



Resiliency of Environmental and Social Stocks: An Analysis of the Exogenous COVID-19 Market Crash

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Discussion by
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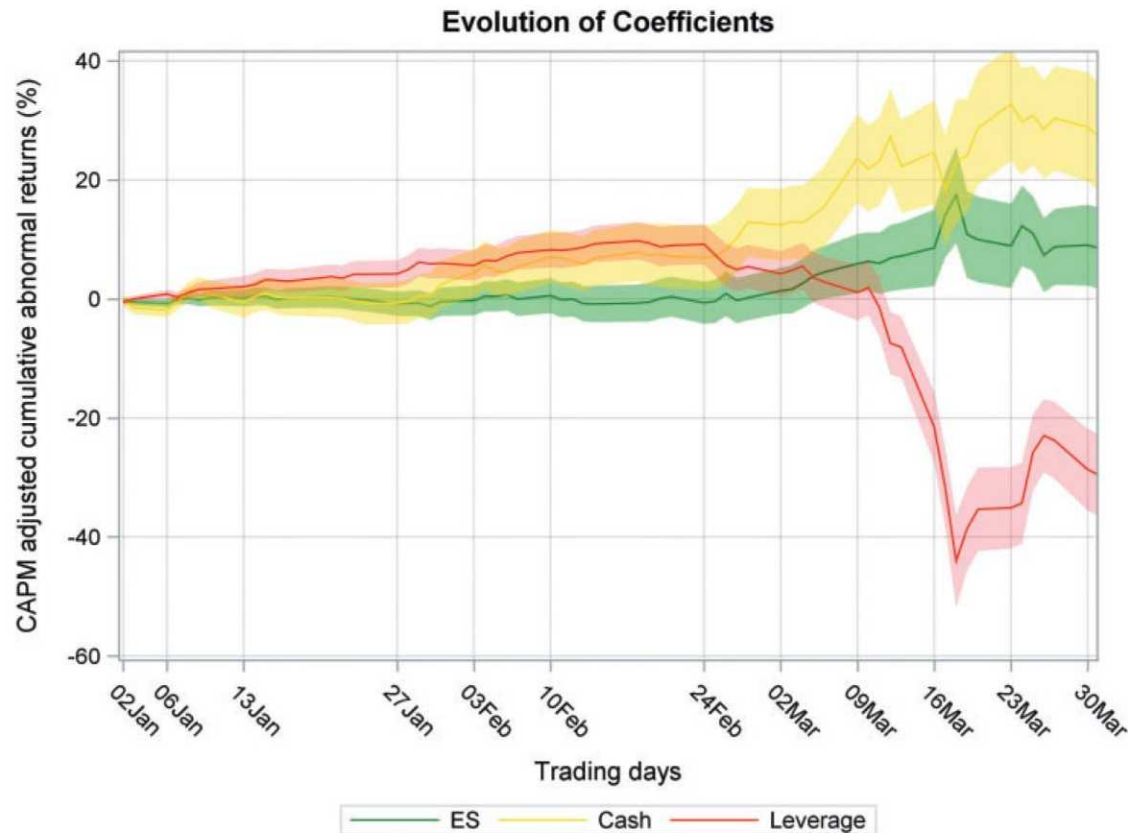
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This paper: ESG as a “soft” resilience factor

Albuquerque, Koskonen, Yang, and Zhang (2020): Stocks with higher ES ratings had higher returns, lower return volatility, and higher operating profit margins during Q1 2020.



Discussion overview

Overall: Timely paper on an important topic. Many dimensions covered.
Congrats on the publication in RCFS!

