Correlation of ESG Excess Returns

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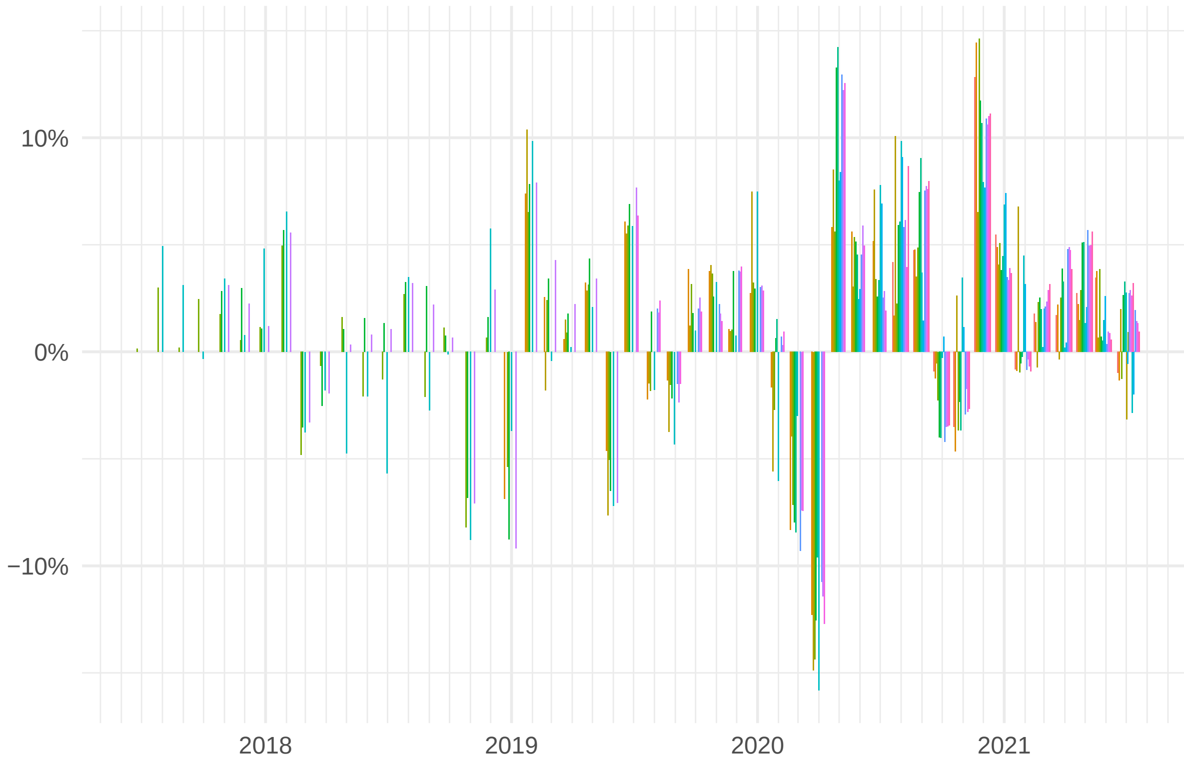
Abstract

Following the research by Botte et al. (2021), see https://www.twosigma.com/wp-content/uploads/2021/05/What-is-ESG_-Depends-on-Whom-You-Ask_-final.pdf, we look at the excess returns of ESG themed ETFs over their non-ESG benchmarks. We confirm that correlations are low or even negative, which indicates that there is no universal consens on what is a *good* ESG stock. As we look at several markets (USA, Emerging Markets, EAFE) where correlations

