DRILL, BABY, DRILL

AN EVENT STUDY ON HOW ENVIRONMENTAL PERFORMANCE AFFECTS STOCK RETURNS IN POLITICAL SHIFTS

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Drill, baby, drill: An event study on how environmental performance affects stock returns in political shifts

Abstract

The 2024 US presidential election was, similarly to the 2016 election, marked by exceptional campaign rhetoric by Donald Trump. Trump made strong statements against climate policies, promising to roll back the Inflation Reduction Act, withdrawing from the Paris agreement, and supporting oil production, presenting a political environment that prioritizes economic gains over environmental protection. Using an event study methodology, this thesis investigates to what extent investors anticipated these policy changes, in a time of political uncertainty, by examining the short-term effects of stock returns on firms with high environmental performance compared to firms with low environmental performance. The results revealed that high environmental performance was penalized by investors following the election outcome, observed through negative abnormal returns. The revision of forecasted EPS supported this claim, where environmentally responsible firms experienced negative updates after the election. Further exploratory tests showed no significant results prior to the election, despite the probability favoring a Trump victory, due to the high market uncertainty at the time. This paper raises the question whether there is a concurrent shift of paradigm, where the popular stakeholder perspective is being replaced by the previous dominant business ideology of the shareholder perspective, or if corporate sustainability always has been contingent on incentivizing policies.

Keywords:

Event study, Sustainability, Environmental performance, Political uncertainty, Election

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1. Introduction

In recent decades, sustainability considerations have moved from the periphery to the center of attention for financial, corporate, and regulatory decision-making. This shift has occurred in parallel with alarming environmental developments where the consumption of the earth's resources has continued at a faster rate than it is able to replenish (Earth Overshoot Day, 2025), and recorded natural catastrophes have gone from a frequency of 40 per year in 1960 to a staggering 410 in 2023 (Our World in Data, 2024). While there are arguments for different stakeholders claiming varying levels of responsibility for this development, the corporate sector is often pointed out as a focal point in many discussions (Blowfield & Murray, 2014). As a result, the intersection between sustainable performance and financial performance has attained increased attention from scholars, investors and governments alike (Giese et al., 2019). In order to evaluate corporate sustainability performance and to facilitate the progression of this body of research, rating agencies' scores on Environmental, Social, and Governance (ESG) performance, and Corporate Social Responsibility (CSR) performance have become crucial tools (Drempetic et al., 2020). A particularly interesting field of research is the market reactions to sustainable firms during times of uncertainty or outright crises, where sustainability factors have been found to contain explanatory abilities of financial performance, both in terms of corporate valuation and firm performance (Friede et al. 2015; Giglio et al., 2021). A high ESG score (or CSR-score) has been found to increase the resilience to stock-price drops in unstable environments (Engelhardt et al., 2021; Gao & Geng, 2024; Lins et al., 2017; Reyad, 2024; Zhou & Zhou, 2021). However, even though political uncertainty has been found to have a direct effect on the capital markets (Li & Born, 2006), the effect of sustainable performance has, in this setting, received limited research attention.

Assessing market outcomes of high-impact presidential elections presents an interesting opportunity for further research, where the United States' (US) 2024 presidential election serves as a relevant case. In contrast to Trump's presidential campaign in 2016, where the social aspect was in focus with the signature election promise being to "build a wall" to keep illegal immigrants from the US and "secure our southern border" (Rodgers & Bailey, 2020), during the 2024 presidential campaign, Donald Trump was instead very vocal about his opposition to pro-environmental regulations. Among others, Trump called climate change "a big hoax", vowed to "terminate the green deal", and sought to combat inflation and rising energy prices by "drill, baby, drill" (Martinez & Mai, 2024; Milman & Niranjan, 2024). Following Trump's campaign, there are indications that economic targets are prioritized over environmental protection, suggesting a paradigm shift, where the dominant stakeholder perspective is being replaced by the comeback of the shareholder perspective. With the US being one of the largest and most influential economies in the world, the 2024 presidential election, which saw Donald Trump return to office, provides a suitable context to explore how the market responded to environmentally proactive firms amidst shifting political priorities.

The growing emphasis on sustainability has been accompanied by a substantial body of research investigating the link between ESG performance and financial performance. Although with some objections (Di Giuli and Kostovetsky, 2014; La Torre et al., 2020), research is predominantly favoring the claim that ESG performance is positively correlated with financial

performance, giving incentives to be ambidextrous, and pursue multiple goals simultaneously (Friede et al., 2015). Therefore, ESG factors have become increasingly relevant in financial decision-making, influencing corporate valuations, investor preferences, and regulatory frameworks (Giese et al., 2019). Previous events of uncertainty have shed light on the resilience capabilities that ESG performance has towards stock price drops. For example, in the financial crisis in 2008 where the trust from a higher level of Corporate Social Responsibility (CSR) to an extent shielded the stock price from complete free fall (Lins et al., 2017). Similarly, during the Covid-19 pandemic, companies with high ESG scores experienced lower stock price volatility than companies with poorer ESG scores (Zhou & Zhou, 2021). However, to what extent ESG performance impacts stock price reactions in times of high political uncertainty, where regulatory changes could fundamentally impact the value of environmentally proactive strategies, remains a subject of debate. In particular, an election where policymakers have diverging views on environmental-related policies presents an ideal setting for assessing market perceptions of these investments. Donald Trump's previous presidential victory was seen as a major win for the fossil fuel sector, and a great setback for climate policy (Tricks, 2016). In the 2024 election, where the outcome was uncertain and the environmental policies of the democratic and republican parties differed sharply, could higher environmental performance have affected the stock price negatively?

The relationship between ESG performance and stock market development continues to evolve with studies researching different settings, variables and companies. This study investigates whether firms' environmental performance had an explanatory effect on stock returns in connection with Donald Trump's 2024 presidential election victory. Due to the high interest, yet few studies due to the recency of this specific election, research is calling for empirical analysis of the event. Given the widely debated topic of sustainability in political and corporate landscapes, and its growing salience in institutional investing during the last decade (Giglio et al., 2021), this research holds significant relevance for scholars, industry professionals, as well as policy makers. Given that the environmental pillar acts as the main driver of a company's aggregated ESG or CSR score (Agliardi et al., 2023), the relationship found by previous research between ESG or CSR and financial performance is expected to hold for the E-score on its own. By analyzing stock price movements in the context of the US presidential election, the study aims to explore whether investors adjusted their expectations based on the anticipated policy landscape, potentially favoring or penalizing environmentally conscious firms. This reasoning led to the research question of this paper: *Were there consequences to stock returns depending on firms' environmental performance during the 2024 election in connection with Donald Trump's victory?*

To address the research question, this study employs an event study methodology with the election day, the 5th of November 2024, as the event date. A data set of over 1100 companies, representing around 80% of the US equity market, is used containing information regarding stock price development, environmental performance, industry classification and financial control variables. In defined event windows, stock returns are regressed against environmental performance to investigate a possible relationship. Validity tests are used to verify the model and robustness tests are performed to ensure the rigor of the results. The study performs further tests to examine possible explanations of found relationships and alternative event dates.

The paper has three main limitations: availability of data, generalizability and endogeneity. ESG scoring is provided by third party rating agencies. However, due to incomplete coverage, ESG scores are subject to availability, where not all companies are scored. Therefore, it is hard to draw conclusions based on the full market in focus. Further, ESG scores are arbitrary and can differ between rating agencies, posing a risk of bias towards a specific scoring method. The generalizability of the study could be challenged by the political and temporal context, since results may not be carried over to other countries, time periods or political shocks as the context of the study plays a big role. One example is the exceptionally late change of candidate for the democrats, where Kamala Harris replaced Joe Biden less than 4 months before the election (BBC, 2024). Additionally, Donald Trump is a spectacular character who can be denoted as a unique variable in this equation. Endogeneity is a problem in most quantitative research, for example through the omitted variable bias which may be affecting the interpretability of the results (Hill et al., 2020). As such, there might be other systematic differences between high and low environmental performing companies that are not captured by the model. Further, any found effects may not be casual. Either the effect can explain correlation, or it could be an example of reverse causality where stock performance is affecting environmental performance, not vice versa.

This paper contributes to the broader field of research in the intersection between corporate sustainable performance and corporate valuation in periods of uncertainty. The results provide insights into market reactions to sustainability performance in times of political shifts. By studying a recent high-interest event, this thesis offers novel findings of the behavior of financial markets under an uncertain regulatory environment. It applies to scholars through the addition of empirics that builds on previous literature and paves way for future research. Further, it holds relevance for practitioners such as investors, management, as well as policy makers as they navigate a landscape where the tension between short-term gains and long-term investments is ever present. More specifically, it highlights how environmental performance is factored in during volatile political periods.