This discussion:

1. Is the result really there?
2. What's the interpretation?
3. Who drove the ES premium (if it's there)?

1. Is the result really there? (1/2)

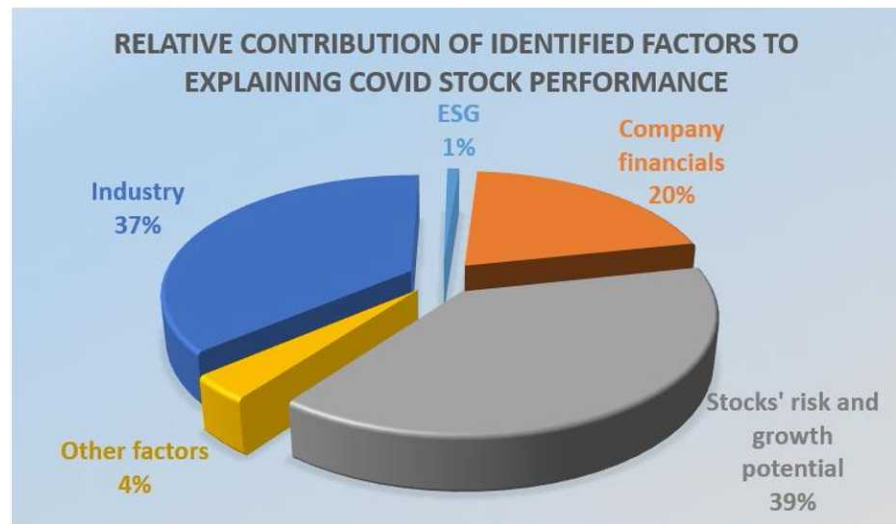
	(1)	(2)	(3)	(4)	(5)
Dependent variable: Return in Fever (Feb24-Mar20)					
ES score (msci)	0.133** (2.39)	0.130** (2.34)			Analysis using Ramelli-Wagner (2020) setup and data
Leverage	-0.216*** (-5.81)	-0.216*** (-5.83)			
Cash/Assets	0.227*** (4.96)	0.223*** (4.84)			
IO		-0.082** (-2.01)			
Market beta	20.797*** (9.53)	20.907*** (9.59)			1) ES loads significantly. (Also with Asset 4 data)
log(Market cap)	1.144** (2.51)	1.196*** (2.66)			
Profitability	0.461* (1.77)	0.472* (1.81)			
Book-to-market	-0.033 (-0.02)	0.030 (0.02)			
Constant	-41.572*** (-7.81)	-34.942*** (-5.44)	-		
Observations	1,642	1,642			
R-squared	0.377	0.379			
Industry FE	Yes	Yes			2) ES remains significant also controlling for institutional ownership a la Glossner, Matos, Ramelli, and Wagner (2020) , potentially important to use data of Q42019, not only 2018

1. Is the result really there? (2/2)

Ding, Levine, Lin, and Xie (2020) find similar results with an international sample.

Garel and Petit-Romec (2020): Effect driven by the “E” dimension, not “S”

Demers, Hendrikse, Joos, and Lev (2020): With basic controls coeff(t-stat) in their spec of buy-and-hold-returns: 0.00708(2.04). With 27 controls: 0.00538(1.56). From this difference, they conclude: *“...the significance of ES and ESG as a determinant of COVID-19 crisis period returns definitively vanishes. In other words, by avoiding a correlated omitted variables bias, we arrive at diametrically opposite conclusions regarding the role of ESG as a share price resilience factor during the COVID crisis.”* (Seems a bit strongly worded, given the evidence.) -- Probably more concerning: Additional R2 is low.