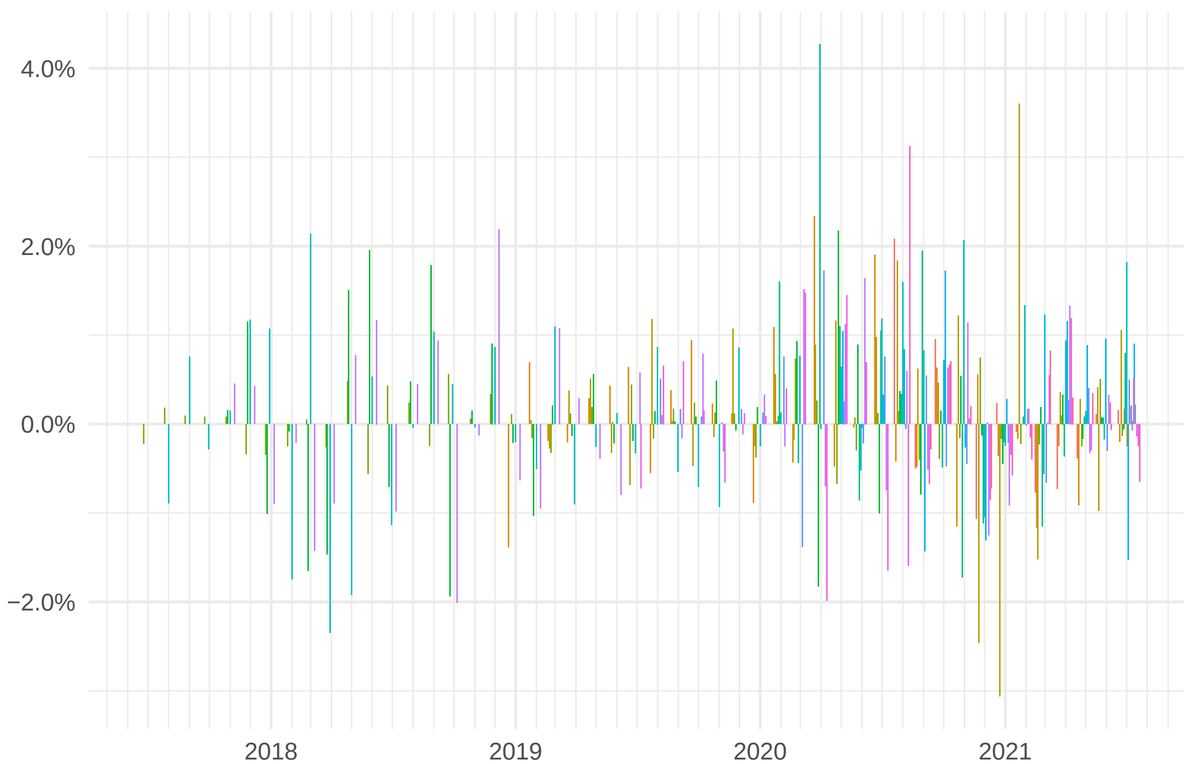
Table 1: ETFs in focus

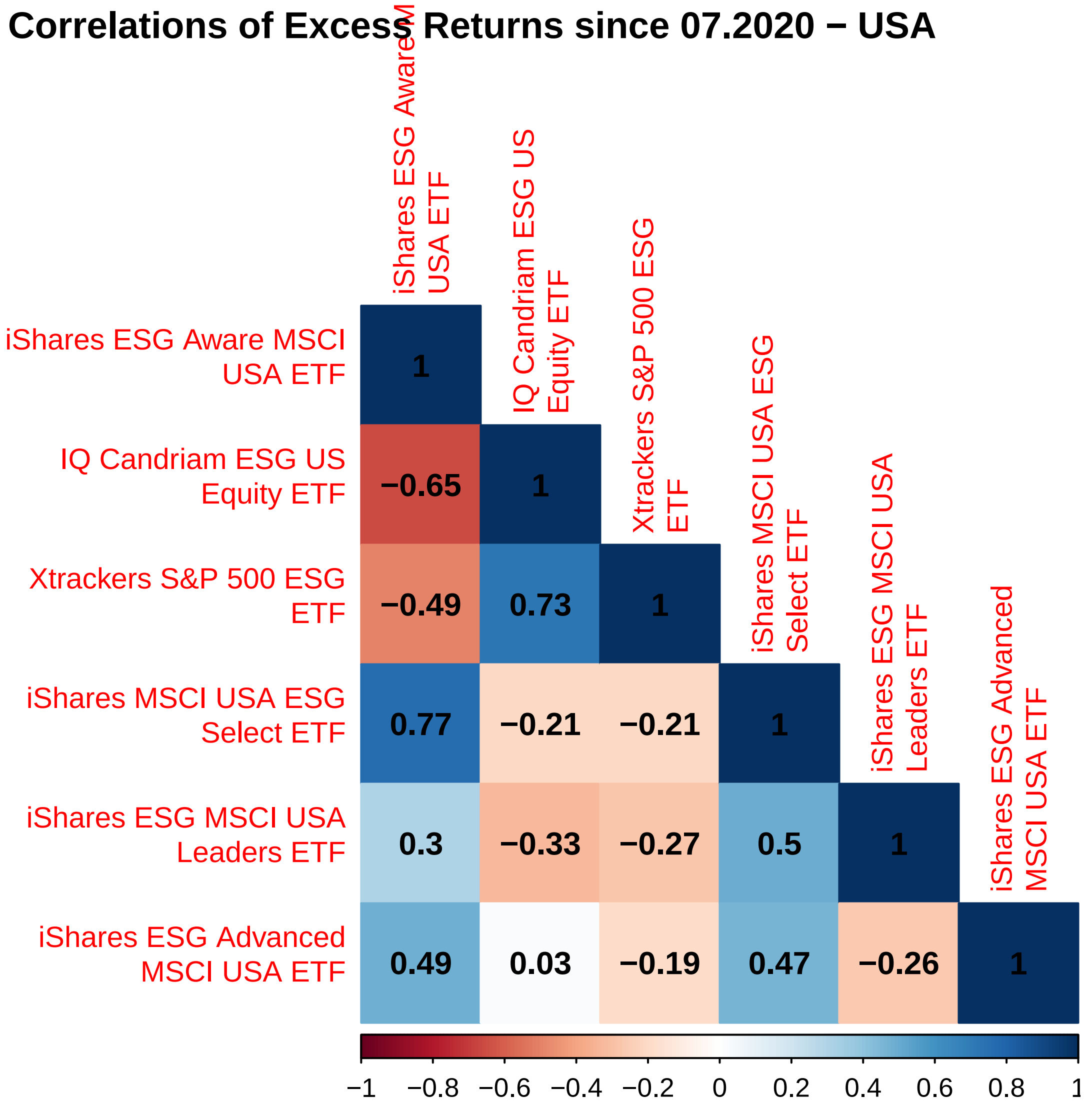
symbol	name
SNPE	Xtrackers S&P 500 ESG ETF
ESGU	iShares ESG Aware MSCI USA ETF
SUSA	iShares MSCI USA ESG Select ETF
SUSL	iShares ESG MSCI USA Leaders ETF
USXF	iShares ESG Advanced MSCI USA ETF
IQSU	IQ Candriam ESG US Equity ETF
NUEM	Nuveen ESG Emerging Markets Equity ETF
EMSG	Xtrackers MSCI Emerging Markets ESG Leaders Equity ETF
RESE	WisdomTree Emerging Markets ESG Fund
ESGD	iShares ESG Aware MSCI EAFE ETF
EASG	Xtrackers MSCI EAFE ESG Leaders Equity ETF
DMXF	iShares ESG Advanced MSCI EAFE Index ETF

