

Champagne Is Getting Bubbly

Can a libation based on bubbles be in a bubble? Moreover, if those bubbles are carbon dioxide, one of those greenhouse gases blamed for all manner of human and planetary miseries, can you enjoy that market bubble based on actual bubbles, or do you need to retain a serious frowny-face worthy of membership in the Union of Concerned Scientists?

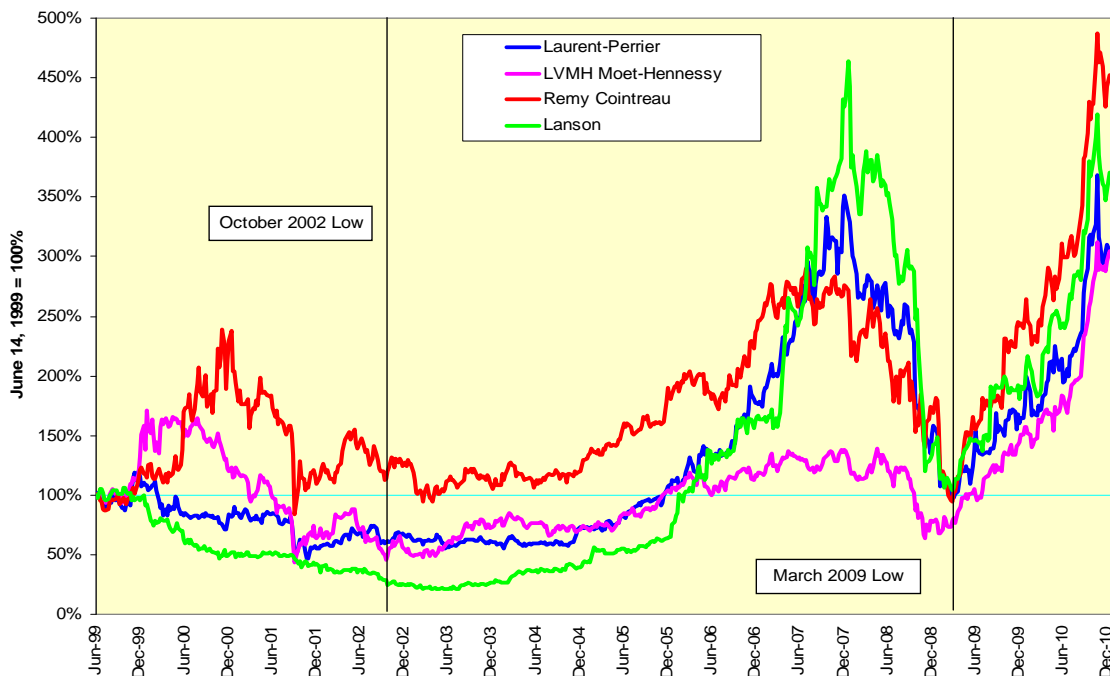
If that libation is champagne, something most of us had enough of this past weekend, just go ahead and enjoy. As the original Dom Perignon, the late 17th century cellar master of the Benedictine Abbey of Hautvillers announced the product of his new technique of double-fermentation, the *methode champenoise*, “come here my brothers! I have tasted the stars!”

Market Indicator

We will confine ourselves to French champagne-makers because as any fool worthy of the name must know by now, Champagne refers to a specific region surrounding Epernay and the World Trade Organization’s Agreement on Trade-related Aspects of Intellectual Property Rights’ Article 23 gives a higher level of wines and spirits of a specific geographic origin than provided to other products of geographic origin, protected under Article 22. How would you feel about the French marketing Kentucky Bourbon, even though it is named after the Bourbon kings of France?

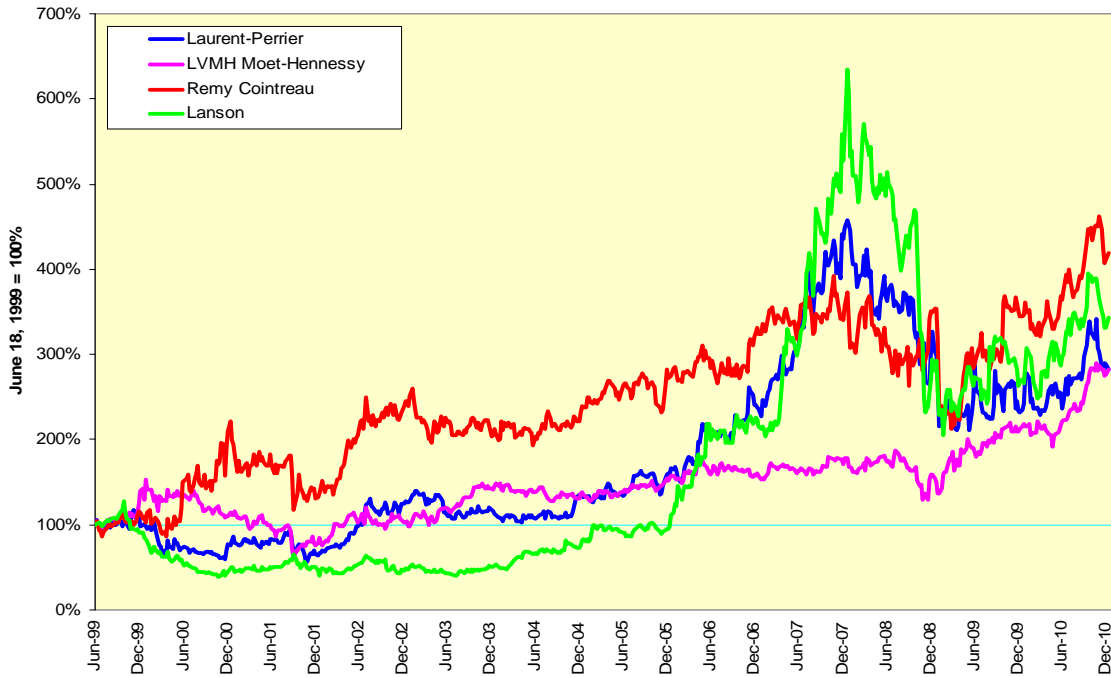
If we map the relative total returns of Laurent-Perrier, LVMH Moët Hennessy, Remy Cointreau and Lanson against the MSCI-Barra total return index for France, we see confirmation of one of those social indicators such as hemlines and sales of lipstick some analysts find amusing. When the champagne-makers are flat, as in October 2002 and March 2009, the world is in a collective funk. Take a look, though, at the times when the corks are popping, such as late 2007 and the bull market of 2009-2010: The champagne-makers are bubblier than the bubbly markets, which makes them sort of a second derivative bubble.

Relative Performance of Champagne Makers To MSCI France



As an aside, the indicator does not work when the basis of comparison is the U.S. market as measured by the S&P 1500 in euro terms. The conclusion we should draw is celebrating the wealth effect with a bottle of champagne is far more of a French than an American phenomenon.

Relative Currency-Adjusted Performance of Champagne Makers To S&P 1500



Now let's throw in one final, non-Champagne comparison, the total return of the S&P Distillers & Vintners index, which consists of Brown-Forman and Constellation Brands, relative to the S&P 1500 itself. This relative performance measures peaked at the March 2009 low, suggesting there was a bit of sorrow-drowning going on amongst the American investor class. However, the distillers' relative performance rose during both the 2000-2002 bear market, the 2002-2007 bull market and the post-March 2009 bull market. This may provide an unintentionally good window into modern American life.

U.S. Distillers' Relative Performance