This paper is outlined by five main sections. The theoretical background with relevant literature and formulation of the hypothesis. The next section presents the methodological approach, containing the decisions taken to retain the rigor of the process and ensure replicability. The results section tabulates the output from the performed tests with some visual representations. Following the results, the discussion reiterates the main findings and further interprets the results. Lastly, the paper summarizes the findings and suggests paths for future research in the conclusion.

2. Literature Review

Section 2 provides the theoretical background for the study by exploring the evolution of two opposing corporate ideologies, the financial implications of ESG performance, and the role of political polarization in shaping market dynamics. It begins with an outline of the shareholder versus stakeholder perspectives, followed by an examination of the empirical evidence linking ESG performance to financial outcomes. It then highlights the political context in the US, with a focus on ideological divisions and the influence of Donald Trump. Finally, it introduces the concept of systemic shocks and political uncertainty to frame the formulation of the hypothesis.

2.1. Competing Corporate Ideologies

2.1.1. The Shareholder vs Stakeholder Perspective

In the 1970s, the highly influential neoclassical economist Milton Friedman (1970) argued that CSR investments that benefit other stakeholders than the shareholders ultimately lead to deteriorated financial performance, both in terms of profits and stock prices. As agents of the shareholders, management should thereby operate with the sole purpose of maximizing shareholder value to act within its social responsibility. This ideology of business was the dominant perspective for a long period after Friedman's paper (Charreaux & Desbrières, 2001), where corporate executives confessed to acting in the best interest of its shareholders, in spite of knowledge of ethical and social implications (Rose, 2006).

Seven years prior to Friedman's paper, an opposing view with the keyword stakeholder was introduced (Ansoff, 1965, p. 34), which got more recognition about two decades later through Edward Freeman's (1984) formalization of the theory. Defined as any group of individuals who can affect or is affected by the achievement of an organization's objectives, Freeman argued that a company should proactively engage with its stakeholders to create long-term value, erasing the separation between business and ethics. However, it was not until some years before the turn of the millennium that the stakeholder perspective gained widespread traction through the Triple Bottom Line perspective (Elkington, 1994).

Built on the stakeholder value view, the Triple Bottom Line perspective was a concrete tool that companies could use to measure holistic performance, where not only financial measures were in focus, but the social and environmental aspects were also accounted for (Elkington, 1994). During the same period, the longstanding most popular non-financial reporting standard, the Global Reporting Initiative, was introduced to increase corporate accountability, measuring accuracy and reporting harmonization within sustainability (KPMG, 2024; Willis, 2003). Although being criticized for being insufficient in making material sustainable impact (Milne & Gray, 2013), both the Triple Bottom Line perspective and the Global Reporting Initiative pioneered corporate sustainability and have laid the foundation for highly influential successors that have contributed to the mainstreamization of the stakeholder perspective. Examples can be found in the Paris Agreement, the Inflation Reduction Act, the Task Force on Climate-related Financial Disclosures, the Sustainability Accounting Standards Board, and the Corporate Sustainability Reporting Directive (CSRD) by the European Union (EU) to name a few.

Following the consensus in academia regarding today's human-caused environmental challenges (Lynas et al., 2021), the trend has later transcended early adopters and reached the leading organizations of the world. As described by Eccles & Klimenko (2019) after interviewing 70 senior executives at 43 global institutional investing firms: "We know of no other research effort that involved so many senior leaders at so many of the largest investment firms. We found that ESG was almost universally top of mind for these executives.". BlackRock's CEO's recurring theme of expressing their commitment to sustainable investments for the long-term benefit of their clients, not only for the environmental, social and governance advantages, but also for the associated financial gains, further witnesses about the trajectory of the tangent of sustainable investments (Fink, 2020; Fink, 2021; Fink, 2022).

2.1.2. The Link Between ESG and Financial Performance

Companies do not engage in sustainability simply for charitable reasons. There is more to reap from sustainable business than improved external perception. Over the years, there have been thousands of empirical studies investigating the relationship between sustainable criteria and corporate financial performance to establish whether adopting a stakeholder point of view entails the most amount of value creation. Although some scholars have argued in line with Friedman's reasoning, that rejected the hypothesis that sustainable performance drives financial performance (Di Giuli and Kostovetsky, 2014; La Torre et al., 2020) the consensus posits that sustainable performance is related to improved financial performance, speaking in favor of the stakeholder perspective. Friede et al. (2015) examined over 2000 empirical articles in a review study which concluded that 90% of the papers found a significant nonnegative relationship between ESG criteria and corporate financial performance, and the majority reported a significant positive link. Over time, the positive impact of ESG on financial performance appears to be stable, increasing the rigor of the findings and giving fuel to proponents of sustainability within the corporate world.

The increased financial performance due to sustainable performance is reflected in several factors. It is argued by Giese et al. (2019) that the systemic risk profile of a high ESG performing company is better than of a low ESG performing one, shown by the lower cost of capital and higher valuation. Further, the idiosyncratic risk profile also benefits from a higher ESG performance through higher profitability. There are a number of possible reasons for the existence of these phenomena. The willingness to invest in companies that engage in CSR activities is boosted by the increased trust that investors experience from those actions (Hoang & Phang, 2023). Especially if the action is of material nature to the business and the trust is based on the competence of the company. Although still positive, a slightly weaker link has been found for immaterial CSR actions where the trust pertains more to the integrity. Moreover, several studies have found that not only the cost of equity benefits from sustainable performance (Fulton et al., 2013), the cost of debt for high ESG performing companies is also lower than for those with worse ESG performance, allowing for cheaper financing and thereby evident financial benefits (Wong et al., 2024; Zhao et al., 2024).

Despite strong forces pushing for the injection of more stakeholders into the consideration of business decisions, they are juxtaposed by others. In Donald Trump's 2024 presidential campaign, Trump made several controversial statements regarding climate change and was

very vocal about his support for the fossil fuel industry. Trump stated that one of his first acts as a president would be to "drill, baby, drill" (Trump, 2024), alluding to drilling for oil which he followed up by "Starting on Day 1, I will approve new drilling, new pipelines, new refiners, new power plants, new reactors, and we will slash the red tape.". Along similar lines, he announced that he would stop offshore wind power and "Terminate the Green New Deal" pointing at the Inflation Reduction Act (Martinez & Mai, 2024). During the presidential debate in June 2024, Trump called the Paris Agreement "a rip off on America" and later vowed through his campaign national press secretary to, once again, leave the agreement (Lefebvre & Colman, 2024; Winters, 2024). He called climate change "a big hoax" and dismissed renewable energy sources such as wind power (Milman & Niranjan, 2024). Some argue that eliminating the tax credits imposed by the IRA would put a lot of the invested private capital at risk, especially in offshore wind, given that the investment is based on the inclusion of tax credits in the return on investment calculus (Martinez & Mai, 2024). This planned pivot in American policy was suggested by Trump as a part of his plan to strengthen the American economy (Siegel, 2024) and could be seen as a potential drift in perspective where companies might follow suit and, once again, prioritize shareholder value above all.

2.2. Political Ideology and Corporate Sustainability

2.2.1. US Political Polarization and Climate Policy

It is not only Trump that holds an opposing view to the more mainstream stakeholder perspective. It has become clear that there is a growing polarization with regards to climate change between the republicans and democrats in the US. While democrats generally promote environmental protection, green jobs and renewable energy, republicans instead prioritize job creation and economic growth and often support policies benefiting fossil fuel industries (Brulle et al., 2012). Shrestha (2024) compared democratic (blue) and republican (red) states in terms of state-level energy policies and individual voluntary lifestyle choices. It was found that not only did blue states repeatedly embrace energy efficiency policies and transportation policies to a higher degree, but individuals were also more likely to make environmentally friendly choices compared to red states. It was also evident that the partisan gap has grown since 1997 partly as a result of the disparity in coal use for electricity generation. The partisan gap between the parties is further reflected in the enactment of the IRA in 2022, introduced by the Biden administration, being the largest climate and clean energy investment in US history (U.S. Department of Energy, 2023). Di Giuli and Kostovetsky (2014) documented that companies show higher CSR scores if they have democratic, rather than republican, executives. Also, if the company was headquartered in a democratic-leaning state, similar results were observed. One could argue, on a general note, that republicans prioritize short-term economic targets, consistent with the shareholder view, while democrats are favoring long-term environmentally friendly choices, more in line with the stakeholder view.