Absolute Monthly Return of the ESG ETFs

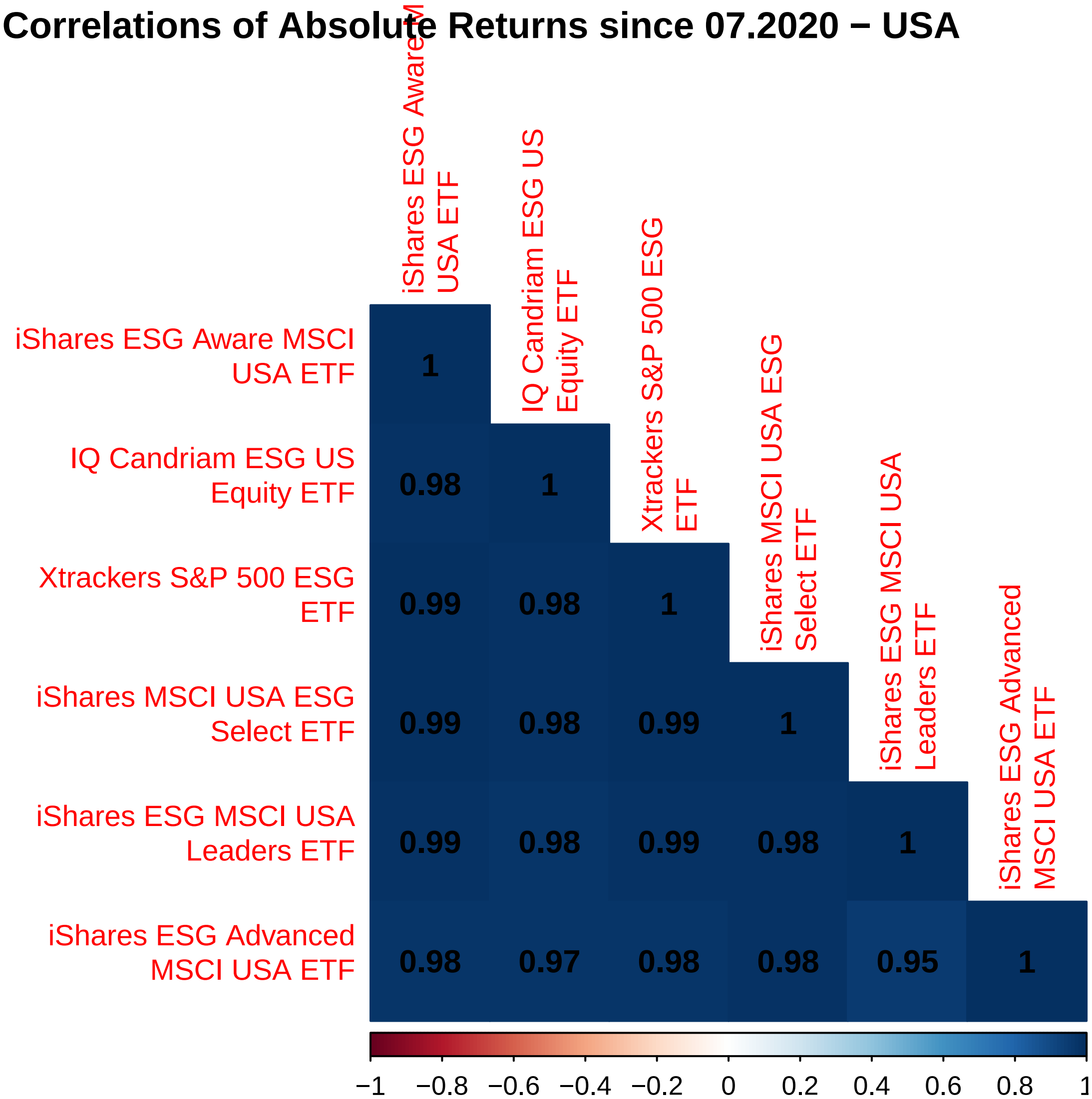


Simple Excess Return of the ESG ETFs over their Benchmarks

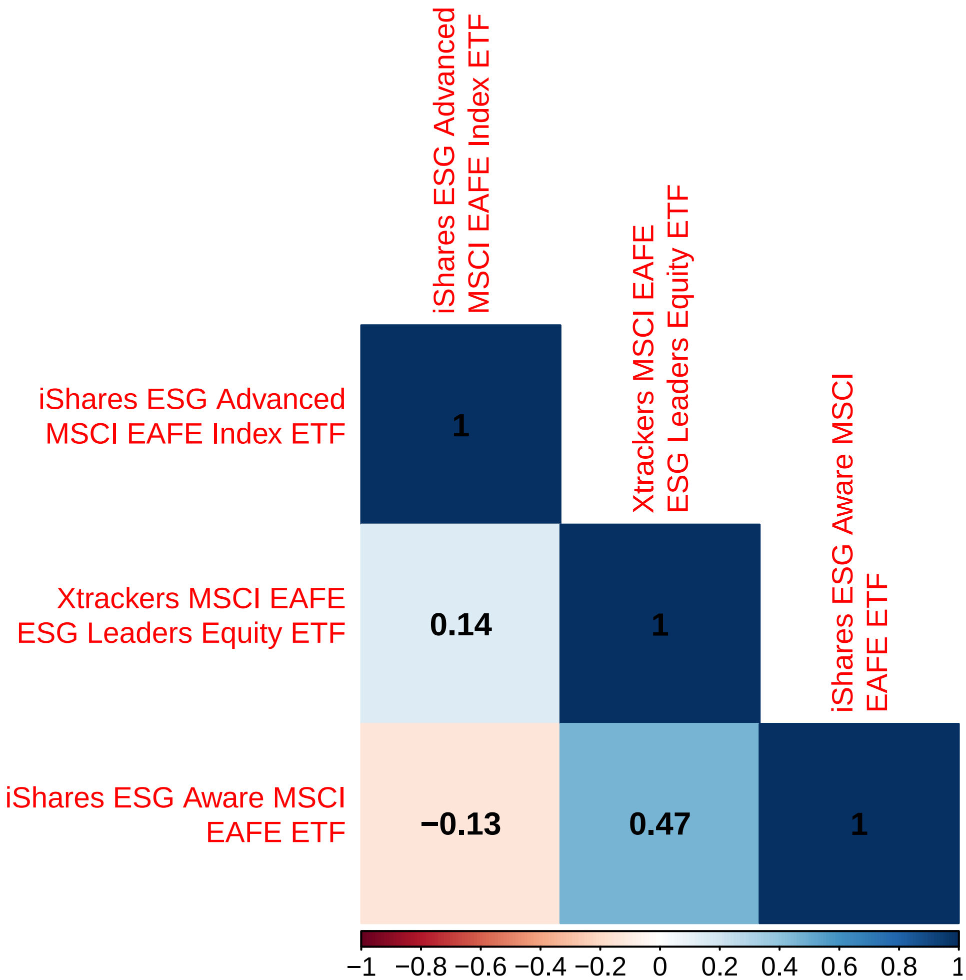


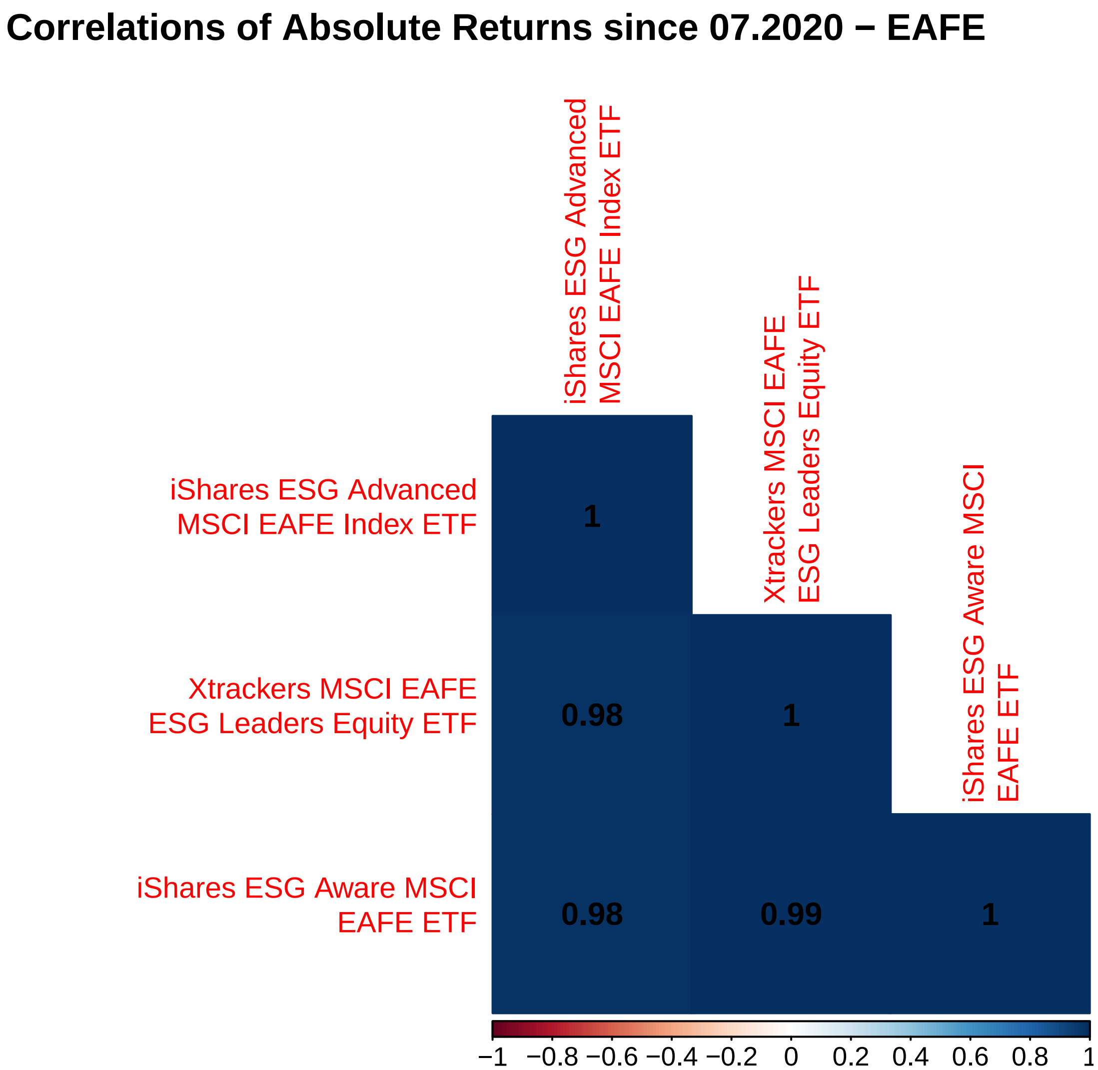

Correlations of Excess Returns since 07.2020 − USA
iShares ESG Aware MSCI USA ETF
IQ Candriam ESG US Equity ETF
Xtrackers S&P 500 ESG ETF
iShares MSCI USA ESG Select ETF
iShares ESG MSCI USA Leaders ETF
iShares ESG Advanced MSCI USA ETF
1
−0.65
1
−0.49
0.73
1
0.77
−0.21
−0.21
1
0.3
−0.33
−0.27
0.5
1
0.49
0.03
−0.19
0.47
−0.26
1
−1
−0.8
−0.6
−0.4
−0.2
0
0.2
0.4
0.6
0.8
1

