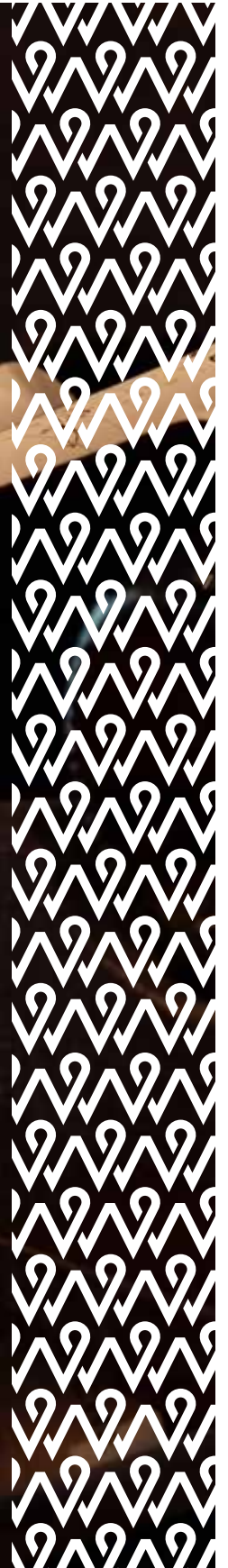

2023'S BIG
INVESTMENT THEMES:
Fine Wine and Beyond



MESSAGE FROM THE FOUNDER & CEO

Alexander Westgarth

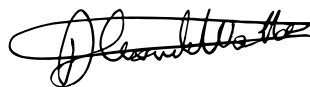
After the rollercoaster ride of the early 2020s, it was inevitable that 2023 would be left reeling; dizzy from market upheaval and runaway inflation levels. It was the year central banks desperately slammed the brakes but often ended up skidding into new danger zones. Soaring interest rates led to major banks collapsing, mass tech lay-offs, property market standstills and the bond market sliding into chaos. With so much market noise deafening the space, investors needed to focus hard on their long-term strategies and resist herd mentalities.

There were good things too. Protecting the planet from climate disaster took on a new urgency, with financial institutions starting to throw their weight behind the cause. We saw record-breaking green bonds transform the

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market, and regulators rolling up their sleeves to join the fight. Overall, 2023 was a year of reckoning, recklessness, and rebellion. For my universe of dedicated fine wine investors, the landscape was good but not perfect. The market benefitted buyers who took advantage of newly created pockets of opportunity. This is why demand for fine wine remained strong despite the ongoing macroeconomic challenges.

The following pages outline the big investment trends that defined 2023 from banking failures, inflation, rising interest rates and the increased reliance on AI. We look beyond fine wine to gain insight into the broader investment landscape and ultimately the market environment of tomorrow.



ALEXANDER WESTGARTH
Founder and CEO of WineCap

STOCKS MAKE UP FOR LOST TIME



The S&P 500 suffered a terrible year in 2022, delivering the worst returns in 52 years. After The Economist published this news, the market dipped even further. The plunges were fuelled by rampant inflation and fear of interest rate hikes. During this time, which saw stocks skydive, fine wine rocketed. By the end of October 2022, the Liv-ex 1000 index, which represents the price movements of some of the most sought-after fine wines, had risen 40% since 2021. Despite a mild market correction in the final months of 2022, wine investors strolled into the new year comfortably.

Stock market investors were still clearly worried in the first quarter of 2023, with some pulling away from risky assets. However, despite the hiking interest rates and flurry of bank closures, the market held firm. Stocks remained bearish but started to look better than the year before.

As 2023 progressed, so did the stock market. Making up for lost time, major indices around the world rallied. Investors put their faith back into businesses again, although it is worth noting that growth was slower in Asian markets (excluding Japan). Over 2023, the stock market bounced back as investors re-opened their wallets. Meanwhile, fine wine prices saw a steady decline throughout the year, inversely mirroring the stock market. In the first nine months of 2023, the Liv-ex 1000 dipped 10%.

