# Article information:

The effect of pro-environmental preferences on bond prices: Evidence from green bonds - ScienceDirect
<https://www.sciencedirect.com/science/article/pii/S0378426618302358>

# Article summary:

1. The study examines the impact of pro-environmental preferences on bond market prices using green bonds as an instrument.

2. The results suggest a small negative premium, with the yield of a green bond being lower than that of a conventional bond by an average of -2 basis points for the entire sample and for euro and USD bonds separately.

3. The negative premium is more pronounced for financial and low-rated bonds, but overall, the impact of investors’ pro-environmental preferences on bond prices is still limited.

# Article rating:

May be slightly imbalanced: The article presents the information in a generally reliable way, but there are minor points of consideration that could be explored further or claims that are not fully backed by appropriate evidence. Some perspectives may also be omitted, and you are encouraged to use the research topics section to explore the topic further.

# Article analysis:

The article titled "The effect of pro-environmental preferences on bond prices: Evidence from green bonds" explores the impact of non-pecuniary motives, specifically pro-environmental preferences, on bond market prices. The study uses green bonds as an instrument to identify the effect of such preferences and performs a matching method followed by a two-step regression procedure to estimate the yield differential between a green bond and a counterfactual conventional bond from July 2013 to December 2017.

The article provides insights into the drivers of investment in assets with low environmental impact and highlights that investors' tastes modify equilibrium prices. However, it also notes that few studies have empirically isolated the impact of non-pecuniary motives on market prices. The authors use green bonds as an instrument to clearly identify the impact of pro-environmental preferences on prices and answer two research questions related to whether such preferences translate into bond market prices and if so, do they apply uniformly across the entire bond market.

The study finds that there exists a small negative green bond premium of -2 basis points (bps) in their sample. The sector and rating are significant drivers of the premium, with financial bonds and low-rated bonds having a greater negative premium. Through several robustness tests, the authors verify that the premium is neither a risk premium nor a market premium, and that it remained negative on average from May 2016 onwards.

While this study contributes to the literature on non-pecuniary motives in ethical investing and linking cost of debt with environmental performance, it has some potential biases and limitations. For instance, it only focuses on green bonds issued between July 2013 and December 2017, which may not be representative of all green bonds issued globally. Additionally, while the authors control for liquidity differences between each green bond and its counterfactual conventional bond, other factors such as issuer reputation or investor demand may also affect pricing differentials.

Furthermore, the article does not explore potential counterarguments or alternative explanations for the negative green bond premium. For instance, it is possible that investors who are more environmentally conscious may also be more risk-averse and prefer lower-yielding bonds. Additionally, the study only focuses on the impact of pro-environmental preferences on bond prices and does not consider other non-pecuniary motives such as social or governance factors.

Overall, while this study provides valuable insights into the impact of pro-environmental preferences on bond prices using green bonds as an instrument, it has some limitations and potential biases that should be considered when interpreting its findings.

# Topics for further research:

* Alternative explanations for negative green bond premium
* Impact of social and governance factors on bond prices
* Global trends in green bond issuance
* Factors affecting issuer reputation in bond pricing
* Investor demand for green bonds
* Relationship between risk aversion and environmental consciousness in investing

# Report location:

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