2.2.2. Donald Trump as a Symbol of Deregulation

Guo et al. (2013) found that firms located in areas where Trump held campaigns prior to the 2016 election showed decreased environmental performance compared to firms located in areas

where Trump did not campaign. One explanation could be that Trump's anti-environmental claims have a signaling effect of accepting an environmentally irresponsible behavior that previously has been suppressed. The logic is provided by Brulle et al. (2012) who investigated the changing attitudes towards climate change in the US and the causes behind it. Darmofal (2009) found that ideological identification commonly superseded science: "when political elites offered dubious policy cues, many citizens followed these cues rather than rejecting them in favor of more valid cues from opposition elites". The results imply that regardless of the statement made, a voter will often support their preferred candidate even if the statement directly contradicts their usual stance. Elite cues from political figures, media coverage, and structural factors such as unemployment levels or energy prices were found to have the greatest influence on public opinion regarding climate change (Bolsen and Cook, 2008). All of the three factors, elite cues, media coverage and structural factors, can be found in the statements made by Trump leading up to the 2024 presidential election. It is reasonable to believe that Trump's statements regarding tearing apart the IRA led to changes in investor expectations due to anticipated policy changes. Further, climate-related policy changes have shown profound evidence of causing market reactions (Kang & Ratti, 2013), where the stock market volatility increases with the probability of the election winner (Goodell & Vähämaa, 2013), explained by the changed investors' beliefs about policy impact and the probability of the policy change itself (Pastor & Vernonesi, 2012).

2.3. Market Reactions to Systemic Shocks

2.3.1. ESG as a Buffer

There are two types of financial shocks, idiosyncratic and systemic. A systemic shock is driven by macroeconomic factors, causing increased uncertainty and loss in confidence (Smaga, 2014), while an idiosyncratic shock is driven by company specific factors (Huang, 2022). Similarly, a company's stock performance is mainly driven by two components: alpha, consisting of company specific factors, and beta, expressing investors' collective judgment of the degree macroeconomic conditions affect the company (Logue & Merville, 1972). According to the efficient market hypothesis, all available information should be incorporated in the share price (Fama, 1970). However, during systemic shocks such as the Covid-19 outbreak, the US market was not efficient (Navratil et al., 2021; Tabot, 2021) and instead driven by fear and uncertainty (Vasileiou, 2020). The effect could be explained by the VIX index, more often called the "investor fear gauge", which measures the expected volatility and usually spikes during periods of market turmoil. When the expected market volatility increases, investors demand higher returns which leads to declining stock prices (Whaley, 2009). In contrast, Ricci et al. (2024) showed that companies with high ESG scores experience lower volatility in stock returns compared to peers during times of systemic shocks, such as announcement of gas rationing or the war in Ukraine. Similarly, during the financial crisis in 2008, high-CSR firms were more resilient to stock movement due to a higher consumer trust gained by invested social capital (Lins et al., 2017). The same has been found to be true during the Covid-19 pandemic (Engelhardt et al., 2021; Gao & Geng, 2024; Zhou & Zhou, 2021), and other geopolitical events (Reyad, 2024). One reason for this could be that firms with higher CSR performance usually experience higher profitability and growth (Lins et al., 2017), lower

levels of idiosyncratic risks (Huang, 2022), but also due to the nature of these investors having a longer investment horizon (Ramelli et al, 2021; Starks et al. 2017).

2.3.2. Political Uncertainty

Presidential elections can be seen as a systemic shock, since they are characterized by a large-scale event affecting financial markets through heightened uncertainty and rapid change in investor expectations (Hristov & Roth, 2022; Huang, 2022; Systemic Risk Centre, 2025). Additionally, Baker et al. (2016) found that their constructed economic policy uncertainty index spiked during tight US elections, arguing for the similarities with systemic shocks. Similarly to the financial crisis in 2008 and the Covid-19 pandemic, elections can shift the expectations regarding policies and regulations and thereby affect stock prices. Significant abnormal returns have previously been observed in connection with presidential elections, where the reaction has been found to be stronger in the cases where the election results are more uncertain (Li & Born, 2006). This effect depends on the anticipated outcome of policy changes, affecting either the expected firm profitability or the discount rate in valuations models (Pastor & Veronesi, 2012). An increased risk premium and more volatile stock returns can be observed already before policy change announcements through investors' fluctuations in beliefs about policy impact and the probability of the policy change itself (Pastor & Veronesi, 2012). Wagner et al. (2017) investigated the big reactions of the financial markets following the unexpected outcome in the US presidential election 2016. The market responses were explained by the unforeseen result combined with the wide policy differences between the candidates that led to changes in investors' expectations, where Trump's victory led to negative abnormal returns for firms in the renewable energy sector (Mukanjari & Sterner, 2024).

In contrast, for the 2024 US presidential election it can be argued that environmental policy changes were probable, as evidence of this anticipation appears in the positive market returns before the election day, suggesting that investors were positioning themselves with regards to potential policy changes (Ahmed et al., 2025), in line with the reasoning by Pastor & Veronesi (2012). Ramelli et al. (2021) found that despite Biden's high pre-election odds in the 2020 US presidential election, it took five days to confirm his victory. Market reactions reflected this uncertainty where climate-responsible firms saw negative abnormal returns immediately after election day but rebounded once Biden was declared the winner. Such a shift suggests that investors initially reassessed Trump's chances of reelection before aligning with the outcome. The results from the 2016, 2020, and 2024 elections highlight the impact that policy changes have on the stock market, and especially the significant role uncertainty plays in investor expectations. Given these findings, one can reasonably infer that investors would anticipate policy changes, prior to the 2024 election day, that would diminish the benefits related to environmentally responsible firms, due the odds being in favor of a Trump victory (Jones, 2024; Ma, 2024; The Economic Times, 2024). Although previously shown to shield against systemic shocks, in this instance, a high level of environmental performance may instead increase the exposure.

2.4. Hypothesis Development

Presidential elections have been found to significantly affect market returns, primarily due to uncertainty (Li & Born, 2006) and policy changes (Ahmed et al., 2025; Pastor & Veronesi, 2012; Ramelli et al., 2021; Wagner et al., 2017). Additionally, studies indicate that in elections where Trump won (lost), firms in the renewable energy sector (Mukanjari & Sterner, 2024) or those with high climate responsibility (Ramelli et al., 2021) experienced negative (positive) abnormal returns. However, unlike the 2016 election where Trump's victory was unexpected, this study predicts that given Trump's high probability of winning in 2024 (Jones, 2024; Ma, 2024; The Economic Times, 2024), market reactions were, albeit not as substantial as on the election day, likely to occur preceding it. Based on previous literature, this paper proposes that Trump's victory in the 2024 US presidential election led to a shift of paradigm from a stakeholder to a shareholder perspective, prioritizing economic gains over combating climate change. It is further assumed that the following statements and planned actions made by Trump, prior to the 2024 election, led investors to anticipate policy changes that would disadvantage environmentally responsible firms by: (i) reducing subsidies for environmental incentives, with Trump's pledge to "Terminate the Green New Deal" (Martinez & Mai, 2024), (ii) incentivizing oil and gas investments, as he declared, "Starting on Day 1, I will approve new drilling, new pipelines, new refiners, new power plants, new reactors, and we will slash the red tape" (Martinez & Mai, 2024), and (iii) calling climate change "a big hoax" (Milman & Niranjan, 2024). Consequently, this study expects the stock market to react less favorably to environmentally responsible firms, than to more environmentally irresponsible firms in connection with the 2024 US presidential election. Thereby, the following research hypothesis was formulated:

Hypothesis: Companies with high environmental performance experienced lower returns around the 2024 US presidential election compared to companies with low environmental performance.

3. Methodology

Section 3 outlines the research design and methodological approach employed to test the stated hypothesis. It describes the data sources, sample selection, and key variables used in the analysis. The main analytical tools, an event study and cross-sectional regression, are explained along with the rationale of choosing them. This section also covers robustness tests and describes how a possible factor behind the market reactions is investigated.

3.1. Data Sample

To analyze the market reactions in connection with the 2024 US presidential election this study has collected a sample set of 1512 publicly listed companies belonging to the Standard & Poor's (S&P) S&P 1500 composite Index. The index functioned as a proxy for the US equity market, representing 90% of the total market capitalization (S&P, 2025). From London Stock Exchange Group's (LSEG) database Refinitive Eikon, industry classifications, daily stock prices, environmental performance (E-score) and accounting metrics were collected for each constituent of the index. After cleaning the data from insufficient data points, 1154 observations remained, representing around 80% of the US equity market.

3.2. Event Study Approach

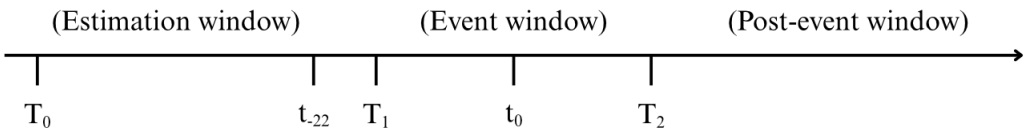
For the empirical investigation of the relationship between E-score and stock prices during the US presidential election in 2024, this study was based on standard event study methodology (MacKinley, 1997). Event studies are widely used within financial research as they allow for isolation of market reactions in a specific setting (Kothari & Warner, 2007). It is a method that consists of four steps: (i) Definition of event window, (ii) computation of expected returns, (iii) estimation of abnormal returns, and (iv) statistical testing of the abnormal returns (MacKinley, 1997). An event study is a quantitative research method used to assess immediate effects preceding or succeeding the event in focus (MacKinley, 1997). Due to the short-term focus of this methodology, it relies heavily on the Efficient Market Hypothesis (EMH), which makes the assumption that information is symmetric. EMH argues that market assets are always priced at fair value since the valuation of securities is based on all available information and all investors are equally informed (Fama, 1970; Malkiel, 1989).

