability of a hard landing recession. Policy makers globally are finding themselves in an economic “cul-de-sac” where things will be getting worse before they get better.

FINE WINE INDICES DECLINE BUT LONG-TERM FUNDAMENTALS REMAIN INTACT

Following a 22-month bull run the wine investment market has entered a corrective phase. The two benchmark indices, the Liv-Ex 100 and Liv-Ex 1000 are down 5.3% and 5.4% in Q2 respectively.

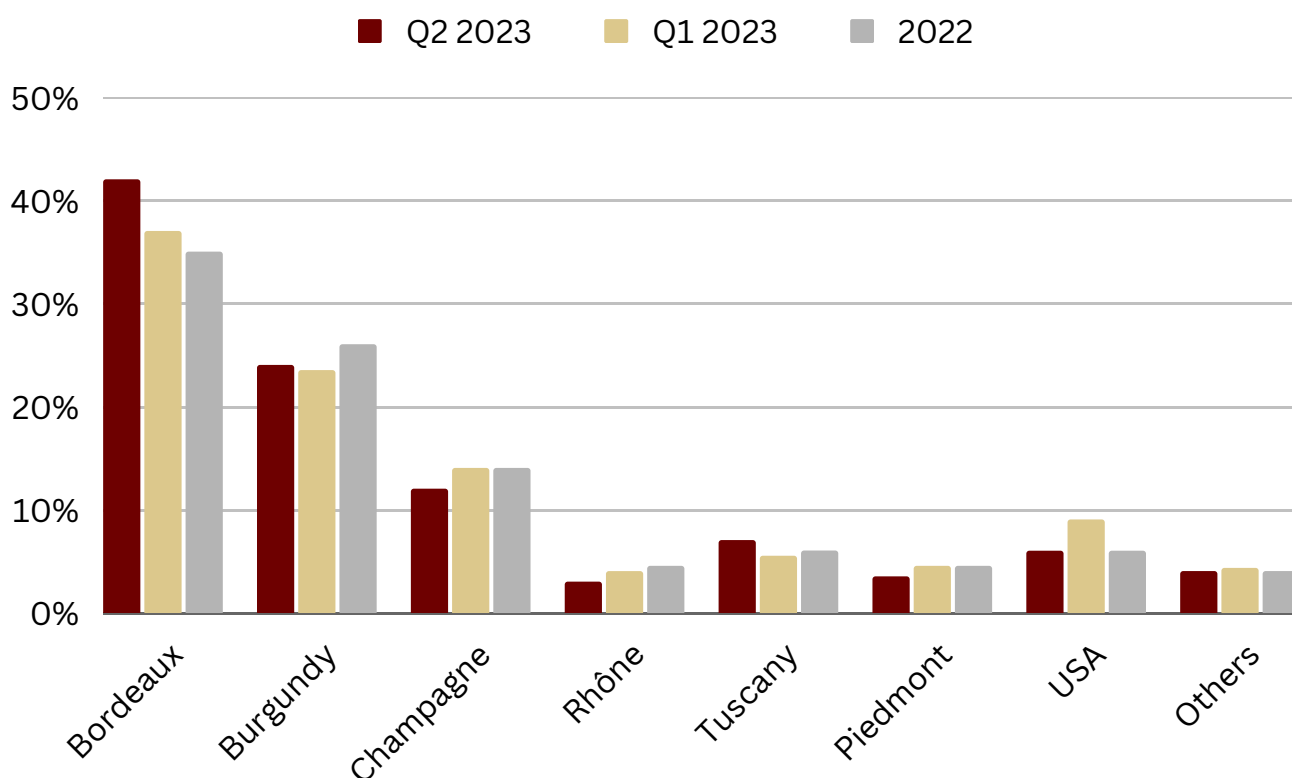
Investor profit taking, macro sentiment and a strong sterling are the main drivers of the index underperformance which we expect to correct in the short term. The long-term growth case remains intact as the supply of fine wine remains fixed and demand is increasing, driven by the premiumisation effect, increase demand from retail and institutional investors and an increase in the global number of UHNWI.

Corrective phases present opportunities to the long-term investor as pricing becomes more attractive. We highlight two of our top picks inside this report.

Liv-Ex are seeing increasing demand for Burgundy, Champagne and Italy as a share of trade by value. This further highlights the need to include these new “blue-chip” regions in portfolios as the wine investment market continues to mature and diversify.

Breakdown of Quarterly Trade by %

Source: Liv-ex.com



Demand for the top Champagne houses remained strong in the quarter and we expect this trend to continue due to the demand and supply imbalance in the region. The En Primeur campaign moved some focus to older Bordeaux vintages, as customers looked for value.