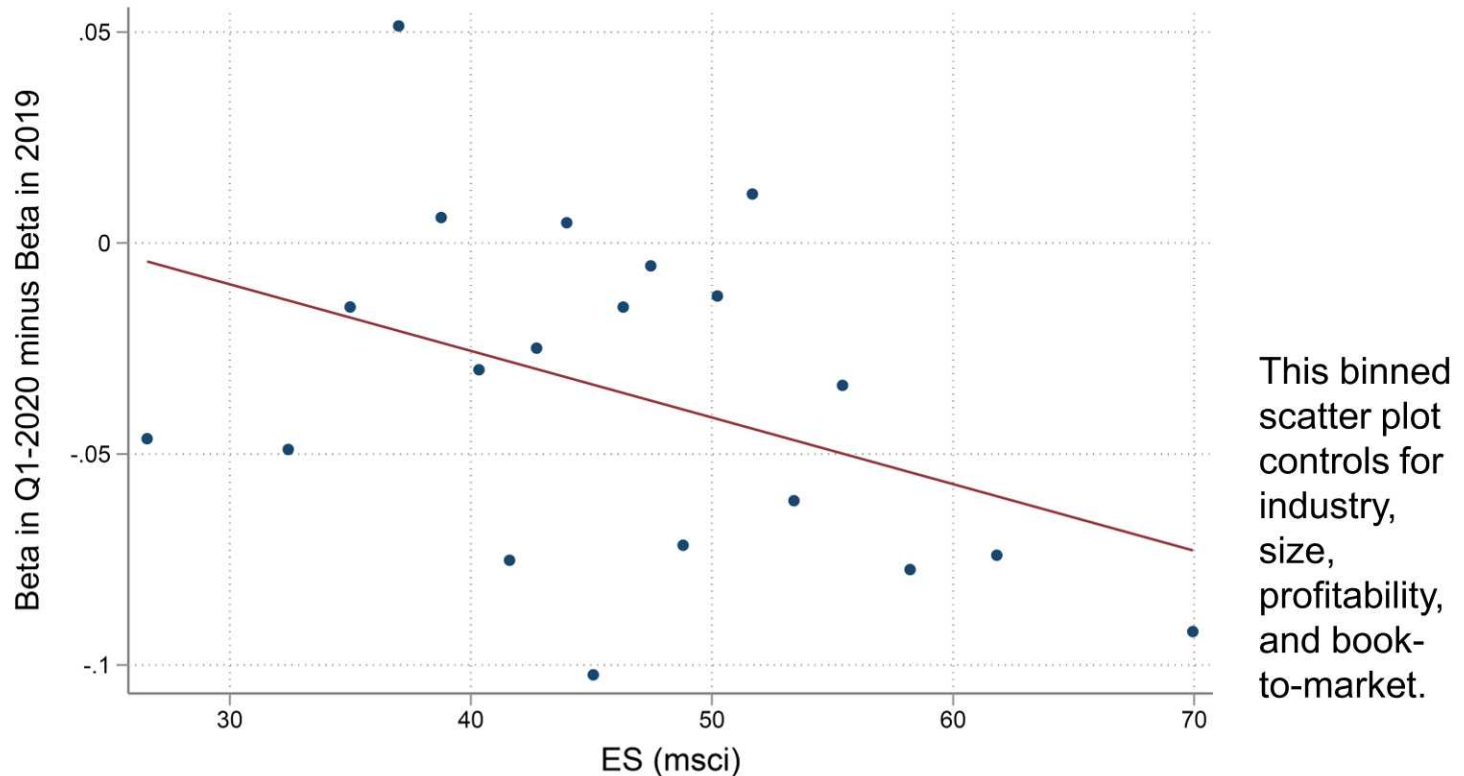
2. Interpretation (1/4)

Suggested channel: loyalty of consumers and investors. Story similar to [Lins, Servaes, and Tamayo \(2017\)](#) on the Global Financial Crisis.

[Demers et al. \(2020\)](#): High-ESG firms performed significantly less well when the overall market recovered. Seems consistent with the notion that ES helps in crisis times.

Intriguing alternative interpretation offered by [Albuquerque, Koskonen, Yang, and Zhang \(2020\)](#): *“However, it is also possible that the better performance of CAPM-adjusted returns is due to a decline in betas during the first quarter for high ES firms. Declining betas of ES stocks may be due to expectations that firm cash flows become less risky than low-ES stocks after the crisis.”*