A benchmark market model is used within an estimation window to compute company-specific alphas and betas under normal conditions. These alphas and betas are used to calculate expected returns for the specified event window by using a market index. The expected returns are compared to the actual returns within the event window to create abnormal returns (AR). By aggregating the AR for all companies in the data set, these cumulative abnormal returns (CAR) could be analyzed further. If the CAR is statistically significant, it suggests that the event had an impact on the stock market. This exposes the difference between how companies would have performed under normal conditions and how they actually performed within the specified window (Ahmed et al, 2025; Mukanjari & Sterner, 2024). By using the market model for expected returns, systemic movements are being controlled for and by aggregating the returns for all companies, idiosyncratic variation is filtered out. The limited event window further minimizes the effects from unrelated events (MacKinley, 1997).

3.2.1. Timeline of Events

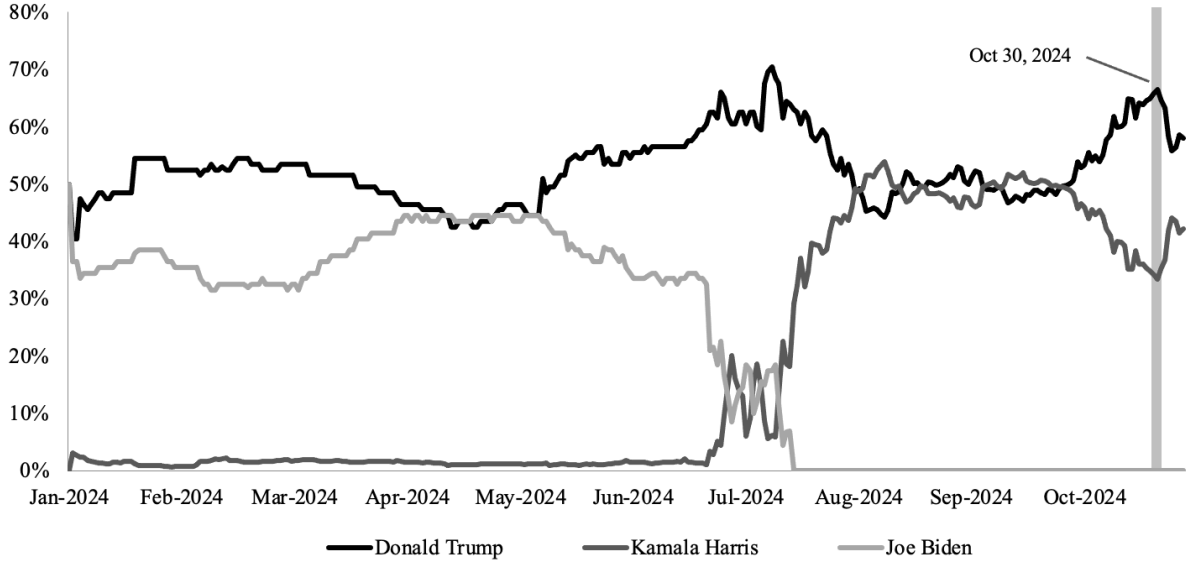
This study examined the key event date of the US presidential election day, November 5th 2024 (t_0). To estimate company-specific alpha and beta values, an estimation window of 250 trading days, (T_0) to (t_{-22}), was used to establish a normal market setting. To minimize potential information contamination that could bias the estimation of return-generating parameters (Aktas et al., 2007), the estimation window was set to 22 trading days (t_{-22}) before t_0. This approach, consistent with previous studies (Ahmed et al. 2025), accounted for potential early market reactions to Trump's rising electoral prospects.

Figure 1
Denotation of time variables



Market odds data for the 2024 US presidential election, sourced from Polymarket (2024), the world's largest prediction market (Flynn & Tarkom, 2025), was utilized. The event windows were based on these market odds, beginning on October 30th 2024 (T_1), when the odds showed the highest probability of Trump winning over Harris (see figure 2), and ending five trading days after the election, on November 12th 2024 (T_2). The selection of this relatively long event window was driven by uncertainty about the timing of market reactions to Trump's statements and his growing chances of victory. Extending the event window further, however, could risk confounding effects from unrelated market developments, which could obscure the event's impact and introduce contamination (Mukanjari & Sterner, 2023). Several alternative event windows were tested for robustness reasons, whereof three in total were tabulated in the results.

Figure 2
Market odds for 2024 presidential election and event dates of interest



3.2.2. Market Model Estimation

This study uses a market model to estimate predicted returns for each company (Kothari & Warner, 2007; MacKinley, 1997). Similarly to Ahmed et al. (2025) and Mukanjari and Sterner (2024), the Capital Asset Pricing Model (CAPM) was used as the market model. The model assumes a stable linear relation between the market return and the company's stock return:

$$R_{i,t} = \ln\left(\frac{P_t}{P_{t-1}}\right) \tag{1}$$

$$R_{i,t} = \hat{\alpha}_{i,t} + \hat{\beta}_{i,t} \times R_{M,t} + \varepsilon_{i,t} \tag{2}$$

In the above model, $R_{i,t}$ is the natural logarithmic daily returns of company i on day t. $R_{M,t}$ represents the market return on the same day, where the S&P 1500 composite Index was used as a proxy for the market index. The parameters $\hat{\alpha}_{i,t}$ and $\hat{\beta}_{i,t}$ were estimated using ordinary least square (OLS) regressions over a 250-day estimation window. From this model, AR for the event window was computed using the following equation:

$$AR_{i,t} = R_{i,t} - \left(\hat{\alpha}_i + \hat{\beta}_i \times R_{M,t}\right) \tag{3}$$

$$AAR_t = \frac{AR_{i,t}}{N} \tag{4}$$

$AR_{i,t}$ represents the daily abnormal return for company i on day t, and AAR_t denotes the average abnormal return (AAR) across the sample. These values were aggregated over the defined event window to calculate the cumulative abnormal return, $CAR_{(t_1,t_2)}$, where t_1 represents the first day and t_2 represents the last day of the event window.

$$CAR_{(t_1,t_2)} = \sum_{t=t_1}^{t_2} AAR_t \tag{5}$$

To assess the statistical significance of the AAR, this study employed one-sample t-tests. These tests examined whether the AAR deviated from a hypothesized mean of zero, which would indicate abnormal returns for that specific day. The test revealed whether there was a statistically significant difference between the observed AAR and zero.

Since the study aims to compare two groups, high and low environmentally performing firms, the mean difference was tested for with an independent sample t-test. The CAR for the event window served as the test variable, while the grouping variable was based on the environmental performance.

3.3. Regression Model

To assess whether firms with high E-score experienced lower AR compared to companies with low E-score companies around the election day, equation (6) was estimated for CAR around the event date using standard linear OLS regression. This is a widely used model and is preferred due to its high interpretability (Anandhi & Nathiya, 2023; Darlington & Hayes, 2017). The OLS regression was used with robust standard errors calculated using the most

conservative heteroskedasticity-consistent estimator, HC3, to account for heteroskedasticity in the error terms (Mansournia et al., 2020; Ramelli et al. 2021). This adjustment ensures that the standard errors remain consistent even when the assumption of constant variance is violated, thereby improving the reliability of statistical inference. Failing to account for heteroskedasticity can lead to biased standard errors, which can inflate the t-statistics and lead to incorrect significance tests (Mansournia et al., 2020).

$$CAR_{i,(t_1,t_2)} = \alpha + \beta_1 \times E_{high}{}_{i,t-1} + \gamma_i + \delta_{i,t-1} + \varepsilon_{i,t} \quad (6)$$

In this equation, CAR_i is the cumulative abnormal return for company i during event window starting on day $t_1$and ending on day t_2; E-high is a dummy variable separating companies with high and low E-score by the median at time $t-1$, being the last observation before time t; γ_i represents the industry fixed effects and $\delta_{i,t}$ the control variables for firm i at time $t-1$; $\varepsilon_{i,t}$ is the error term explaining what is not captured by the model for company i at time t.

3.3.1. Independent Variable

The independent variable in focus, E-high, is a dummy variable that splits the sample set into two groups based on their E-score. From the median, the upper half were coded as 1 and the lower half were given a value of 0 (Engelhart et al., 2021).

$$\text{E-high}_i = \begin{cases} 1 \text{ if E-score}_i \geq \text{median(E-score}_i) \\ 0 \text{ if E-score}_i < \text{median(E-score}_i) \end{cases}$$

Because of inexistent harmonization within the area of sustainability performance, a choice had to be made as to which rating agency to opt for. Despite possibly leading to a slightly more robust environmental performance metric, the study refrained from aggregating several rating agencies' metrics due to the incomplete availability of these measures. Therefore, to avoid losing further companies from the sample set, making it less representative for the population, the well-established LSEG Refinitive Eikon database was used as the sole inference tool of environmental performance (Cheng et al., 2013; Christensen et al., 2022; Dorfleitner et al., 2020).