Top Traded Wines by Volume Q2 2023			
Wine	Region	Vintage	Market Price (12*75cl)
Dom Pérignon	Champagne	2013	£1,740
Château Lynch-Bages 5ème Cru Classé, Pauillac	Bordeaux	2017	£878
Louis Roederer, Cristal	Champagne	2015	£2,255
Taittinger, Comtes de Champagne, Blanc de Blancs	Champagne	2012	£1,380
Château Climens, Premier Cru Classé, Barsac	Bordeaux	2016	£499
Château Climens, Premier Cru Classé, Barsac	Bordeaux	2014	£548
Château Pontet-Canet, 5ème Cru Classé, Pauillac	Bordeaux	2015	£880

Source: Liv-ex.com



Q2 also saw the highly anticipated [2022 Bordeaux En Primeur campaign](#). The vintage undoubtedly was one of quality, however we saw release prices increase by an average of 20.8% YoY vs an expected 7%. As a result, we saw increased interest in more mature vintages, with buyers seeking value outside of the campaign. Despite the price increases, the 2022 campaign provided some great investment opportunities, and we highlight one of our favourites in this report.



The 2022 vintage will be remembered for its high temperatures, high point scores and high prices. Despite both heat and drought concerns over the 2022 summer period, advances in winemaking techniques and heat adaptations on the vines, the quality of the 2022 vintage is set to rival that of 2020, 2019 and 2016. You can read our full vintage report [here](#).

En Primeur was traditionally used to generate working capital for the châteaux however given the popularity of the top Bordeaux wineries, this source of futures funding is no longer required. The average release price for the 2022 vintage is 6% higher than the average market price of the 2016 vintage, which came as a surprise to many, given the 16s ageing should denote a premium.

The 2022 vintage's quality, as well as inflationary pressures and lower volumes released were all cited as reasons for the rising prices.

Despite the price increases the 2022 EP campaign provided some excellent investment opportunities for the savvy investor. When looking at year on year price increases, it is also important to factor in both critic scores and supply constraints when qualifying a wine's intrinsic value. One standout from the campaign was the 2022 release of [Château Beychevelle](#).

FOCUS ON: CHÂTEAU BEYCHEVELLE

Beychevelle has built a strong following in China partly due to its label, which resonates with the theme of the annual festival. Last year Beychevelle was the second most bought producer in China and we expect the strong eastern demand to continue as the country exits its stringent lock down measures.

Top Traded Wines in China 2022		
Wine	Appellation	Region
Château Lafite Rothschild	Pauillac	Bordeaux
Château Beychevelle	Saint-Julien	Bordeaux
Château Angelus	Saint-Emilion	Bordeaux
Rothschild & Concha y Toro, Almaviva	Maipo	Chile
Château Latour	Pauillac	Bordeaux

Source: Liv-ex.com

Beychevelle shows strong consistency of returns across older vintages. There is a 0.81 correlation (very high) between age of vintage and price.

Vintage	Market Price IB (6*75cl)	Return (%)
2006	£500	+366%
2008	£540	+324%
2014	£520	+151%
2017	£500	+60%
2022	£418	

Source: Liv-ex.com

95-97+ Points – Jeb Dunnuck

"I was able to taste the 2022 Château Beychevelle on multiple occasions, and it never failed to impress me... it's one of those wines that makes you stop and say 'wow' due to its purity, depth, and texture."

94-96 Points – Antonio Galloni

"The 2022 Beychevelle is fabulous... in 2022 is its surprisingly vibrant and fresh, almost shockingly so."





