2020 Vintage En Primeur Investment Perspectives

BORDEAUX INDEX
Fine Wines & Spirits

2020 Vintage En Primeur Investment Perspectives

Introduction

En Primeur had seen a resurgence of interest across the 2014-2018 vintages following the particularly quiet campaigns for the 2011-2013 vintages. Investment returns, especially for the 2014s and 2015s were good or better and despite a glut of fine vintages, reasonably well-judged – if at times slightly marginal – First Growth pricing had managed to maintain interest and momentum.

The 2019 En Primeur campaign came against the unprecedented backdrop of a global pandemic, which – aside from the broader uncertainty – had caused modest market softness in younger Bordeaux. While there were clear pointers towards this being a technical and temporary move, as indeed proved to be the case, the combination of factors led to a more constructively priced campaign where demand far outstripped (reduced) supply.

For the 2020 vintage campaign, a number of things have changed: the Bordeaux market has in the last six months had strong market momentum across the board; there is general acceptance that remote tasting does little to diminish the ability to assess vintages; and more broadly there is much increased confidence across asset classes.

What has not changed though is that prices need to make sense to be a buyer of En Primeur for investment purposes. As we shall outline in this report, while this is clearly a strong vintage, its relative positioning vs. 2019 and – possibly – 2018 means that buying at marginal pricing is likely to have limited merit.

Market Context: Strong Bordeaux Momentum

We commented at length in our 2020 Market Review / 2021 Outlook Report that there were already sufficient signs of upwards pressure on Bordeaux prices such that we were able to make a clear call for a strong Bordeaux performance in 2021.

Indeed, this is exactly what we have seen to date, with prices up 5-6% on average, but more pronounced (10% area) moves in some wines and vintages, especially younger First Growths and positions from 2005 and older. While highlighting some of the outperformers, it is equally significant that there have been increases across all categories – Firsts, Super Seconds, Right Bank. Put simply: the market has momentum.

Importantly, demand has been global without over-reliance on any region. Asia has seen a big resurgence of Bordeaux buying after a quiet H2 2019 (when Hong Kong political disturbance decreased trading) and 2020; but the US has been active following the suspension of trade tariffs and collector / investor demand from the UK has also been very healthy.

We see this momentum continuing or potentially even increasing in the second half of the year, with few potential headwinds beyond a sharp reversal of the pandemic recovery curve.

2020 Vintage En Primeur Investment Perspectives

2020 Vintage in Context

References to 2020 being the third in a trio of top vintages (2018-2020) have been front and centre in the promotion of the wines and it seems that critics – just about, in some cases – agree with this assessment, for example:

- Lisa Perrotti-Brown, Wine Advocate: *"2020 is an irregular vintage that is perhaps on a par with 2017 in terms of the variability of quality; however, the peaks of quality far exceed 2017 and are right up there with 2018 and 2019. Therefore, for some areas and terroirs, this is absolutely the third outstanding vintage in this trio."*
- Neal Martin, Vinous: *"The headline is that 2020 is an excellent vintage … At first glance, 2020 does not match 2019, though the difference is marginal. It is easy to generalize. There are instances where 2020 will surpass 2018 and 2019. Proof will be once all are in bottle and judged side by side."*
- Antonio Galloni, Vinous: *"Readers will find many fabulous wines on both the Left and Right Banks, but on a château-by-château basic … Based on what I have tasted so far, I don't see the consistency of 2019 or possibly even 2018, and yet the best 2020s are incredibly exciting."*

As with 2018, vintages of significant quality heterogeneity give rise to challenges in interpreting investment potential - vintage reputation is one of a few material inputs into future performance.

2018 and 2020 are clearly uneven vintages but with strong scores for many of the key wines (First Growths, top Right Bank), whereas 2015 for example is a more even vintage but mostly without top scores for key Pauillac and Pomerol wines, for example. This is an important distinction: 2015 as a vintage has in places seen slower performance in particular in the last 12-18 months because of a – still evolving – perception that it may not in the long term have the reputation of a strong investment vintage, given the infrequent "peaks". Vintages like 2018 and 2020 have the reverse: the key wines mainly performed well but consistency falls off reasonably quickly, something which should on balance drive a superior vintage reputation given the significance of said key wines.