40%

The price movements of some of the most sought-after fine wines since 2021.



Spotlight: 2023 saw technology stocks rally amid mass layoffs

The collapse of Silicon Valley Bank signalled the end of an era for start-ups and tech companies. Venture capitalists dramatically reduced their funding, dropping deals by 61% in Europe. They pressured existing holdings for returns. The demand for profit led to an unprecedented surge in tech lay-offs. So far, 170,000+ skilled workers have been made redundant and the number is growing.

At the same time as the layoffs, the world became fascinated with generative AI like ChatGPT. With investors getting excited

about the potential, tech stocks rallied. The technology-dense NASDAQ, for example, grew by a whopping 40% in the first half of the year. As more tech professionals entered the workforce, many more companies improved their tech offerings, leading to yet more demand. Today, technology seems to be infiltrating every sector with gusto. Even investment houses have started using AI to create new asset management funds.

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INTEREST RATE FRENZY



Throughout the 2020 pandemic, central banks went into full battle mode. They printed more money to artificially jump-start the economy – a process known as quantitative easing (QE). However, with hindsight, perhaps they overdid it.

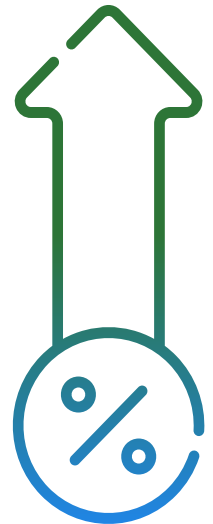
By 2022, the world was flushed with too much money, resulting in red-hot inflation ripping through the markets. To pour ice on the fiery situation and undo some of the damage, major central banks like the US Federal Reserve were forced to hike up interest rates in 2023 multiple times. Since July 2022, the Fed raised interest eleven times. In the UK, the Bank of England did it fourteen times.

As a result, struggling banks tumbled as the rampant raises pulled the rug out from under their feet. The timing was especially unfortunate as US regulations about how much money banks should reserve were slashed under the Trump Administration. This left some institutions woefully underprepared for dramatic interest rate rises.

By the end of March 2023, Credit Suisse, Silicon Valley Bank, Signature Bank and Silvergate Bank had all collapsed. Understandably, investors were fearful and continued to move more cautiously with every rate increase.

However, by the third quarter, the Fed took a break from hiking, which helped to restore some confidence. Over the next months, investors will be paying close attention to signals from the central banks about inflation and interest rates. They will likely continue to dominate the market in the next year.

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Spotlight: The UK real estate market takes a hammering

When central banks raise interest rates, they do it to slow the economy and control inflation. But one of the potential causalities is the real estate sector. Mortgages tend to become more expensive, and fewer people can afford to buy property.

In the UK, homeowners got a double whammy. In September 2022, the announcement of unfunded tax cuts in the catastrophic Truss-Kwarteng mini-budget had already sent rates skyrocketing. It also severed goodwill from international investors.

But there was more to come. In a bid to cool down the red-hot inflation levels, the Bank of

England cranked up interest rates 14 times in 2023. The combination of these two factors left many British mortgage-holders with interest rates upwards of 6%. Unsurprisingly, the property market slowed – at times almost to the point of stopping. As demand has flopped, so have prices. A housing shortage now grips the nation. The affordable housing crisis has also left some investors in an ethical quandary about whether it is morally acceptable to invest in buy-to-lets anymore.

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THE END OF CHEAP BORROWING



Over 2023, interest rates (called coupons when applied to bonds) exploded to new heights. At the time of writing, a US Treasury Bond for two years will return coupons of 5% for investors. This is the highest rate since 2007, a year before the 2008 financial crisis. In the UK, coupons are the highest they have been since 1998. The high rates signal an end to the era of cheap borrowing, which could limit growth for some economies.



