



Universität
Basel

Research Project

FV-89 Sustainable Finance and investor sentiment

Third-party funded project

Project title FV-89 Sustainable Finance and investor sentiment

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Organisation / Research unit

Departement Wirtschaftswissenschaften / Corporate Finance (Mahmoud)

Department

Departement Wirtschaftswissenschaften

Project start 01.01.2021

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Status Completed

Investments in sustainable assets have grown at a rapid pace over the last decade. Theory partially attributes this increase to changes in investor taste for sustainability. We develop a novel and direct measure of market-wide aggregate investor sentiment for sustainability and present evidence that it has a significant impact on asset prices. Using microblogging data from a social media investing platform, we construct a daily index capturing investor taste for environmental-, social-, and governance issues. We find that (i) sustainability sentiment temporarily increases during market downturns; (ii) positive sentiment shocks drive prices of sustainable stocks above their fundamental value, which is corrected in the long run, whereas negative shocks predict long-term asset price decreases for sustainable stocks; and (iii) sentiment forecasts flows into sustainable mutual funds.

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