

Seminar series

Securities markets: trends, risks and policies

Investor sentiment and the time-varying sustainability premium

Vitor G. AZEVEDO

TUM School of Management,
Technical University of Munich

2020, 16 December - 03:00 pm (CET)



Abstract:

Previous literature shows inconclusive results regarding the relation between Corporate Social and Environmental Responsibility (CSR and CER) and expected returns. We argue that the reason for these mixed results is that the sustainability premium, i.e., the return difference of high-intensity minus low-intensity CSR/CER firms, is time-varying and correlated with investor sentiment. We find that high-intensity CSR (CER) firms have a monthly excess return of 0.70 (0.88) p.p. higher following periods of low investor sentiment as compared to periods of high sentiment. Given that standard pricing factors cannot fully explain the abnormal returns caused by investor sentiment on the sustainability premium, we propose a sustainability pricing factor, estimated as the second principal component of portfolios sorted based on environmental and social variables, which corrects this mispricing.

Keywords: sustainability, corporate social responsibility, corporate environmental responsibility, expected returns, financial performance, investor sentiment

JEL Classification: G12, G19, M41

Link to participate: <https://global.gotomeeting.com/join/755296861>