When do investors go green?

Lucia Alessi
Team leader – Financial research
European Commission – Joint Research Centre

lucia.alessi@ec.europa.eu

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Questions

- Do investors care about greenness? What about greenness vs return?
- What do they look at in particular? Is it only firms' emissions?
- Do they have a 'taste for green'?
- Does their attitude towards green investments change over time?
- What if investors become very green all of a sudden?

Alessi, Ossola and Panzica, *What greenium matters in the stock market? The role of greenhouse gas emissions and environmental disclosures*, 2021, Journal of financial stability

Alessi, Ossola and Panzica, *When do investors go green? Evidence from a time-varying asset-pricing model*. JRC WP 2021/13

Both emissions and transparency matter

Greener companies identified based on a synthetic greenness and transparency indicator, combining a firm's:

- **emission intensity**
- **E-score**

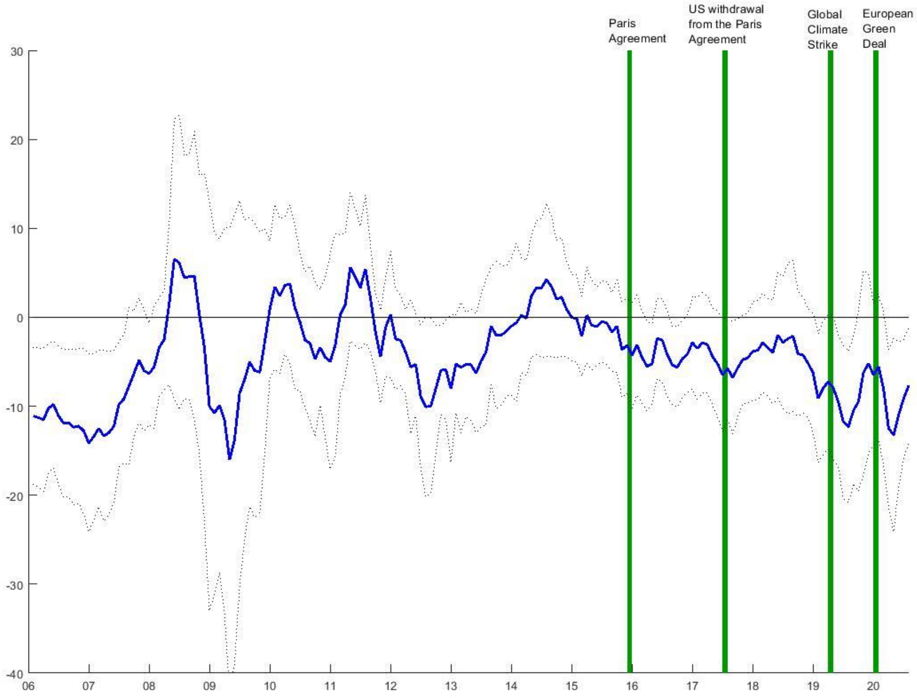
High-carbon companies:

- Non-transparent companies, which **do not disclose any environmental information**
- Active in the **highest emitting sectors**

Over 2006-2018, investors accepted on average a lower return, *ceteris paribus*, to hold greener and more transparent stocks

Investors' 'taste for green' evolves over time

Market's perception of climate risk varies over time



Note: Greenium, i.e risk premium attached to greener stocks (annualized, %).
Source: Bloomberg and JRC calculations.

- An increase in transition risk decreases the greenium -> polluting firms are perceived as more risky
- Negative and highly significant impact of The Paris Agreement, the Global Climate Strike, and the European Green Deal on the greenium

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Climate stress-test

- Extreme but plausible scenario based on periods when **greener and more transparent stocks largely outperformed polluting stocks**
- High-carbon exposures are currently significant: **even by halving them, investors would not avoid losses**
- It's not peanuts: losses could amount to **1.5% of the global equity exposure**
- No **second round effects**. This is a lower bound for losses.

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Thank you