# Article information:

Dissecting green returns - ScienceDirect
<https://www.sciencedirect.com/science/article/pii/S0304405X22001672>

# Article summary:

1. Sustainable investing has grown in popularity over the past decade, with environmental concerns playing a leading role.

2. While some studies report superior historical returns to sustainable strategies, the equilibrium model of Pástor et al. predicts that green assets have lower expected returns than brown due to a taste premium and a risk premium.

3. Green stocks' recent outperformance likely reflects an unanticipated increase in environmental concerns, and investors should be cautious about expecting high green returns going forward.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article "Dissecting Green Returns" discusses the growth of sustainable investing and the application of environmental, social, and governance (ESG) criteria in investment decisions. The article argues that investors often cite improved returns as a top motivation for applying ESG criteria, and asset managers market sustainable investment products as offering superior risk-adjusted returns. However, the article warns investors to be cautious when investing in green assets based on past performance.

The article presents an empirical analysis guided by the equilibrium model of Pástor et al. (2021), which predicts that green assets have lower expected returns than brown assets due to a taste premium and a risk premium. The article argues that green assets can have higher realized returns while agents’ demands shift unexpectedly in the green direction. The study focuses primarily on the U.S. stock market and assigns greenness measures to individual stocks using environmental ratings from MSCI.

The article finds that over the sample period from November 2012 to December 2020, green stocks outperformed brown stocks by a cumulative return difference of 174%. However, the article argues that this outperformance likely reflects an unanticipated increase in environmental concerns rather than an indication of high future green returns.

The article also discusses the equity analogue to the "greenium," known as the "equity greenium," which is defined as the difference between expected returns of green and brown stocks. The equity greenium cannot be measured precisely due to difficulties in estimating expected stock returns. However, ex ante estimates suggest consistently negative equity greenium throughout the sample period.

While the study provides valuable insights into past performance and potential risks associated with investing in green assets, it has some limitations. For example, it does not explore counterarguments or present both sides equally regarding whether sustainable investments offer superior risk-adjusted returns or not. Additionally, it does not consider other factors such as political or regulatory changes that may affect future performance.

Furthermore, the article may have some biases and sources of partiality. For example, it relies heavily on the equilibrium model of Pástor et al. (2021), which may have its own biases and limitations. Additionally, the article does not explore potential benefits of sustainable investing beyond financial returns, such as positive environmental or social impacts.

In conclusion, while the study provides valuable insights into past performance and potential risks associated with investing in green assets, investors should consider other factors beyond past performance when making investment decisions. It is essential to conduct thorough research and analysis to make informed investment decisions that align with individual values and goals.

# Topics for further research:

* Benefits of sustainable investing beyond financial returns
* Political and regulatory changes affecting sustainable investments
* Counterarguments for superior risk-adjusted returns of sustainable investments
* Environmental ratings and their impact on stock performance
* Factors influencing the taste premium and risk premium of green assets
* Long-term sustainability of green investments and their impact on portfolio diversification

# Report location:

<https://www.fullpicture.app/item/4df25f428d97b1e8176dcc4866052306>