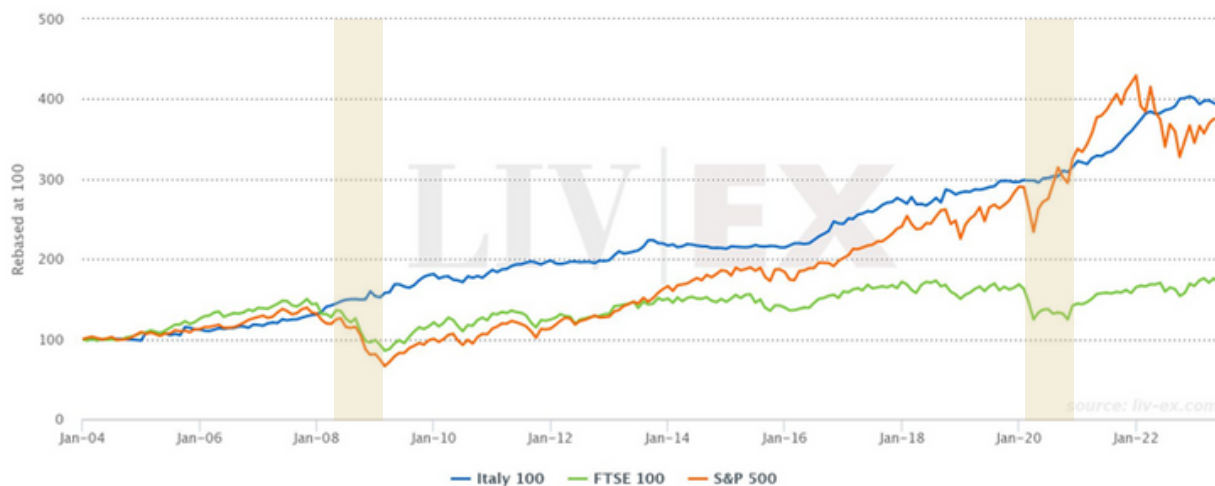
FOCUS ON: TUSCANY

With the current macro headwinds and global policy makers walking a tight rope between growth and managing inflation, we have decided to focus on a region which historically outperforms in challenging macro conditions.

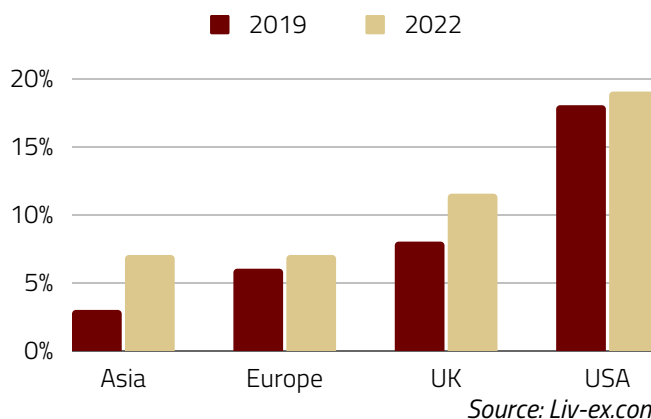
We can see from the chart below that in the previous two bear markets, the global financial crisis of 2008 and Covid in March 2020, that the Italy 100 Index was largely unaffected despite the FTSE 100 and the S&P 500 experiencing negative effects of the macro downturn.

Performance of Italy 100 against mainstream equities

Liv-ex regional indices' performance year-to-date - Source: Liv-ex.com



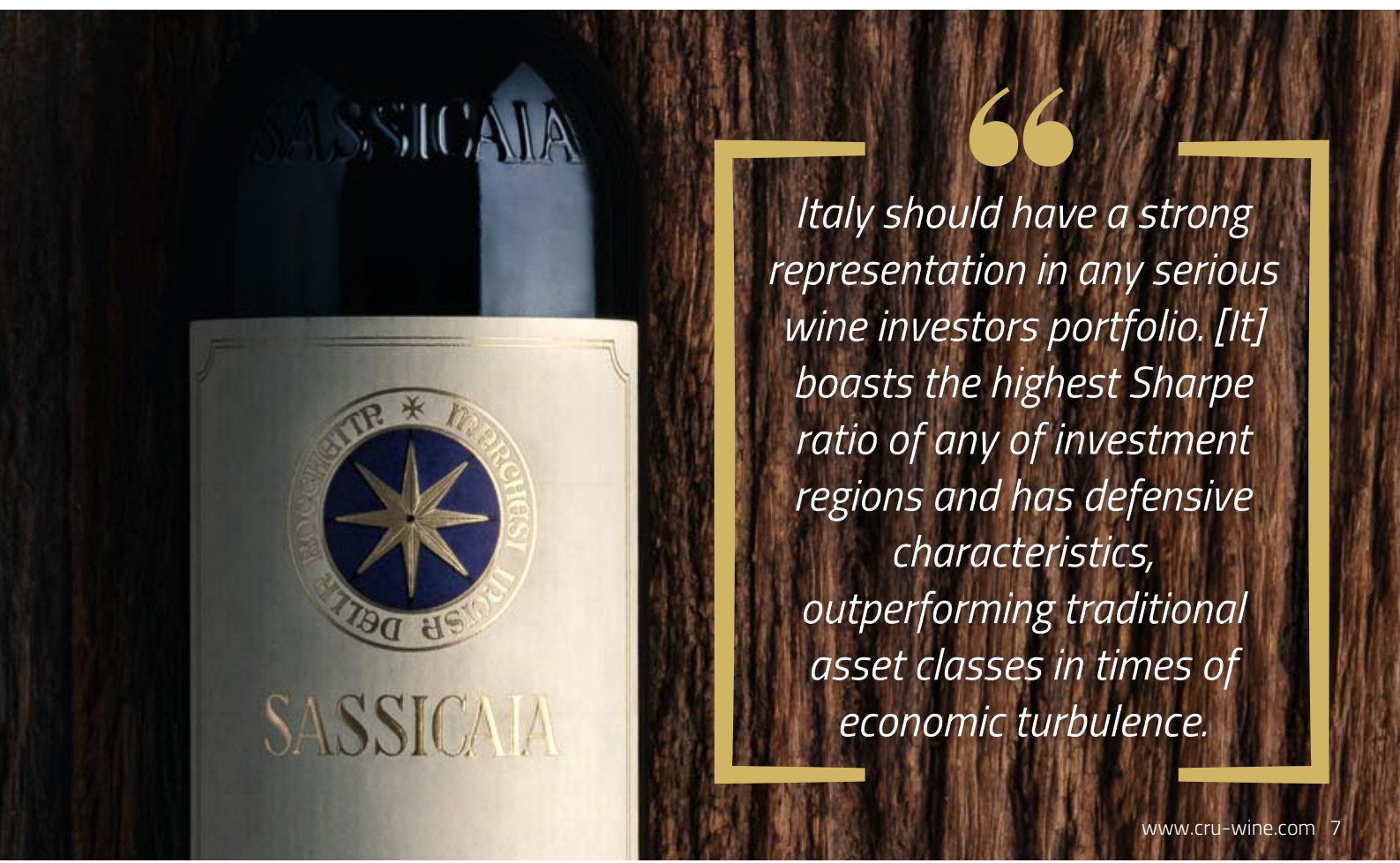
If we compare global demand for fine wine by region we can see that between 2019 and 2022 demand for Italian fine wine grew in all regions. The chart opposite depicts the Secondary Market Buying Habits by regional trade share value % across both years.