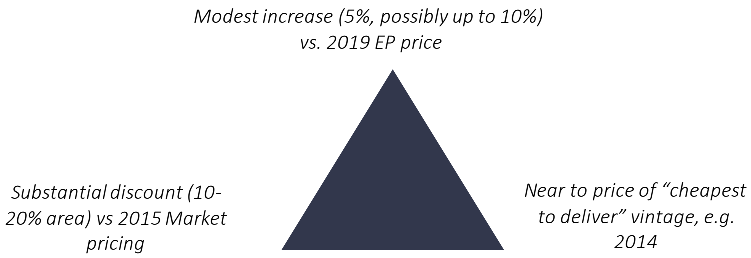
However, as ever, things are not quite that simple. It is noteworthy that neither Martin nor Galloni – currently – score any wines as even having potential for 100 points; Galloni had potential 100 pointers in 2018 and 2019 and Neal Martin did in 2019. We appear to have a vintage where the "peaks" are a defining factor of the vintage, but at the same time the peaks are perhaps not quite as high as in other vintages from this trio or (certainly) from 2016, for example.

This leads us to conclude that trading at appropriate discounted pricing, referencing 2019 En Primeur and key datapoints on the secondary market curves, is as important as it was for the 2019 vintage, despite the more favourable market backdrop. There is an argument to be made that in a rising market, any discount to the secondary market curve is worth taking, but it is important not to lose focus on the added liquidity and certainty relating to physical, usually "final scored" wines.

2020 Vintage En Primeur Investment Perspectives

What is the "Right" Price?

There is of course no formula for determining the right price for En Primeur releases and we therefore prefer each year to work with three key factors to triangulate towards assessing attractive vs. marginal investment entry levels. For the 2020 vintage we believe this triangulation looks something like the below:



While the above is related most directly to the First Growths, applying such a framework also to Super Seconds should be equally valid, albeit that segment has been tougher in recent En Primeur and therefore the requirement to meet or exceed the "criteria" might be applied more strictly. The Right Bank is different of course for heavily allocated, low production wines, but similar for larger production wines, albeit the "cheapest to deliver" criterion is less relevant as there is often more of a distinction between "prime" and "non-prime" vintages.

Cheval Blanc is a useful example given it has already been released. £4,650/12 was (i) a 3% increase on 2019 EP; (ii) a 21% discount to 2015 market pricing; (iii) not the "cheapest to deliver" but Cheval Blanc has a prime/non-prime tiered price curve so this is irrelevant in context. It was therefore a clear "Buy".

A final important observation relates to the 2018 vintage, where secondary market prices currently look high on a relative value basis. These are arguably a red herring when assessing the 2020 vintage as the 2018s are recently physical and EP prices were high, such that we have some expectation that prices may drop from current levels (albeit recent buying interest has been higher than we might have expected).

Does Market Supply Render Pricing Somewhat Academic?

A defining feature of the 2019 vintage campaign was substantially reduced volumes released to the market. Chateaux clearly prefer to hold higher quantities in-house and participate in the subsequent market upside. As we have argued previously, rather than acting as an impediment to price rises, we believe that the managed nature of subsequent sales of from-source stock simply means that a higher % of the production is in the hands of parties focused on prices going in the right direction. We are also constantly surprised at the apparent reduced levels of stock available directly from Bordeaux (from chateaux or elsewhere) for 2011-2017 physical back vintages, something which supports our thesis and partly helps to explain the strong performance of younger vintages in the year to date.

We expect supply constraints to be similar in this campaign, especially given production was generally down on 2019. This does have the broad effect that chateaux may feel that there are enough willing/enthused En Primeur participants to allow them to push through higher release prices, such that we may see many trading firmly within what we would describe as the "marginal" zone. If this transpires to be the case, there are plenty of interesting physical trades to turn your attention to – EP may cast an interesting light on 2012, 2014 and 2015 for example.

Disclaimer

These materials have been prepared solely for informational purposes, and do not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any security, product, service or investment.

The opinions expressed in these materials do not constitute investment advice and independent advice should be sought where appropriate.

The information provided in these materials or in any other communication is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would give rise to to any registration requirement within such jurisdiction or country.

This document does not provide tax or accounting advice and you should consult your own advisers in relation to these matters if required.

BORDEAUX INDEX
Fine Wines & Spirits