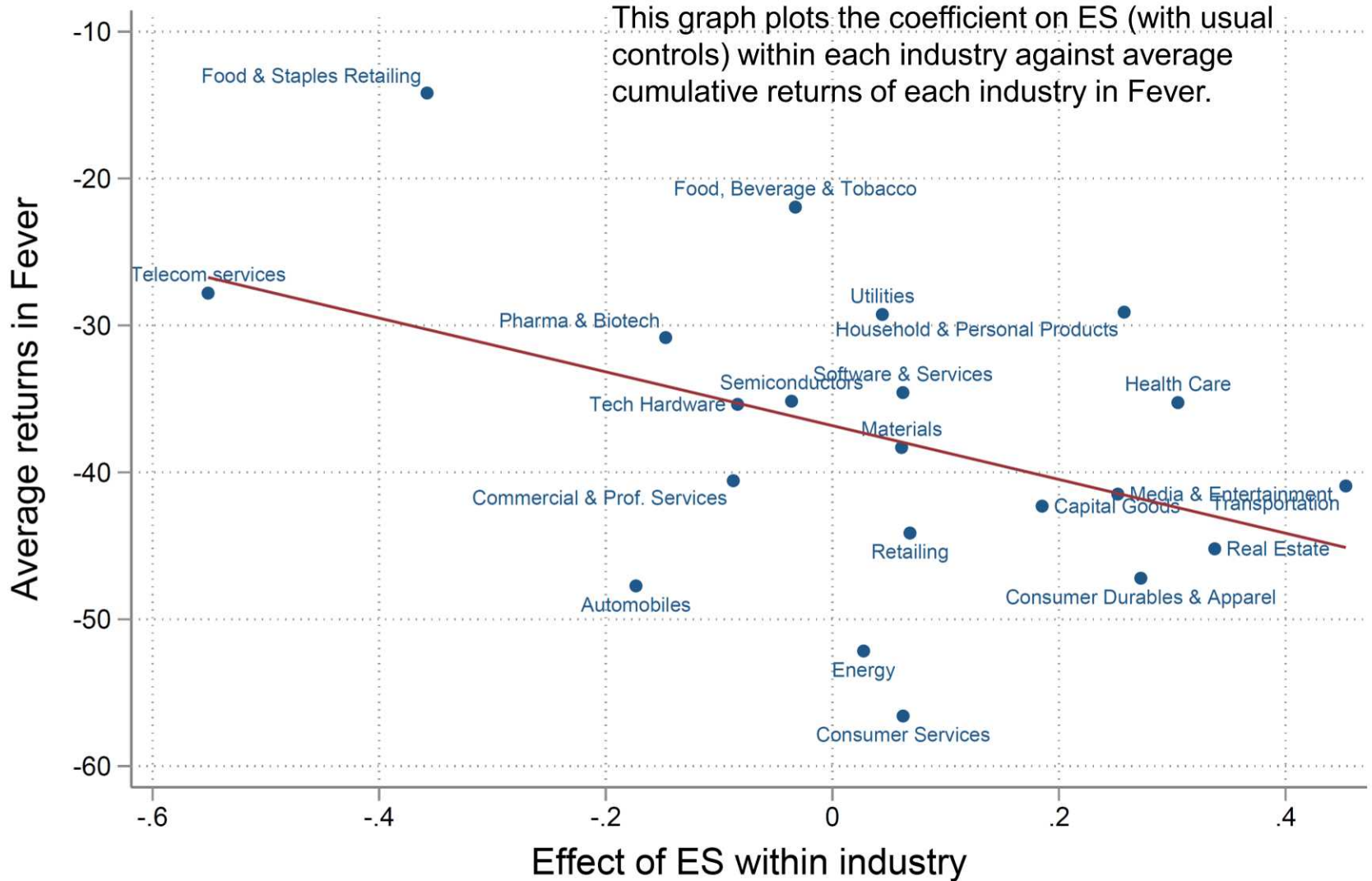
2. Interpretation (2/4)



High-ES firms saw a decrease in realized market beta in Q1-2020, which is kind of obvious in light of the identified ES premium on stock prices.

Key question: Is this due to realized (fat-tail) risks or permanent changes in expected risk? (cf. discussion in [Tsai and Wachter \(2015\)](#))