3.3.2. Control Variables

The control variables chosen for the regression stem from a plethora of studies, where market-to-book ratio (MtB), leverage, market capitalization and profitability measures are most prevalent (e.g. Broadstock et al., 2021; Shanaev & Ghimire, 2021). This study opted for the following control variables: MtB, leverage, market capitalization, return on assets (ROA), and revenue growth. In line with common finance research practice (Engelhart et al., 2021; Rahi et al., 2021; Zhou & Zhou, 2021), the natural logarithm of the market capitalization, log(market cap), was used to alleviate the model from extreme values and normalizing the distribution. Using the natural logarithm is the most appropriate method for the market capitalization due to the right skewed nature of the data because of the few enormous American tech giants. All other control variables were ratios, whereof some included negative values. For these reasons,

to limit the distortion of the results due to outliers, these were winsorized at the 1st and 99th percentile (Dorfleitner et al., 2020, Albuquerque et al., 2020).

3.3.3. Fixed Effects

Given the cross-sectional data, there was no within-firm variation to account for, leaving firm-specific fixed effects out of the study. In line with previous research, industry fixed effects were included in the analysis to account for systematic sector level differences that may influence stock price reactions (e.g. Broadstock et al., 2021). The industry classifications were based on the globally utilized Industry Classification Benchmark (ICB) standard (LSEG, 2025).

3.4. Robustness Tests

3.4.1. Model Validation

To test the validity of the regression, default diagnostic tests were conducted. The model was tested for heteroskedasticity, multicollinearity and autocorrelation. A White's test was used to test for heteroskedasticity, where a significant p-value suggests that the variance of the residuals is not constant (White, 1980). The multicollinearity, meaning the correlation of the independent variables, was checked by the Variance Inflation Factor, where a value over 5 or 10 indicates multicollinearity (Snee, 1977). The first-order autocorrelation, meaning the correlation of a variable's current value with its lagged values, was tested through a Durbin-Watson test, where a value of 2 suggests no autocorrelation (Durbin & Watson., 1950).

3.4.2. Robustness of Regression

This study performed several tests to ensure the robustness of the results, using a similar dependent variable, to make sure that the results do not flip or disappear, ensured the robustness of the model (Ramelli et al., 2021). Therefore, this study examined the robustness of the findings by using market adjusted returns ($AdjR$) as the dependent variable, instead of the CAPM-adjusted returns (CAR). The difference lies in the reference returns, where the market-model adjusted returns use the CAPM to calculate the expected returns and the market adjusted returns uses the actual returns of the market. See equation (3) and equation (7) for reference. This alternative specification ensured that the observed results were not sensitive to the market model used to calculate the expected returns (Ahmed et al., 2025). The market return used to compute the variable $AdjR$ was based on the MSCI World Index (MSCI, 2025). Even though the index covers the global equity market there is a high correlation with the S&P 1500 Composite Index, since many of the world's largest companies are based in the US. As the index will include firms from the data sample there will be self-inclusion. Still, the MSCI World Index covers around 85% of the equity in developed markets, deeming it one of the most representative proxies for the market index (MSCI, 2025). However, it is noted that this approach potentially may bias the returns, particularly for larger firms, therefore, the results should be interpreted with caution.

$$AdjR_{i,t} = R_{i,t} - R_{M,t} \tag{7}$$

Further, this study performed robustness checks of the independent variable in focus. Firstly, a test was performed where the companies were divided into quartiles instead of halves, based on their respective E-score. The two middle quartiles were disregarded to focus on the groups where the differences were greater, in the tails. The variable used for this test was named E-tails. Secondly, another test was performed on the raw E-score as the independent variable to study the association of the variables without any grouping of the sample (Engelhart et al., 2021).

To investigate possible placebo effects, an additional test was conducted using a different independent variable (Ramelli et al. 2021). By replacing environmental performance with a resembling variable, the aim was to ensure that the observed results were not driven by model specifications. A statistically insignificant result from this test would reinforce the interpretation that the original findings are specific to environmental performance. Instead of analyzing the E-score, the G-score was tested to see whether the observed findings were driven by the relationship between the E-score and AR and not by chance or another unrelated factor. The S-score was also considered, however, due to the high correlation between the E-score and S-score, the variable was not suitable for a placebo-test (Albuquerque et al., 2020). The G-score is adjacent to E-score as it is on the same scale, it is from the same rating agency and is calculated using the same method. This study argues that the governance aspect of business has been disregarded by the Trump presidential campaign to the point where it should have no explanatory capabilities of the stock prices during the time of the election.

Industry definitions can vary between industry classification systems, thus potentially influencing the results (Kotsantonis et al., 2016). Prior studies have shown that ESG-related risks and opportunities are often industry-specific and materially affect firm valuation in different ways (Khan et al., 2016), which implies that using another classification framework may yield a different conclusion. Moreover, using alternative schemes helps validate whether observed relationships are generalizable beyond a specific categorization approach (Pedersen et al., 2021). To ensure that the empirical results are not driven by the grouping of companies, a second industry classification system was used in addition to the ICB. The Standard Industrial Classification (SIC) has a long history of use and is a prevalent classification system in academia. It has origins from the US government and is used in several large databases, such as S&P's Compustat and LSEG's Refinitive Eikon (Standard & Poor's, 2003).

3.5. Additional Analysis

3.5.1. Variable Exploration

Further investigation was carried out in an attempt to confirm the relationship between the independent variable E-high and the dependent variable CAR. Campbell and Schiller (1988) showed that stock returns are results of either changes in earnings per share expectations or discount rates. A common way to estimate the market's expectations about the firm's fundamentals is to use analysts' revisions in earnings forecasts (Brown & Rozeff, 1978; Fried & Givoly, 1982). Kothari et al.'s (2016) investigation supports the robust positive relation between analysts forecast revisions and market prices. Additionally, they confirm that the revisions not only reflect publicly available signals, but also provide new, value-relevant

information to investors, and that pricing and trading activity changes around analyst forecast revisions (Kothari et al., 2016). Based on the evidence from existing literature, this study tests whether the revised earnings per share (EPS) could be explained by environmental performance and thus motivate the relationship between E-high and CAR.

$$\Delta EPS\ forecast = EPS_t - EPS_{t-1} \tag{8}$$

The variable $\Delta EPS\ forecast$ is computed such that a negative (positive) number indicates a negative (positive) revision, where EPS_{t-1} is observations of the IBES forecast estimate collected from LSEG Refinitive Eikon for October 17th 2024 and EPS_t for January 16th 2025. The dates of the observations were selected to be post- and pre-election, with the intention to keep a short window to isolate the effect from the election while being long enough to observe updated EPS forecasts from analysts. The variable $\Delta EPS\ forecast$ was winsorized at the 1st and 99th percentile (Dorfleitner et al., 2020, Albuquerque et al., 2020) to account for extreme values and outliers.

3.5.2. Complementary Event Date

This paper argues that given the high probability of Trump's victory in 2024, as compared to his unexpected win in 2016, it is reasonable to expect that the stock market reacted before election day. Specifically on the day when market odds, for the last time before the election date, shifted in favor of Trump over Harris. Thus, the study investigated a second event date for exploratory contributions. The chosen event was the 4th of October, as this was the date when Trump surpassed Harris in the prediction market (Polymarket, 2024). This second event date helped to explore the early market reactions to Trump's rising electoral prospects. To isolate the shift of the odds, the event window begins one trading day before the event date and ends four trading days after the event, on October 9th 2024. It is assumed that the increased probability of Trump's victory was associated with a less favorable stock market reaction for environmentally responsible listed firms compared to less environmentally responsible firms.

3.5.3. Detection of Critical Dates

Similar to Mukanjari & Sterner (2024) this study applies the indicator saturation (ISAT) approach in order to identify structural breaks in the abnormal return differential (D_t) between high ($AR_{H,t}$) and low E-score firms ($AR_{L,t}$) (see equation 9) during and post the event window. Since this paper employs an event study methodology, which thus far has investigated a pre-specified time frame, there is a risk that important events are ignored. The indicator saturation technique allows for detection and control of outliers and discrete structural shifts during the sample period that, if ignored, could bias the overall analysis (Aktas et al., 2007). To investigate the data for extreme values, an ISAT test called impulse indicator saturation (IIS), which isolates significant daily breakpoints in the return differential (D_t), was conducted.

$$D_t = AR_{H,t} - AR_{L,t} \tag{9}$$

$$D_t = \mu + \sum_{j=1}^{T} \lambda_j \times 1_{\{t=j\}} + \varepsilon_t \tag{10}$$

Equation 10 shows the ISAT regression model where μ is the constant, being the average baseline difference across time; $1_{\{t=j\}}$ is the impulse dummy variable that equals 1 only on day j, otherwise 0; λ_j is the effect of the shock on day j; ε_t is the error term which is assumed to be white noise, meaning randomness of the residuals, given the ISAT model assumption of homoskedasticity.

