THE IMPACT OF ECONOMIC POLICY UNCERTAINTY ON THE PRICING OF FINE WINES

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Over the past several decades, fine wine has attracted attention from practitioners and academics as an alternative asset class. Krasker (1979) in his seminal work finds that wines as an asset class does not outperform the riskless asset. In contrast, Jaeger (1981) provides evidence showing that wines do have attractive features as an investment vehicle. Building on the work of Jaeger (1981), Masset et al. (2010) find that fine wine investments provide diversification benefits thereby reducing portfolio risks, while Masset and Weiskopf (2010) provide evidence that this risk-reduction effect is more pronounced during financial crises. We add to this growing literature by examining whether and to what extent economic policy uncertainty (EPU) influences fine wine investments. By examining the impact of the EPU index on the performance of fine wine as an asset class we are able to gain insights as to the benefits or lack thereof, to investors and wineries alike, in a world characterized by increasing policy-related economic uncertainty.

EPU is significantly different from political uncertainty which measures uncertainty regarding political events such as presidential or gubernatorial elections. Economic uncertainty is a broader measure which includes uncertainty relating to fiscal, regulatory, or monetary policy, in addition to elections and as such can be attributed to policy makers. This index which is created by Bloom et al. (2015) is ideally suited to address the asset pricing implications of (fine) wines, given that it allows us to account for the time-variation in the pricing of fine wines.

In this research, we use the following EPU Indices: Global, European, USA, China, France, Germany, Italy, Spain, UK and Australia to investigate how regional EPU impacts fine wine prices. Regressing our monthly contemporaneous, one- and two-month lag changes in EPU on the change in fine wine prices as per the Livex 50 (*Bordeaux First Growths*), Livex 100 (*Bordeaux First Growths, Burgundy, Rhone and Italian wines*) and Livex Investables *(Bordeaux Reds from 24 leading Chateaus)* indices we observe a negative relationship between change in Global EPU and the change in the price of fine wines.

When we break down the EPU measure according to country/regional indices, we observe that the significance of our findings varies across time periods and indices:

- France EPU indices exhibit a strongly significant and negative relationship across all three time periods for all the Livex indices. This could potentially imply that French investors are more cautious than their counterparts and hence are likely begin delaying fine wine investments at the earliest signs of uncertainty and are likely to wait longer than their counterparts to invest till this uncertainty is resolved.
- We obtain a similar pattern for German and Italian investors; however, we find that this significance diminishes after the one-month lag for all three Livex indices. These results indicate that the policy uncertainty no longer affects investors in these countries, after a particular time period.

- For the China EPU we observe no significance in the contemporaneous change; however, this significance becomes apparent for the one and two month lagged changes. We anticipate that this initial lack of significance could imply that Chinese investors are likely to refrain from investing in fine wines only after signs of uncertainty become apparent.
- We believe that a similar argument could hold good for American investors, as the significance for the US EPU becomes apparent only at the one-month lag. However, we find that this diminishes after this time period thus implying that American investors are undecided about when to invest and when to refrain from investing in fine wines.
- For the Australian EPU, the negative and significant relationship becomes apparent only in the two-month lag period thus implying that Australian investors take even longer than their other counterparts to delay their investments in fine wine.
- Surprisingly, we do not observe significance for UK and Spain's PU, thus implying that EPU in these countries does not impact fine wine prices.

Evidence from country specific EPU on fine wine prices, demonstrates that investors across different countries exhibit temporal variations with respect to when they start delaying their investments. Furthermore, we anticipate that variation in significance across the different Livex Indices, for country specific EPUs, could imply that investors from different countries exhibit varying preferences for top of the line Bordeaux wines as opposed to non-Bordeaux wines. These findings could potentially assist wineries in identifying investment patterns during times of EPU in specific markets and drive their fine wine pricing decisions. Future research will incorporate time-series models to account for detailed changes in EPU.