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Drawing up the bill: Does sustainable investing affect stock returns around the world?

"No systematic relation between ESG and worldwide stock returns during past two decades"

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Sustainable investing is on the rise, and institutional investors increasingly take ESG (Environmental, Social & Governance) considerations into account in their investment strategies. There is still a lot of discussion about the consequences of this for financial returns. So far, the thousands of studies conducted about this subject have yielded conflicting results due to major differences in the choice of ESG ratings, empirical methods and markets and time periods studied. This comprehensive global study into the ESG ratings of different providers yields several clear answers.

Principal Findings

- We find no relation between ESG ratings and worldwide stock returns across the period 2001–2020.
- This also applies when we examine different regions, sectors, time periods, ESG rating providers, ESG subratings, and ESG momentum.
- Furthermore, there is no evidence that negative ESG screening affects investment returns.
- Over the past twenty years, ESG investments have therefore not been systematically detrimental to to financial performance.
- In the long term, ESG investments could be associated with lower returns if ESG risks and preferences are incorporated in their valuation; in the short and medium term, such incorporation effects could result in higher returns.

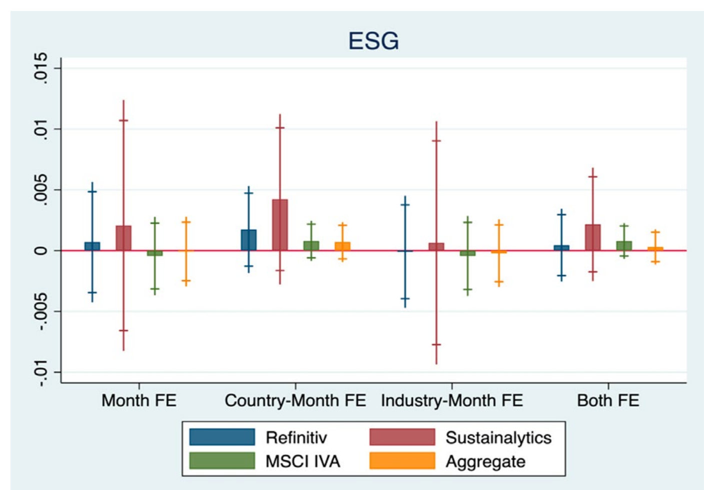

Figure: Effect of ESG on stock returns (with confidence intervals) for different specifications

Key Takeaways for the Industry

- It seems unlikely that we are in an ESG bubble caused by a widespread overvaluation of sustainable stocks.
- Claims that sustainable investments lead to higher financial returns should be viewed with a healthy dose of scepticism.

Want to know more? Read the paper
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