In contrast to Mukanjari & Sterner (2024), this study does not include an autoregressive term in the ISAT specification to account for potential serial correlation in the standard errors. The model choices were motivated by diagnostic testing on the standardized residuals to assess the model adequacy. Specifically, tests for first-order autocorrelation using Ljung-Box Q(1), and conditional heteroskedasticity, through ARCH-LM, were applied to the residuals.

4. Results

Section 4 presents the empirical findings, beginning with the result from the event study highlighting the observed differences between the high and low E-score groups across multiple event windows. Following the main test results are the outcomes from robustness and placebo tests, and the investigation of an additional variable.

4.1. Descriptive Statistics

In table 1 the descriptives of the variables of the regression are tabulated. As the data was cleaned for missing values, all variables and windows contain the same number of observations, 1154. Further, because of using the natural logarithm of the market capitalization and winsorizing the remaining control variables, extreme values have been minimized. The table shows the descriptives of the two groups included in the dummy variable E-high. E-high = 1 represents the upper half of E-score firms with a mean E-score of 69.291, and E-high = 0 which represents the lower half has a mean E-score of 28.187. The table indicates, in panel B, that on a general level, the market reacted positively prior to, and after Trump's victory, where the mean CAR for all event windows are positive.

Table 1
Descriptive statistics of firm environmental performance, accounting characteristics, and abnormal stock returns

	N	Min	p25	Mean	p75	Max	SD
A. Variables							
E-score	1154	0	29.353	48.739	68.118	97.270	24.266
E-high = 0	577	0	17.475	28.187	40.770	50.680	14.296
E-high = 1	577	50.740	60.350	69.291	77.310	97.270	11.319
log(market cap)	1154	12.969	14.934	16.049	17.043	22.054	1.540
Revenue growth	1154	-38.275	-1.710	7.098	12.880	77.757	17.371
ROA	1154	-19.830	2.415	6.744	10.118	30.088	7.404
Leverage	1154	0	22.898	42.452	58.053	180.401	30.840
MtB	1154	-34.393	1.350	3.961	4.815	51.925	8.773
B. Cumulative abnormal returns							
[-4,5]	1154	-89.405	-3.688	1.390	7.363	46.025	10.286
[-3,0]	1154	-36.853	-1.176	0.900	2.794	33.692	5.149
[0,3]	1154	-57.525	-2.738	0.477	4.301	52.599	7.277

This table shows descriptive statistics of firm accounting information (panel A) and cumulative abnormal stock returns (panel B) for S&P 1500 Composite Index companies for which the E-score and control variables are all available.

Table 2 exhibits the descriptive statistics of the E-score by each industry, showing that basic materials had the highest mean and was therefore selected as the reference industry for the fixed effects for the regressions. The industries with the lowest mean E-score were financials and health care with a mean E-score of 43.133 and 44.826 respectively.

Table 2
Descriptive statistics of E-score for industries

	N	Min	p25	Mean	p75	Max	SD
E-score							
Basic Materials	44	9.190	44.478	59.932	74.575	93.850	20.624
Consumer Discretionary	176	0.850	31.803	48.006	68.915	93.170	24.106
Consumer Staples	51	0.370	29.610	50.143	68.420	93.210	27.889
Energy	56	2.690	38.540	50.122	63.548	90.210	20.509
Financials	203	1.450	20.230	43.133	60.660	96.790	23.852
Health Care	104	0.000	22.118	44.826	69.723	92.060	27.754
Industrials	224	0.850	31.278	49.471	69.603	97.270	23.868
Real Estate	85	1.450	44.985	58.589	74.730	90.420	21.863
Technology	139	0.000	26.600	45.883	65.620	89.120	23.489
Telecommunications	23	1.850	28.490	48.074	70.480	93.140	27.719
Utilities	49	12.290	45.190	57.792	71.870	91.440	17.755

4.2. Abnormal Returns

Table 3 presents the AAR for 1154 companies within the S&P 1500 Composite Index for each day of the event window around the 2024 US presidential election. The event day, day 0 (November 5th 2024), saw a positive AAR of 0.22% ($p < 0.01$), followed by the most substantial movement on day 1 with a positive AAR of 1.42% ($p < 0.01$). However, on day 2 the AAR turns negative with 1.11% ($p < 0.01$). The same volatile pattern continues, where no significant movement in the AAR can be observed for day 3, followed by a positive AAR of 0.84% ($p < 0.01$) and a negative AAR of 0.75% on day 5 ($p < 0.01$).

Table 3
Average abnormal return (AAR) over the event window of Trump's victory

Event day	AAR in%	Std. Dev %	N
-4	0.15	3.150	1154
-3	0.57***	3.255	1154
-2	-0.29***	2.425	1154
-1	0.39***	1.876	1154
0	0.22***	2.287	1154
1	1.42***	5.424	1154
2	-1.11***	3.773	1154
3	-0.06	3.248	1154
4	0.84***	2.440	1154
5	-0.75***	1.923	1154

This table reports the average daily abnormal return (AAR) for 1154 stocks in the S&P 1500 Composite Index for each day in the event window. The significance shows the statistical difference for the null hypothesis that the AAR has a zero mean, denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

The daily AAR, as seen in table 3, is plotted in figure 3 for a visual representation of the daily developments during the main event window. As noted from the results, in table 3, all days are statistically significant except for day -4 and 3.

Figure 3
Abnormal returns for each day of event window for election day

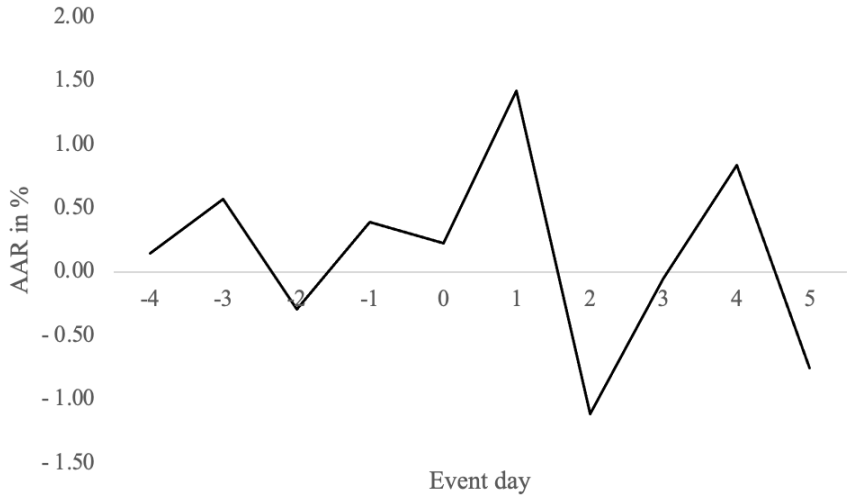


Table 4 shows that there is a significant difference between the groups of high and low E-score, for all the event windows. The event window preceding the event day [-3,0] is significant at a 10% significance level with a mean difference of -0.537%, while the window post the event day [0,3] and the full event window [-4,5] are both significant at a 5% significance level. Across all the event windows, the low E-score group exhibits a positive CAR, with window [-4,5] showing a CAR of 2.974%, window [-3,0] 1.168%, and window [0,3] showing a CAR of 1.492%. The high E-score group, however, is most negatively affected by the event window [0,3] with a CAR of -0.538%, while the full event window [-4,5] showed a CAR of -0.194%. The event window [-3,0] shows a positive CAR for the high E-score group of 0.631%, still being lower than the low E-score group.

Table 4
Cumulative abnormal returns (CAR) around the event days

	CAR in%			
Event window	High E-score	Low E-score	Diff.	N
Around the event date:				
[-4,5]	-0.194 (9.649)	2.974 (10.661)	-3.168***	1154
Before the event date:				
[-3,0]	0.631 (4.572)	1.168 (5.659)	-0.537*	1154
After the event date:				
[0,3]	-0.538 (6.429)	1.492 (7.912)	-2.030***	1154

The above table reports the CAR mean and standard deviation for 1154 companies in the S&P 1500 Composite Index for each event window. The statistical difference between the two groups is tested through independent samples T-test and denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

4.3. Regression Results

For the OLS regression, the main independent variable is E-high, a dummy variable consisting of (1) the upper half of the E-score, divided by median, and (0) the lower half of the E-score. Table 5 panel A shows the result of the main regressions, which supports the hypothesis that E-high firms experienced significantly lower CAR compared to the low E-score firms, in connection with Trump's victory in 2024. In the [-4,5] event window, the coefficient on E-high is -0.119 ($p < 0.01$), and in the [0,3] window it is -0.115 ($p < 0.01$), indicating a strong and significant negative relationship. No significant effect is observed before the election in window [-3,0]. In the baseline regression, panel B, all the event windows show a significant result at a 10% significance level. The baseline regression further confirms the findings from the main regression, where E-high remains negatively associated with CAR, with coefficients of -0.154 ($p < 0.01$) for [-4,5], -0.140 ($p < 0.01$) for [0,3], and -0.052 ($p < 0.1$) for [-3,0]. These results suggest that markets penalized highly environmentally responsible firms, while rewarding less environmentally responsible firms, in connection with Trump's victory, supporting the hypothesis.