2. Interpretation (3/4)



2. Interpretation (4/4)

	(1)	(2)	(3)	(4)	(5)
Dependent variable: Return in Fever (Feb24-Mar20)					
ES score (msci)	0.133** (2.39)	0.130** (2.34)	0.023 (0.34)	0.112** (2.49)	0.074 (1.63)
Leverage	-0.216*** (-5.81)	-0.216*** (-5.83)	-0.220*** (-2.64)	-0.136*** (-5.52)	-0.135*** (-6.28)
Cash/Assets	0.227*** (4.96)	0.223*** (4.84)	0.144*** (5.01)	0.256** (2.04)	0.145*** (5.18)
IO		-0.082** (-2.01)	-0.060** (-2.25)	-0.060** (-2.25)	-0.061** (-2.55)
ES score (msci) × Leverage			0.002 (1.03)		
ES score (msci) × Cash/Assets				-0.002 (-0.88)	
ES score (msci) × Book-to-market					0.021 (0.43)
Market beta	20.797*** (9.53)	20.907*** (9.59)	-8.246*** (-6.43)	-8.229*** (-6.35)	-8.329*** (-7.64)
log(Market cap)	1.144** (2.51)	1.196*** (2.66)	0.834*** (2.92)	0.842*** (2.92)	0.842*** (2.96)
Profitability	0.461* (1.77)	0.472* (1.81)	0.365** (2.25)	0.361** (2.22)	0.366*** (3.61)
Book-to-market	-0.033 (-0.02)	0.030 (0.02)	0.380 (0.37)	0.397 (0.39)	-0.438 (-0.22)
Constant	-41.572*** (-7.81)	-34.942*** (-5.44)	-30.144*** (-6.50)	-34.508*** (-7.81)	-32.680*** (-8.51)
Observations	1,642	1,642	1,642	1,642	1,642
R-squared	0.377	0.379	0.317	0.317	0.317
Industry FE	Yes	Yes	Yes	Yes	Yes

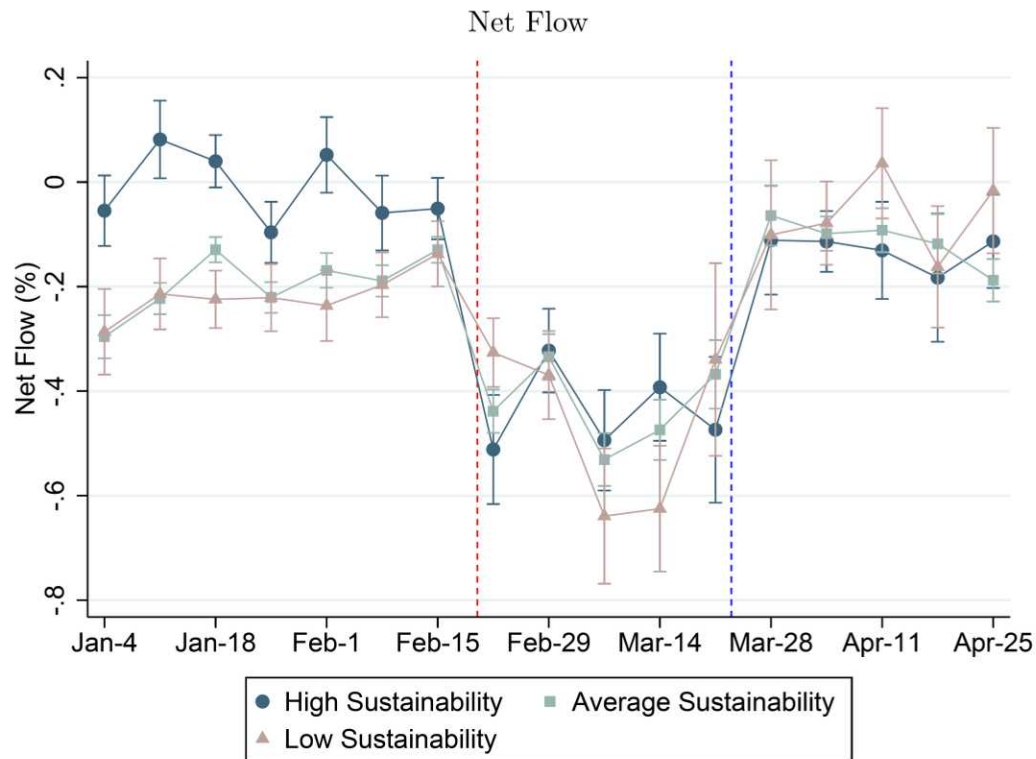
If ES premium due to a shift in expected risk, we would probably see some action here.

3. Who drove the ES premium? (1/3)

Evidence from intermediated institutional and retail investors

Pastor and Vorsatz (2020): Funds with high sustainability ratings (i.e., more Morningstar globes) receive larger net flows during the COVID-19 crash.