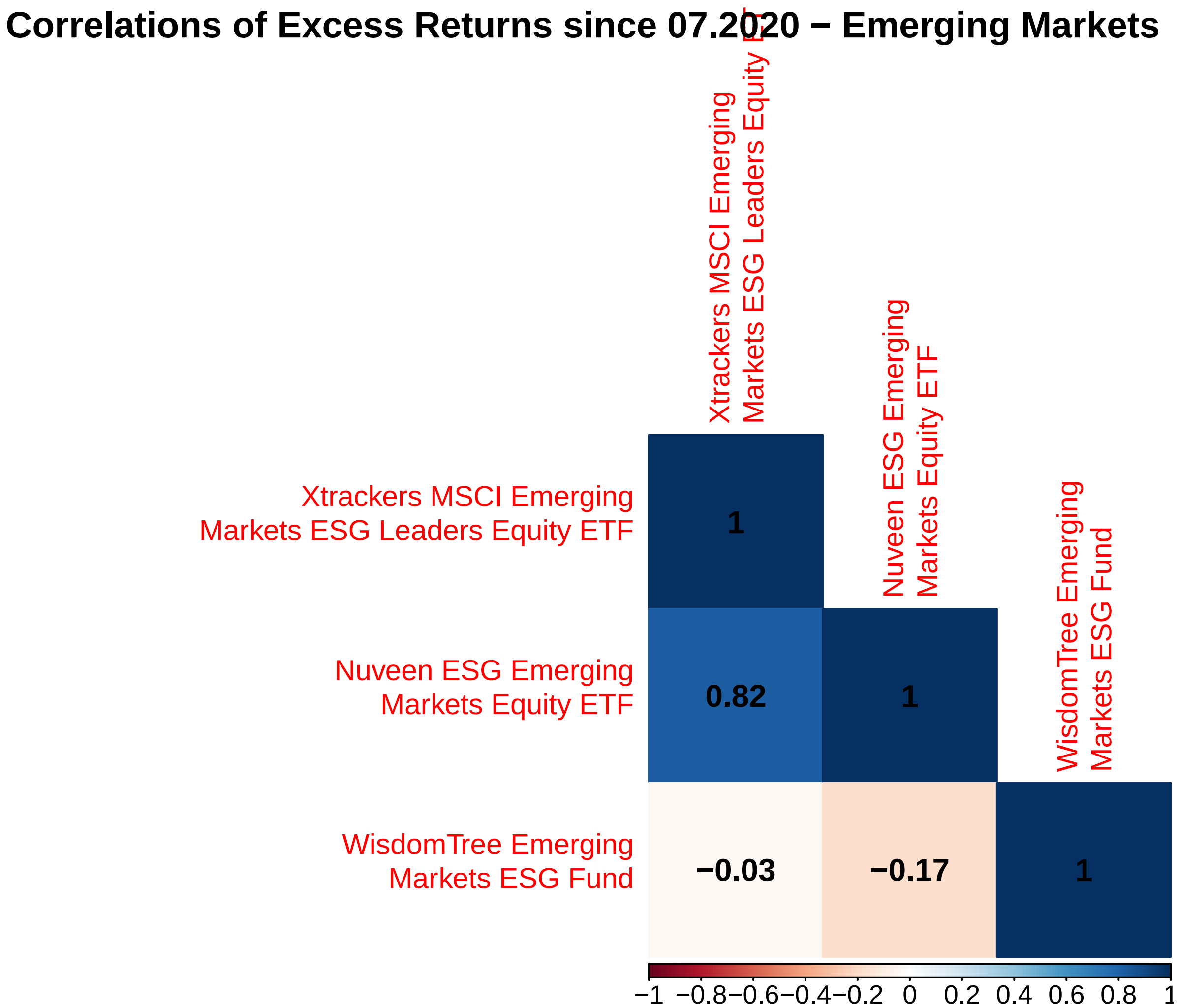
Correlations of Absolute Returns since 07.2020 − USA