Table 5
OLS regression of CAR on E-high and control variables

A. Main regressions	(1)	(2)	(3)
Dependent variable:		CAR	
Event window:	[-4,5]	[-3,0]	[0,3]
E-high	-0.119*** (0.007)	-0.031 (0.003)	-0.115*** (0.005)
log(market cap)	-0.003 (0.002)	-0.047 (0.001)	0.015 (0.002)
Revenue growth	0.022 (0.000)	-0.003 (0.000)	0.036 (0.000)
Leverage	-0.042 (0.000)	-0.034 (0.000)	-0.052* (0.000)
ROA	-0.028 (0.001)	-0.020 (0.000)	-0.012 (0.000)
MtB	0.005 (0.000)	-0.003 (0.000)	0.005 (0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	1154	1154	1154
Adjusted R-squared	0.093	0.055	0.070
B. Baseline regressions	(1)	(2)	(3)
E-high	-0.154*** (0.006)	-0.052* (0.003)	-0.140*** (0.004)
Observations	1154	1154	1154
Adjusted R-squared	0.023	0.002	0.019

Panel A in the above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of the main OLS regressions of cumulative abnormal returns (CAR) on E-high, control variables and industry fixed effects. Columns 1 to 3 refer to Trump's victory and cover the following periods: (1) October 30th through November 12th 2024; (2) October 31st through November 5th 2024; (3) November 5th through 8th 2024. Panel B shows the results of the baseline OLS regression, including CAR and E-high. Significance is denoted by: *** p < 0.01; ** p < 0.05; * p < 0.1

The adjusted R-squared observed from the regression, ranging from 0.055 to 0.093, could be an indication that the results should be cautiously interpreted. However, previous studies within the same field of research show similar observations and is thereby deemed as reasonable (Engelhardt et al., 2021; Mukanjari & Sterner, 2023).

4.4. Robustness Check

4.4.1. Regression Validation

To validate for heteroskedasticity, multicollinearity and autocorrelation in the OLS regression model, validation tests were conducted. The White test for heteroskedasticity returned a p-value of < 0.01 for a Chi-square of 98.909 and 26 degrees of freedom, thereby rejecting the null hypothesis of homoskedasticity. The VIF values of the independent variables in the model were all below 2 with a tolerance above 0.1, suggesting no multicollinearity in the model. One control variable, the log(market cap) showed a condition index above 30 with high variance proportions (0.99). However, since this applied to just one variable and no multicollinearity clusters were detected, the model did not suffer from multicollinearity issues. Regarding the autocorrelation, a Durbin-Watson test was conducted which returned a number of 2.012 which provides no evidence of autocorrelation in the residuals.

Table 6
Model diagnostic tests

Test	Statistic	df	p-value
White Test	$X^2 = 98.909$	26	<0.01
Durbin-Watson	2.012		
Multicollinearity diagnostics			
Variable	VIF	Tolerance	Variance Proportion
E-high	1.301	0.769	0.140
Log(market cap)	1.412	0.708	0.940
Revenue Growth	1.162	0.860	0.010
Leverage	1.128	0.886	0.000
ROA	1.238	0.808	0.060
MtB	1.092	0.916	0.010

4.4.2. Model Variations

To assess the robustness of the results, the dependent variable was changed from the CAR, derived from CAPM, to the AdjR. The table below shows that the result obtained remained solid also under the shift of the dependent variable where E-high shows a significant negative explanatory effect during event window [-4,5] with a coefficient of -0.120 ($p < 0.01$) and window [0,3] with a coefficient of -0.093 ($p < 0.01$), while the event window [-3,0] remains insignificant.

Table 7
Robustness check on OLS regression of cumulative market adjusted returns on E-high and control variables

	(1)	(2)	(3)
Dependent variable:		AdjR	
Event window:	[-4,5]	[-3,0]	[0,3]
E-high	-0.120***	-0.045	-0.093***
	(0.007)	(0.003)	(0.005)
log(market cap)	-0.008	-0.007	-0.066*
	(0.002)	(0.001)	(0.002)
Revenue growth	0.050	0.004	0.077**
	(0.000)	(0.000)	(0.000)
Leverage	-0.046	-0.030	-0.069**
	(0.000)	(0.000)	(0.000)
ROA	-0.031	-0.016	-0.023
	(0.001)	(0.000)	(0.000)
MtB	0.018	0.004	0.018
	(0.000)	(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	1154	1154	1154
Adjusted R-squared	0.092	0.049	0.089

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of OLS regressions of cumulative market adjusted returns on E-high, control variables and industry fixed effects. Columns 1 to 3 refer to Trump's victory and cover the following periods: (1) October 30th through November 12th 2024; (2) October 31st through November 7th 2024; (3) November 5th through 8th 2024. Significance is denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

A second robustness test is shown in table 8 where the independent variable, E-high, was exchanged for E-tails. The new variable is a dummy variable created by dividing the E-score into quartiles and assigning the top quartile with 1 and the bottom quartile with 0, neglecting the two middle quartiles and thereby only analyzing half of the sample. The results are consistent with what earlier has been observed, however, the E-tails variable has an even stronger negative explanatory effect on CAR with a coefficient of -0.204 ($p < 0.01$) for window [-4,5] and -0.247 ($p < 0.01$) for window [0,3]. These findings were expected, as the tails capture more pronounced differences in environmental performance, making it easier for investors to distinguish between environmentally responsible firms and their counterparts, compared to those closer to the median. See figure 4 for a visualization of the development of the CAR for all four quartiles during the event window, where line 1 represents the lowest E-score quartile.

Table 8
Robustness check on OLS regression of cumulative abnormal returns on E-tails and control variables

	(1)	(2)	(3)
Dependent variable:		CAR	
Event window:	[-4,5]	[-3,0]	[0,3]
E-tails	-0.204***	-0.072	-0.247***
	(0.004)	(0.002)	(0.003)
log(market cap)	0.062	-0.033	0.109*
	(0.003)	(0.001)	(0.002)
Revenue growth	0.065	0.019	0.041
	(0.000)	(0.000)	(0.000)
Leverage	-0.112***	-0.100**	-0.085**
	(0.000)	(0.000)	(0.000)
ROA	0.006	0.009	0.035
	(0.001)	(0.000)	(0.000)
MtB	-0.064	-0.007	-0.062
	(0.000)	(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	576	576	576
Adjusted R-squared	0.105	0.048	0.099

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of OLS regressions of cumulative abnormal returns on E-tails, control variables and industry fixed effects. Columns 1 to 3 refer to Trump's victory and cover the following periods: (1) October 30th through November 12th 2024; (2) October 31st through November 7th 2024; (3) November 5th through 8th 2024. Significance is denoted by: *** p < 0.01; ** p < 0.05; * p < 0.1

Figure 4 exhibits the development of the CAR per day where the sample has been divided into four quartiles. Line 1 represents the quartile with the lowest E-score and line 4 is the quartile with the highest E-score.

Figure 4
Cumulative abnormal returns for each day of event window for each quartile

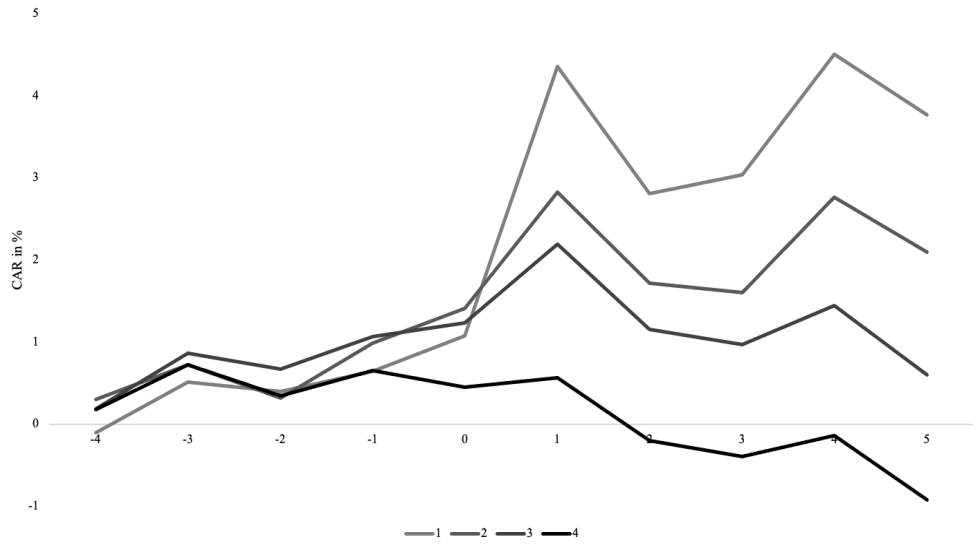


Table 9 shows the results of switching the independent variable to the raw E-score. The results remain robust with significant negative explanatory effects for event window [-4,5] with a negative coefficient of -0.138 ($p < 0.01$) and window [0,3] with a coefficient of -0.148 ($p < 0.01$). However, window [-3,0] with a coefficient of -0.063 ($p < 0.1$), shows significant results at a 10% significance level with E-score as the independent variable, compared to insignificant results using E-high.