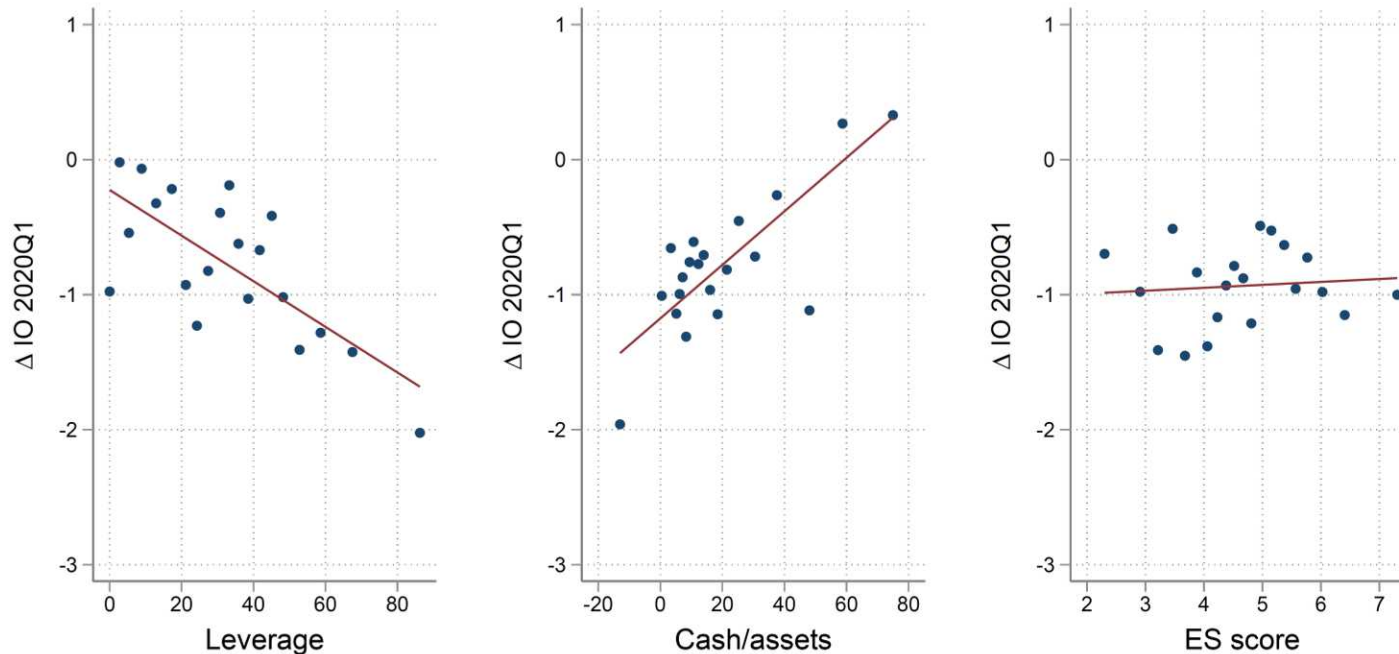
Döttling and Kim (2020): High-sustainability funds -- especially retail ones -- experienced a sharper decline in flows during the COVID-19 crash compared to other funds, wiping out the pre-COVID-19 trends (difference-in-differences).