However, for savvy investors, the end of 2023 is an opportunity to go bond shopping, as high-quality assets are available for low prices.

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THE GREEN BOND ERA BEGINS



Another interesting development in the 2023 bond market was the rush of demand for green bonds. This is when governments, corporations or organisations borrow money to finance sustainable projects.

There have been a lot of developments over the past months. 2023 started with India issuing its first green bond in January. On March 1st, the EU agreed to a long-awaited green bond rule book. In August, E.ON Energy issued two green bonds to finance renewable energy projects.

So far in 2023, green bond issuance has increased 8% on last year. At the time of writing (October 2023), it has exceeded \$505 billion (£412 billion). We expect sustainability-linked funding will keep flowing into next year.

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DEMAND FOR GOLD CONTINUES



As central banks cranked up interest rates, they also began to stockpile gold. From November 2022 until September 2023, reserves grew over 8%, amounting to more than 165 extra tonnes. Although the price of gold fluctuates from time to time, it is still regarded as one of the best shields against inflation. Because of this, it is typical for governments and central banks to buy gold when they are concerned about high inflation. It is one of the mechanisms they tend to use to try to bring it back down.

But central banks were not the only ones hungry for gold. Since the start of the pandemic, investment demand skyrocketed too.



The precious metal was not cheap. By July 2020, the price of gold had shot to its highest price of \$2,342 (£1,913) per ounce, a 36.5% increase on the year before. At the time of writing, the cost of gold sits at just below \$2,000 (£1,633) per ounce at \$1,949 (£1,592). While the prices are dwindling downwards, gold is still a relatively expensive way to hedge against inflation.

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ENERGY PRICES STABILISE



Over the past few years, the war in Ukraine has led to an international boycott on Russian energy. The EU (excluding Bulgaria), UK, North America and Japan are the major economies leading the charge. In turn, the short supply of oil and gas led to price hikes and fuel shortages, further worsening the cost-of-living crisis.

In January 2019, a barrel of crude oil cost less than \$50 (£41); however, by March 2022 prices had more than doubled, hitting \$123.70 (£101). As energy is essential for homes, businesses and the entire economy, governments were keen to bring the price down with new suppliers and sources. Their efforts have partly paid off. By June 2023, crude oil prices sank to under \$70 (£57) a barrel. During the second quarter of 2023, the industry-heavy Dow Jones started to regain lost market share.

However, markets have faced new headwinds. The Israel-Hamas conflict has seen a near 6% jump in energy prices.

Another major factor is the climate crisis, which will put consumer and regulatory pressure on providers to switch to renewable sources. The 28th United Nations Climate Change Conference (COP 28) is taking place at the end of November in Dubai and will be led by the CEO of the world's twelfth-largest oil company. In October, climate activist Greta Thunberg was charged following the Fossil Free London protest. Meanwhile, the UK has been slammed for u-turning on climate promises and signing off on 100 new oil fields. We anticipate the voices on both sides to get louder over the next year. Expect the phrases, 'energy security', 'just transition', and 'stranded assets' to crop up a lot.

SUSTAINABILITY TAKES CENTRE STAGE



Climate change has been interwoven with almost all the events of 2023. As environmental considerations begin to take hold, investors, customers and regulators are all demanding more from their holdings.

In the EU, leaders stormed ahead with their Green Deal. The EU Emissions Trading System (EU ETS) has already been running for some years now, meaning that certain businesses need to pay for the greenhouse gases they emit. However, for the first ten years, the EU carbon credits had been around €2 (£1.74) per tonne of greenhouse gas emissions. In 2023, that changed. In March, credits peaked at €103.40 (£90) per tonne. At the time of writing, they stand at €85.68 (£74.70). In 2023, the EU Commission announced an extension of the scheme to other sectors including transportation, starting in January 2024. This means that fossil fuel-reliant businesses trading in the EU will need to pay more taxes, and therefore become less profitable for investors. The EU ETS is designed to encourage businesses to switch to renewable energy, while disincentivising investors from putting their money into fossil fuel emitters.