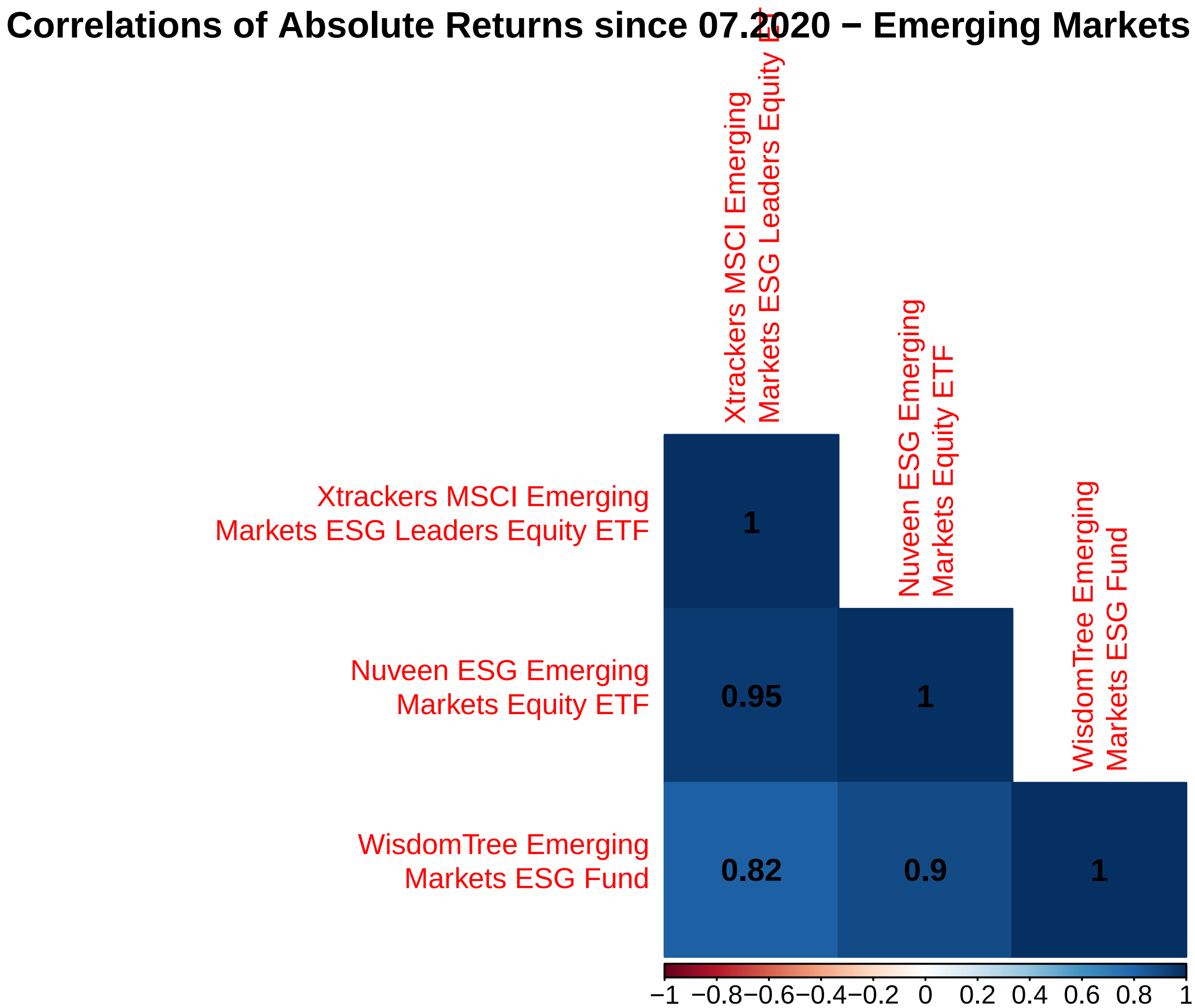
Correlations of Excess Returns since 07.2020 − EAFE




Correlations of Absolute Returns since 07.2020 − EAFE
iShares ESG Advanced MSCI EAFE Index ETF
Xtrackers MSCI EAFE ESG Leaders Equity ETF
iShares ESG Aware MSCI EAFE ETF
1
0.98
1
0.98
0.99
1
−1 −0.8 −0.6 −0.4 −0.2 0 0.2 0.4 0.6 0.8 1



