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Department of Banking and Finance
Chair of Quantitative Finance

Master thesis

Effect of ESG-related news on stock prices

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Abstract

This thesis adds to the novel stream of research projects related to sustainability ratings. Specifically, the purpose of this paper is to figure out how sustainability related news articles influence Thomson Reuters' Asset4 scores. In a first step I have filtered a news headline dataset, provided by RavenPack, by sustainability topics. The applied approach is relatively simple and straightforward, but this allowed to create a suitable sustainability news sample for the empirical analysis. The effect of exactly those news, one out of several sources raters obtain their assessing information, on Asset4 scores are analyzed.

Two aspects are given special attention. First of all, I focus on the news' influence on the probability of a rating adjustment. Thereby, I find that among the three sustainability news pillars environmental news have the strongest impact on the odds of a rating change. Beside that it is stated that whenever a news story is classified to more than one pillar the chance of a score adjustment gets stronger. However, one needs to mention that this model cannot distinguish between positive and negative changes.

Therefore, I ran another regression to resolve this issue. In doing so the news effects on the magnitude of the score change get examined. Interestingly, I find that social as well as governance related news lead to a sustainability rating change

that lies on average above the change of environmental news. Especially the more favorable governance news effect is surprising. In the context of this thesis it is also mentioned that a considerable amount of governance news is associated with negative sentiment. Hence, this regression result leaves much room for interpretation and provides a basis for further studies. Beside that the findings suggest that news assigned to more than one pillar have a weaker impact on the magnitude of the change than single pillar news.

As sustainability issues are widely discussed, it is clear that sustainability ratings are gaining in importance. This paper also points out that the ratings have on average steadily improved over the last few years. This is an important fact especially for companies which shows that their efforts regarding sustainability issues are noticed and rewarded accordingly.