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Academic research based on RepRisk data shows that ESG risks generate negative long-run stock returns

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The paper "ESG Risks and the Cross-Section of Stock Returns" by Simon Glossner, Catholic University Eichstätt-Ingolstadt, finds that environmental, social, and governance (ESG) risks generate negative long-run stock returns. A value-weighted U.S. portfolio with high ESG risks exhibits a four-factor alpha of −3.5% per year, even when controlling for other risk factors, industries, or firm characteristics. The negative alpha stems from unexpected costly ESG issues and from negative earnings surprises. These findings make three contributions. First, weak corporate social responsibility destroys shareholder value. Second, stock markets fail to incorporate the consequences of intangible risks. Third, shorting firms with high ESG risks is a profitable socially responsible investing strategy.

The full paper is available at: http://ssrn.com/abstract=3004689.

Are you interested in using RepRisk data for your research?

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