Other regions are following suit and building their own carbon markets. On August 16th, President Biden signed the Inflation Reduction Act, which introduced taxes for big companies emitting greenhouse gases, taking a leaf from the EU ETS's book.

The climate crisis has taken centre stage among institutional investors too. One of the most polarising topics in 2023 was around fiduciary duty, and whether pension funds should consider sustainability as they act in the best interests of their clients. In October 2023, the debate reached the US Federal Court. Judge Matthew J. Kacsmaryk ruled that considering environmental, social and governance criteria of investments does not contradict fiduciary duty, and that investment managers can factor it in. There is an undeniable momentum building for finance to step up and fund the transition to a net-zero world.

Notably, the conversation has also moved on from carbon emissions. 2023 was the year when investors started to ditch the so-called 'carbon vision' and began considering sustainable finance through a wider lens. The scandal of privatized water companies pouring raw sewage into the UK's rivers drew mass attention to local nature, while conversations about nurturing sea life, pollinators and biodiversity appeared to become more frequent in financial conventions. In 2023, the Lord Mayor of London hosted a nature finance event in the city, drawing attention to the plight of the environment.

At the time of writing, EU carbon credits stand at €85.68. In 2023, the EU Commission announced an extension of the scheme to other sectors including transportation, starting in January 2024.



SUSTAINABILITY DRIVES FINE WINE DEMAND

The growing attention towards sustainable investing has led many to the fine wine market. According to the results of our Global Wealth Manager Survey 2023, the most common reason among UK investors (54%) to seek alternative avenues like fine wine is that it is a sustainable asset class with a low carbon footprint. Its strong returns (48%) and tax efficiency (42%) follow suit.

Fine wine is getting greener. Organisations like Sustainable Wine are making advancements across the industry from production to retail. In October, a group of wine retailers signed up to the Sustainable Wine Roundtable Bottle Weight Accord – an agreement to reduce the average weight of the 750ml still wine bottles they sell from the current average of approximately 550g (about 1,300g for a full bottle) to an average bottle weight below 420g (1,170g full) by the end of 2026. One of Burgundy's most important producers and négociants, Albert Bichot, filling six or seven million bottles a year and exporting to 100 countries, has already reduced the weight of their bottles from 700-750g to 450g.

54%

Seek alternative avenues like fine wine as it is a sustainable asset class with a low carbon footprint.

08.

Industry attention is also moving towards preservation, with organisations like The Old Vine Conference making strides. A rising number of producers are implementing organic and sustainable practices – for instance, Moët Hennessy achieved new organic certifications for three estates, highlighting their commitment to soil regeneration and soil health initiatives.

The increased adoption of organic and sustainable practices is not only beneficial for the environment but also presents an opportunity for investors, as the influence of ESG factors over successful portfolios continues to grow.



Concluding thoughts: three words

Tech, interest, and sustainability. These three words came to define markets in 2023. And as we look forward to the year ahead, they are unlikely to fade into the background.

Technology has always been the beating heart of the industry. The stock markets themselves were built off the back of the telegram wire in the mid-1880s. And investors have continued to power innovation after innovation ever since. Our world is becoming increasingly more digital, and this includes the fine wine industry.

