

‘Monstrous’ run for responsible stocks stokes fears of a bubble

Inflows into ESG funds are driving up stock prices for companies with green credentials

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FEBRUARY 21 2020

Companies with the best environmental, social and governance scores have opened up what one analyst calls a “monstrous” valuation premium, in a sign of rampant demand for the hot investment theme.

Investors last year ploughed a record \$21bn into socially-responsible investment funds in the US, almost quadrupling the rate of inflows in 2018, according to Morningstar, the data provider. Now, companies with strong ESG credentials are starting to show the benefits of that surge of interest in a once-niche area.

Companies with the top ESG rankings now trade at a 30 per cent premium to the poorest performers as measured by their forward price-to-earnings ratios, said Savita Subramanian, head of US equity strategy at Bank of America.

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