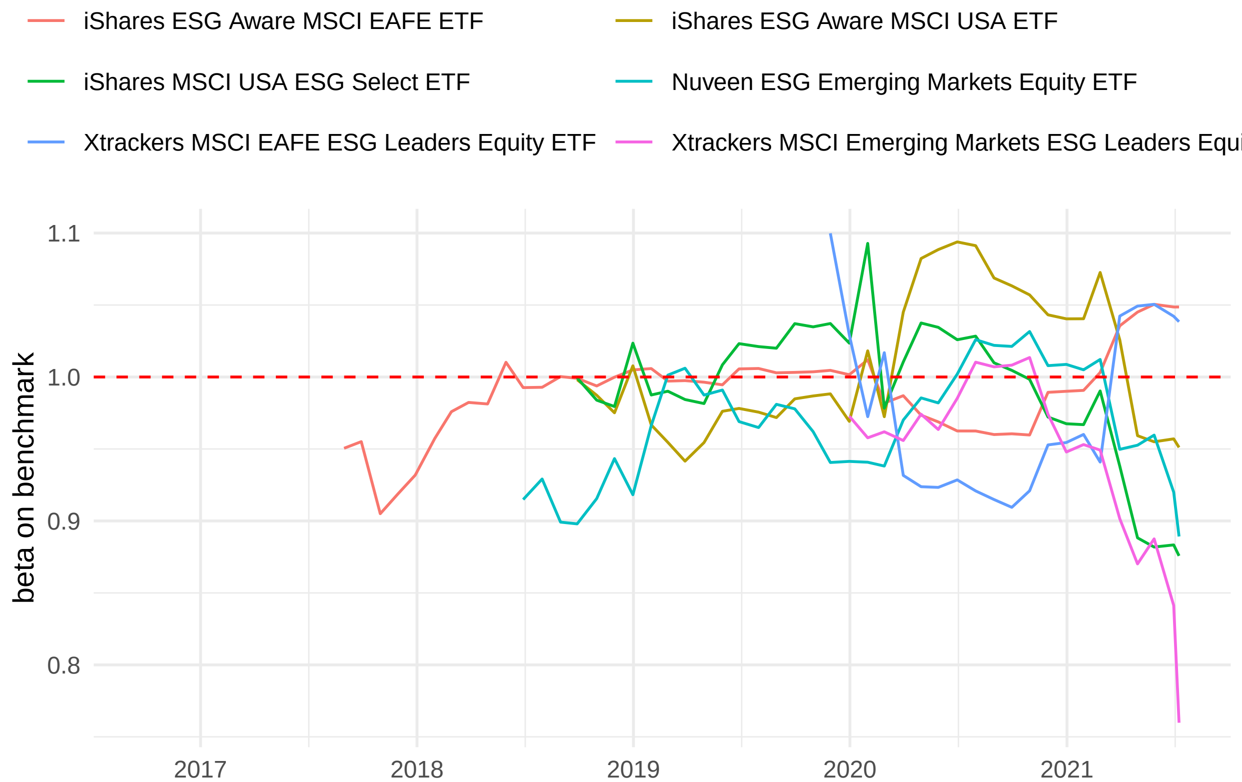
Correlations of Excess Returns since 07.2020 − Emerging Markets
Xtrackers MSCI Emerging Markets ESG Leaders Equity ETF
Nuveen ESG Emerging Markets Equity ETF
WisdomTree Emerging Markets ESG Fund
1
0.82
1
−0.03
−0.17
1
−1
−0.8
−0.6
−0.4
−0.2
0
0.2
0.4
0.6
0.8
1