We expect Italian fine wine to continue to grow market share going forward. Following the 2022 En Primeur campaign, drinkers who enjoy the Bordeaux blend style but do not wish to pay EP prices will be drawn to the Super Tuscan counterpart which have been gaining notoriety through brands like Masseto, Solaia and Sassicaia.

Regional Investment Characteristics							
	Bordeaux 500	Bordeaux Legends 40	Burgundy 150	Champagne 50	Rhone 100	Italy 100	Rest of World 60
Standard Deviation (Risk)	2.48%	4.33%	8.01%	7.52%	4.32%	4.46%	5.38%
Return	3.40%	4.23%	13.59%	13.02%	4.29%	8.08%	4.33%
Sharpe Ratio	1.37	0.98	1.70	1.73	0.99	1.81	0.81

Italy should have a strong representation in any serious wine investor's portfolio. The Italy 100 Index boasts the highest Sharpe ratio (risk adjusted return) of any of investment regions, beating both Champagne and Burgundy and has defensive characteristics, outperforming traditional asset classes in times of economic turbulence. We have selected two up and coming Super Tuscan wines we believe offer great risk adjusted returns over both the mid and long term:



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1 First up is the “Lafite of Tuscany,” the 2020 Fattoria Le Pupille ‘Saffredi’

There is little doubt that Fattoria Le Pupille’s ‘Saffredi’ sits at the top table of Tuscan reds, however, although it tends to score as highly as its more illustrious counterparts such as Sassicaia, Ornellaia and Solaia, it sells for around a third of the price. For those in the know, this is where the smart money goes!

Fattoria Le Pupille is run by the charismatic Elisabetta Geppetti who under the watchful eye of the late Giacomo Tachis (creator of Sassicaia, Tignanello and Solaia) set about creating Saffredi, their flag ship wine, leveraging the Bordeaux style to create a true Super Tuscan. Recently, Elisabetta recruited wine maker Luca d’Attoma (previously from top Super Tuscan estate Redigaffi) and the improvement in scores speak for themselves!

Scores from JamesSuckling.com		
Vintage	Saffredi	Tignanello
2020	98	-
2019	99	95
2018	97	92
2017	97	94
2016	99	93

The 2020 Tignanello is currently priced at double that of the Saffredi despite consistently underscoring its Tuscan neighbour. Tignanello was the original Super Tuscan however took some time to gain global notoriety however in recent years this has drastically changed.

Saffredi has all the fundamentals to be the next Tignanello. Consistent high scoring from recent vintages driven by a new wine maker, a strong heritage linked to the great Giacomo Tachis and low production of 2500 cases annually.