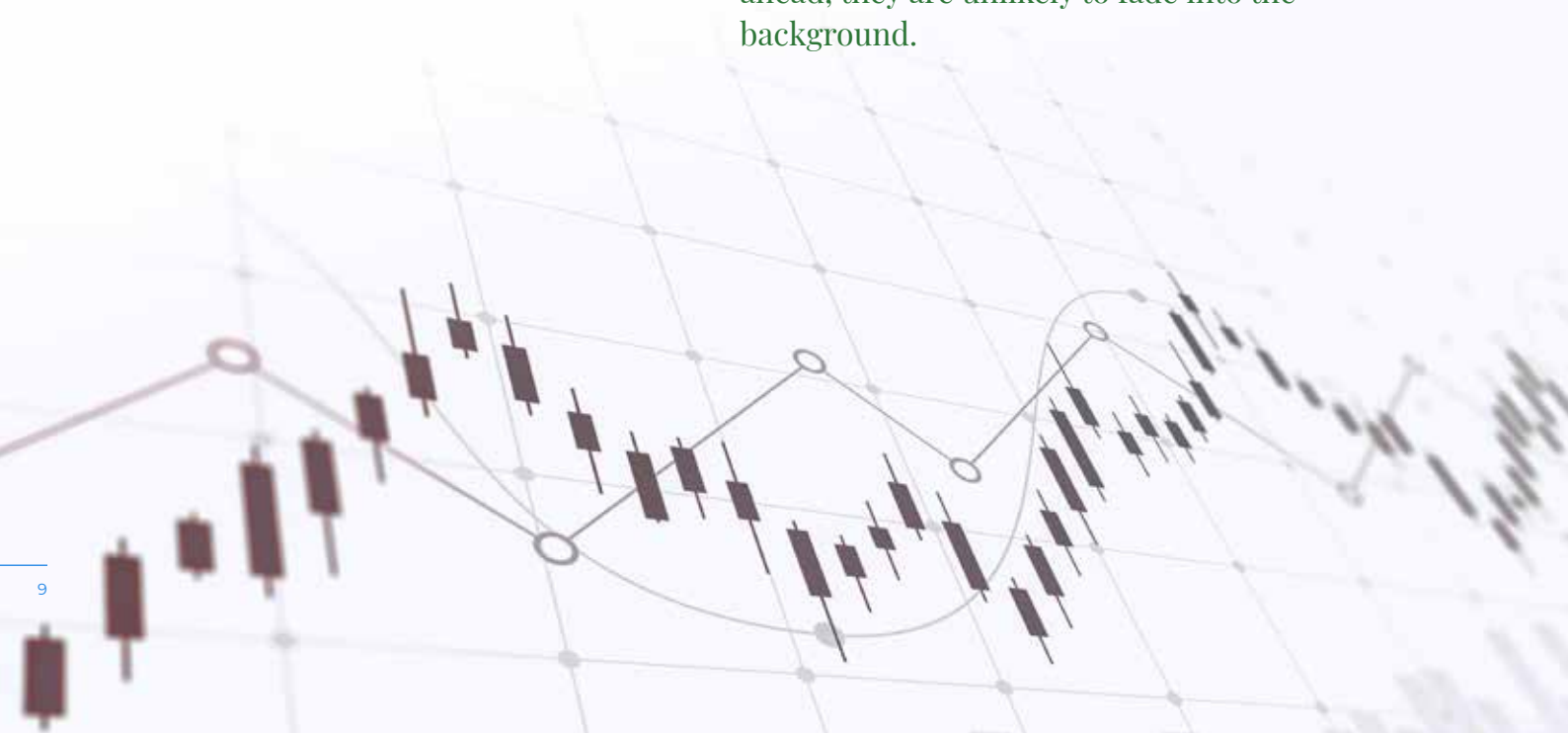
Interest rates will no doubt continue to sizzle away at bond markets over the next year. For start-ups, the double whammy of expensive borrowing and pressure for returns could leave many feeling hot under the collar. Nobody knows for sure when the housing market will begin to unfreeze in the UK, but it will probably take some time.

For now, prices are held under ransom by unattainable and unattractive mortgages. Fortunately for investors, tangible collectable assets like gold, art and fine wine are famously inflation-resistant. They should be relatively shielded from this interest blizzard.

Without our planet, we have nothing. And so over the next year, we will continue to research, post about and uncover the most sustainable practices for wine collectors and investors as their attitudes evolve.

The headwinds that the year might throw at us can be overcome by focusing on the endgame. We are confident that no matter the market environment, fine wine will always be highly in demand.

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