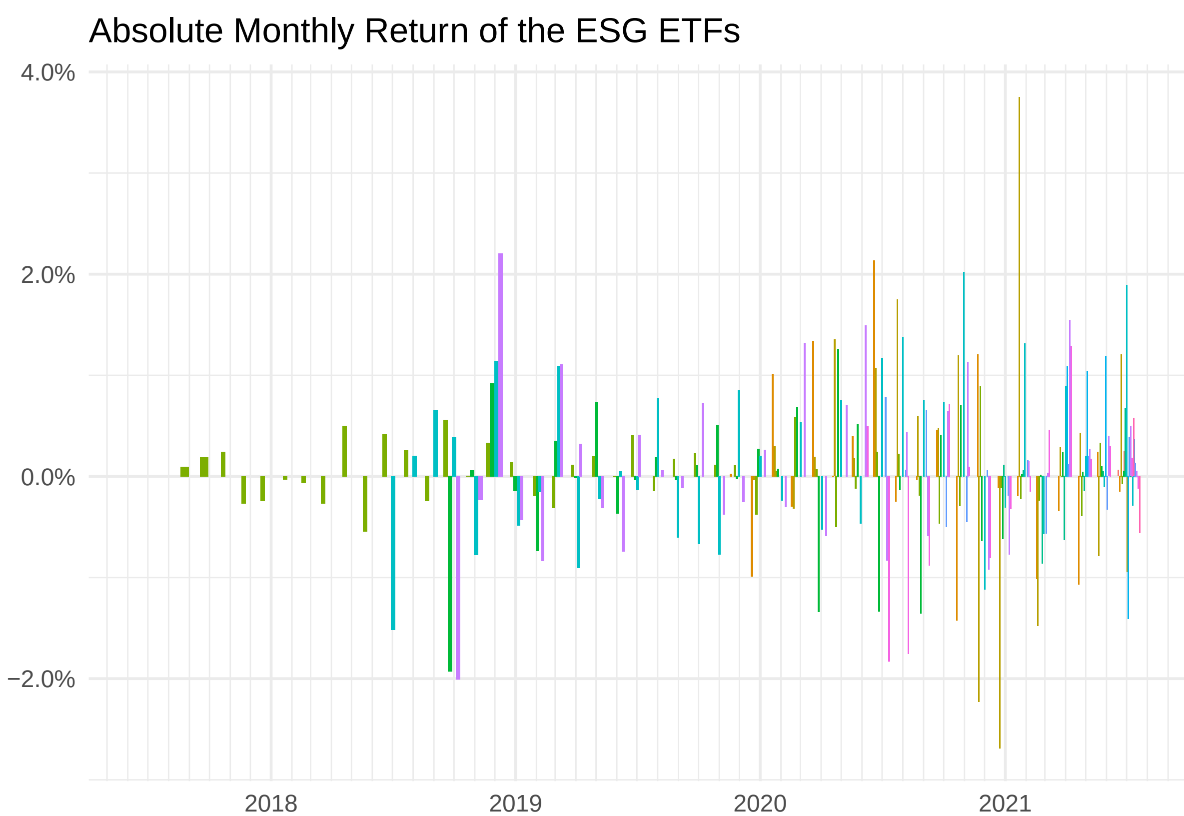


Why are the correlations in excess returns so low or even negative? It seems that there is not one *ESG factor* driving performance. The ESG selection of stocks can randomly perform better or worse.

Going back to the chart over time, we saw that the excess returns seem to depend on the underlying abolute performance. This might be an indication that the ESG products have an above average market beta.

Beta Adjustment





We can conclude that market beta is not a main driver.