> Thursday, November 26th, 2020
14:30 - 16:00

ACC/FIN RESEARCH SEMINAR

IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

"ESG DIDN'T IMMUNIZE STOCKS AGAINST THE COVID-19 MARKET CRASH" BY PHILIP JOOS – TILBURG UNIVERSITY

ABSTRACT

Environmental, social, and governance ("ESG") scores have been widely touted as indicators of share price resilience during the COVID-19 humanitarian crisis. We undertake extensive analyses to investigate this claim and present robust evidence that, once the firm's industry affiliation and accounting- and market-based measures of risk have been properly controlled for, ESG scores offer no such positive explanatory power for returns during COVID-19. Specifically, ESG is insignificant in fully specified returns regressions for the first quarter of 2020 COVID crisis period, and it is negatively associated with returns during the market's "recovery" period in the second quarter of 2020. Industry affiliation, market-based measures of risk, and accounting-based variables that capture the firm's financial flexibility (liquidity and leverage) and their investments in internally-developed intangible assets together dominate the explanatory power of the COVID returns models. Relying on data from the global financial crisis ("GFC") of 2008-2009, we develop parsimonious logit-based models to explain GFC period "winners" and "losers" (i.e., top and bottom deciles of returns performance), and we use these fitted models to predict winners and losers in the subsequent COVID crisis. Employing receiver operating characteristic ("ROC") curves, we demonstrate that various accounting- and market-based models perform well both within-sample for the GFC period, as well as out-of-sample for the COVID crisis, but that ESG does not meaningfully add to the combined accounting and market models' performance. We develop hedge strategies that go long (short) in firms during the COVID crisis that the GFC-based models predict will be winners (losers) and document that these predictions yield highly significant abnormal returns. Once again, ESG offers no enhancement to the out-of-sample returns performance. We conclude that celebrations of ESG as an important resilience factor in times of crisis are, at best, premature.

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