The 2019 Saffredi was rated the #4 all-time Super Tuscan by the Wine Independent and #8 best wine of 2020 by the Wine Spectator. These accolades are leading indicators for future performance as the brand name grows and supply is fixed.

Such is the quality of Saffredi, it garners a drinking window of 20 years plus. We would recommend buying 2+ cases with the view of taking profits in the mid-term while maintaining exposure with the second case, allowing the brand and the wine to improve with time.



2020
Fattoria Le Pupille
‘Saffredi’
Maremma Toscana IGT
£390 IB per 6*75cl



2

Our second top pick is one of the already established, yet still rising, stars of the Super Tuscan wine scene, Le Macchiole's 'Paleo'.

Alongside Clos Rougeard and Cheval Blanc, Paleo is up there with the finest and most important Cabernet Francs in the world today. Produced from some of the most desirable vineyards in Tuscany located next to those of Tenuta dell'Ornellaia, this is a wine that most Right Bank Bordeaux Chateaux dream of making.

With consistently high scores amongst recent vintages (98 (2019), 97+ (2017), 97 (2018/16), this is a strong leading indicator for future price appreciation as the producer's name grows.

Older vintages obtain higher pricing with ageing. The 2019 vintage despite being the cheapest also garners the highest point score and shows strong upside potential when compared to older vintages.



2019
Le Macchiole, Paleo
Bolgheri
£385 IB per 6*75cl



Q3 OUTLOOK

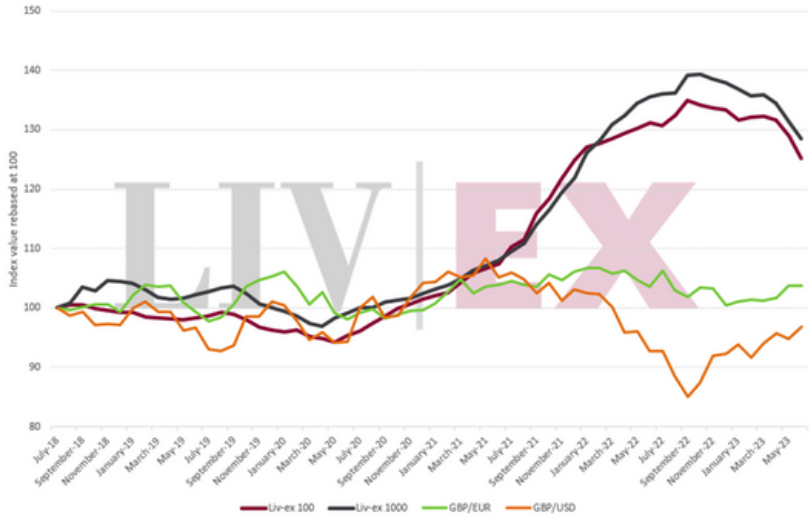
Economic forecasts continue to look challenging going into Q3 and we believe this will affect the fine wine market.

Sterling, which is the predominant currency for fine wine looks set to remain strong as domestic inflation remains sticky, prompting further base rate hikes. For reference, Cable (GBP/USD) is up 6.69% YTD, with both the Liv-Ex 100 and 1000 down 6.1% and 6.8% respectively.

Liv-ex Index Value v. Currency

Source: Liv-ex.com

Sterling, Liv-ex 100 and Liv-ex 1000



Source: Liv-ex.com

It is important to note that fine wine prices are still far higher than in early 2020 due to the strength of the 2021/2022 rally. It is also important to note that historically, wine market consolidation phases are typically short in duration (<2years) and the magnitude of the correction is relatively benign compared to traditional asset classes.

Outside of the short-term macro head winds, the fine wine market fundamentals remain intact, driven by the premiumisation effect, the increase in demand from both retail and institutional investors and an increase in the global number of UHNWI. Fine wine continues to show low correlation to traditional asset classes, making it an excellent diversification tool for all investors with a mid to long term time horizon.

The correction in the market is creating some very attractive buying opportunities for the savvy mid-to-long-term investor, where liquidity for the top wines can be challenging in bull markets and often requires paying a premium.

The wine world's focus will now shift to [La Place de Bordeaux](#) in September. Originally intended to sell only the wines from Bordeaux, since 1998 the marketplace has evolved to include some of the most prestigious wines from around the world. Anticipated releases include Robert Mondavi's Seña from Chile, Philippe Bascaules, Inglenook Rubicon from Napa Valley and Champagne House Philipponat's Clos Des Goisses! At Cru Wine we will keep you updated with all the newest releases from La Place and the best investment opportunities for your cellar!



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