3. Who drove the ES premium? (2/3)

Evidence from institutional portfolio changes

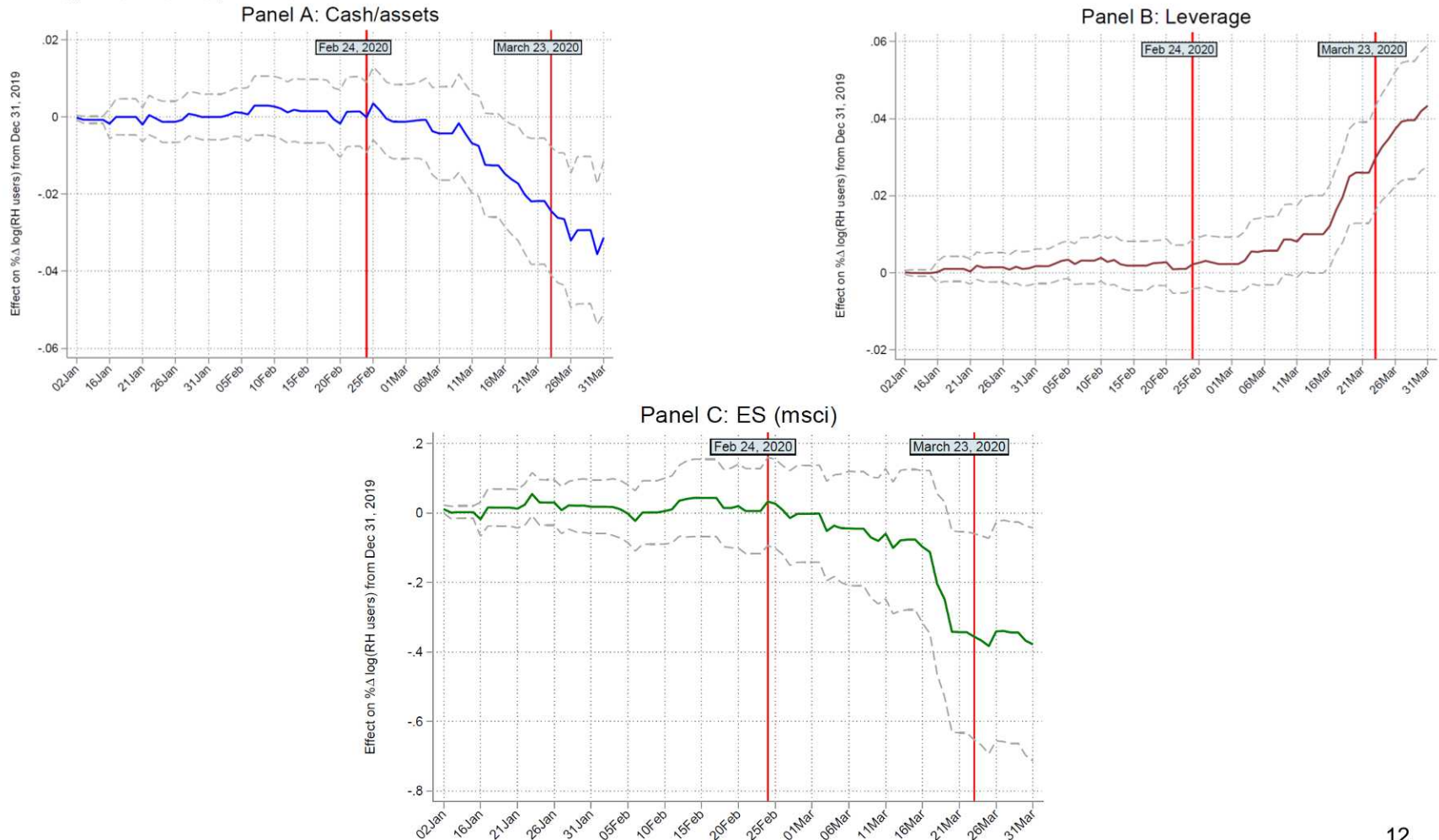
Glossner, Matos, Ramelli, and Wagner (2020): No evidence that institutional investors actively tilted their portfolios toward firms with better ES scores during Q1 and Q2 2020. Strong evidence that when a tail risk realizes, institutional investors express a preference for "hard" measures of firm resilience.



3. Who drove the ES premium? (3/3)

Evidence from retail investor interest

Glossner, Matos, Ramelli, and Wagner (2020): No evidence that retail investors (Robinhood) increased their interest towards firms with better ES scores during Q1 and Q2 2020.



Conclusion

Congrats on the nice paper!

This discussion:

1. Is the result really there? Probably.
2. Interpretation? Opportunities for more research on clearer evidence on cash flows vs. discount rates.
3. Who drove the ES-premium? A puzzle. Will the real ES-during-COVID-investors please stand up?

Appendix

References on COVID-19

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Hard resilience factors

Ramelli and Wagner (2020): Stocks with higher cash-holdings and lower leverage did better during the “Fever” period. (Internationally oriented firms first did poorly, then had a comeback.)

