

Did socially responsible stocks perform better during the COVID-19 crisis?

“New study casts doubt on the view of socially responsible stocks as rainy day assets”

Gianfranco Gianfrate¹, Tim Kievid² and Mathijs van Dijk² – ¹EDHEC Business School, ²EUR

Recent financial media articles and research suggest that the stocks of firms with a stronger environmental, social and governance (ESG) rating might perform better during crises. An extensive analysis of 6,000 stocks in 45 countries during the COVID-19 crisis and a longer-term analysis over 2003–2020 cast doubts on this view. There is little evidence that strong ESG stocks perform better or worse than other stocks, neither during crises nor in crisis-free periods. North America is the exception. There, socially responsible stocks appear to be more resilient during crises.

Principal Findings

- Firms with higher ESG ratings were not more resilient to the COVID-19 shock than firms with lower ESG ratings.

- Stronger ESG stocks showed neither stock market outperformance nor underperformance between 2003 and 2020.

- These results are tentative as ESG ratings are not very accurate. This study was based on Thomson Reuters' Refinitiv ESG database. Further research should examine whether other ratings yield different results.

- Measuring the impact of global crises on stocks is difficult because countries are not simultaneously affected by crises and differ in the countermeasures they take. It is thus critical to control for “country-level effects” in the analysis.

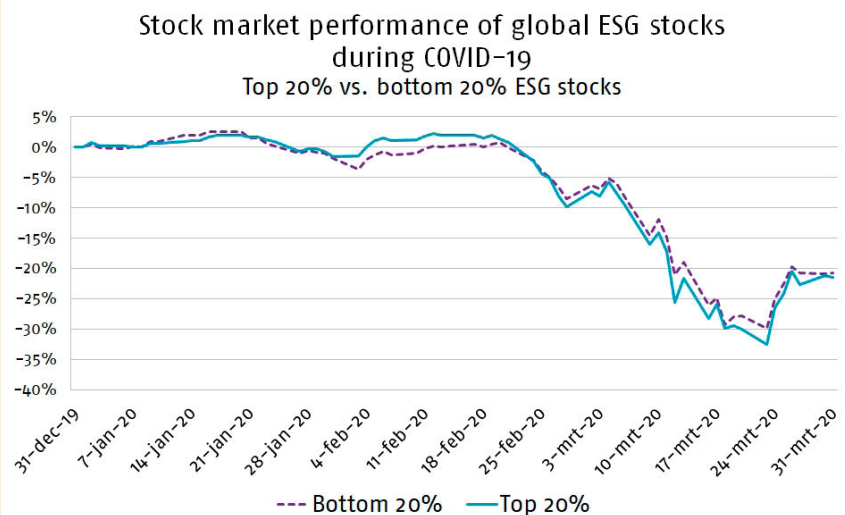


Figure: This figure shows the cumulative stock returns of the top and bottom 20% of global stocks (based on ESG rating) in the first quarter of 2020.

Key Takeaways for the Industry

- Strong ESG stocks may not have served as “rainy day assets” during crises. That said, they also did not underperform during crisis or over longer periods.
- ESG ratings are less reliable than financial creditworthiness ratings. New research is needed to understand differences between ratings and their relation with stock returns.



Want to know more? Read the paper

'On the Resilience of ESG Stocks during COVID-19: Global Evidence'