Table 9
Robustness check on OLS regression of cumulative abnormal returns on E-score and control variables

	(1)	(2)	(3)
Dependent variable:		CAR	
Event window:	[-4,5]	[-3,0]	[0,3]
E-score	-0.138***	-0.063*	-0.148***
	(0.000)	(0.000)	(0.000)
log(market cap)	0.019	-0.027	0.043
	(0.002)	(0.001)	(0.002)
Revenue growth	0.014	-0.010	0.025
	(0.000)	(0.000)	(0.000)
Leverage	-0.038	-0.030	-0.047
	(0.000)	(0.000)	(0.000)
ROA	-0.030	-0.023	-0.015
	(0.001)	(0.000)	(0.000)
MtB	0.005	-0.003	0.004
	(0.000)	(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	1154	1154	1154
Adjusted R-squared	0.094	0.057	0.074

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of OLS regressions of cumulative abnormal returns on E-score, control variables and industry fixed effects. Columns 1 to 3 refer to Trump's victory and cover the following periods: (1) October 30th through November 12th 2024; (2) October 31st through November 7th 2024; (3) November 5th through 8th 2024. Significance is denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Table 10 shows the results of changing the industry classification for the industry fixed effects. It is evident that the results remain robust also for this robustness test, where window [-4,5] and [0,3] shows significance with a coefficient of -0.108 ($p < 0.01$) respectively -0.105 ($p < 0.01$), while the event window [-3,0] was insignificant.

Table 10
Robustness check on OLS regression of cumulative abnormal returns on E-high and control variables, with different industry classification as fixed effects

	(1)	(2)	(3)
Dependent variable:		CAR	
Event window:	[-4,5]	[-3,0]	[0,3]
E-high	-0.108***	-0.032	-0.105***
	(0.007)	(0.003)	(0.005)
log(market cap)	-0.027	-0.047	-0.003
	(0.002)	(0.001)	(0.002)
Revenue growth	0.029	0.001	0.037
	(0.000)	(0.000)	(0.000)
Leverage	-0.071**	-0.030	-0.084***
	(0.000)	(0.000)	(0.000)
ROA	0.011	-0.016	0.022
	(0.001)	(0.000)	(0.000)
MtB	-0.006	0.003	0.000
	(0.000)	(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	1154	1154	1154
Adjusted R-squared	0.044	0.027	0.054

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of OLS regressions of cumulative abnormal returns on E-high, control variables and industry fixed effects. Columns 1 to 3 refer to Trump's victory and cover the following periods: (1) October 30th through November 12th 2024; (2) October 31st through November 7th 2024; (3) November 5th through 8th 2024. Significance is denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

4.4.3. Placebo Test

As suggested earlier, the governance aspect of firms received little attention during the presidential campaign and does not, as expected, influence the stock returns, confirmed by the results presented in the table below. None of the event windows, [-4,5], [-3,0], or [0,3] shows a significant result, meaning that the G-score does not have an explanatory effect on CAR, further strengthening the credibility of the relationship found between the E-score and CAR.

Table 11
OLS regression of CAR on G-score and control variables

	(1)	(2)	(3)
Dependent variable:		CAR	
Event window:	[-4,5]	[-3,0]	[0,3]
G-score	-0.029 (0.000)	-0.032 (0.000)	-0.057 (0.000)
log(market cap)	-0.050* (0.002)	-0.055* (0.001)	-0.026 (0.001)
Revenue growth	0.032 (0.000)	-0.003 (0.000)	0.043 (0.000)
Leverage	-0.053* (0.000)	-0.035 (0.000)	-0.061** (0.000)
ROA	-0.015 (0.001)	-0.016 (0.000)	0.002 (0.000)
MtB	0.009 (0.000)	-0.001 (0.000)	0.009 (0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	1154	1154	1154
Adjusted R-squared	0.082	0.055	0.062

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of OLS regressions of cumulative abnormal returns (CAR) on G-score, control variables and industry fixed effects. Columns 1 to 3 refer to Trump's victory and cover the following periods: (1) October 30th through November 12th 2024; (2) October 31st through November 7th 2024; (3) November 5th through 8th 2024. Significance is denoted by: *** p < 0.01; ** p < 0.05; * p < 0.1

4.5. Exploratory and Supplementary Analyses

4.5.1. Alternative Variable

The correlation between the CAR, from October 17th 2024 to January 16th 2025, and the two revised EPS forecasts is tabulated in table 12, showing mixed results. The revised EPS two-year forward forecast is significantly positively correlated with CAR, which is in line with literature by Kothari et al. (2016). Further it suggests, as reasoned by Campbell and Schiller (1988) that stock returns are a result of changes in earnings per share expectations, thereby working as a proxy for firm valuation. However, the result only shows evidence of correlation, but no causality can be proven.

Table 12
Correlation between CAR and ΔEPS forecasts FY1 & FY2

	Pearson Correlation	N
ΔEPS forecasts FY1	0.039	1128
ΔEPS forecasts FY2	0.182***	1126

Significance is denoted by: *** p < 0.01; ** p < 0.05; * p < 0.1

The regression below explores the E-high variable's explanatory effect on the revision of EPS forecast. It is found that the revision of EPS two-year forward forecasts, being the difference of EPS forecast before and after the event date, can be explained by the E-high variable. However, the result is only significant when excluding industry fixed effects -0.070 ($p < 0.05$) compared to including them, suggesting a relatively weak finding. The negative coefficient shows that firms with high environmental performance experienced downward revisions of the EPS two-year forecast by analysts.

Table 13
OLS regression of ΔEPS forecasts

Dependent variable:	ΔEPS forecasts			
Horizon:	FY1	FY1	FY2	FY2
E-high	-0.009	-0.023	-0.053	-0.070**
	(0.011)	(0.012)	(0.008)	(0.008)
log(market cap)	0.044	0.056	0.149***	0.159***
	(0.004)	(0.004)	(0.003)	(0.003)
Revenue growth	0.067	0.085*	0.068	0.099**
	(0.000)	(0.000)	(0.000)	(0.000)
Leverage	-0.051	-0.039	0.013	0.023
	(0.000)	(0.000)	(0.000)	(0.000)
ROA	-0.017	-0.042	-0.062	-0.093**
	(0.001)	(0.001)	(0.001)	(0.001)
MtB	0.016	0.029	0.035	0.041*
	(0.000)	(0.000)	(0.000)	(0.000)
Industry fixed effects	Yes	No	Yes	No
Observations	1128	1128	1126	1126
Adjusted R-squared	0.023	0.009	0.053	0.032

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of OLS regressions of ΔEPS forecasts (EPS forecast revision between October 17th 2024 and January 16th 2025) on E-high, control variables and industry fixed effects. Columns 1 & 2 refer to the forecasted EPS one year forward and columns 3 & 4 is the forecasted EPS two years forward. Significance is denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

4.5.2. Alternative Event Date

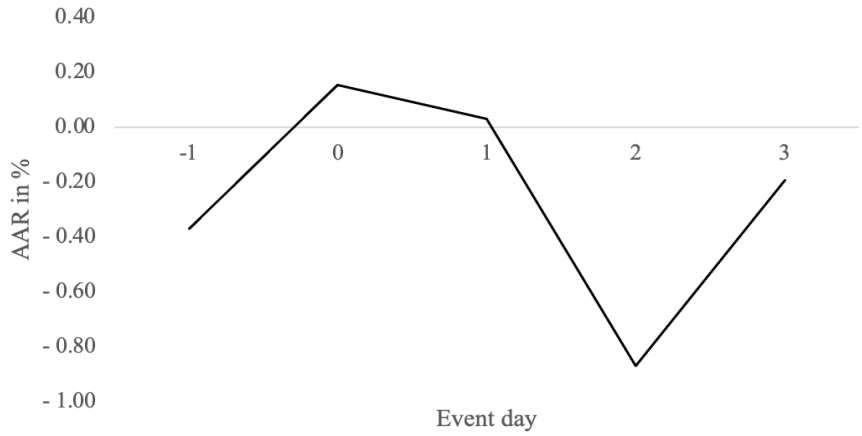
Table 14 presents the AAR for the event window around the alternative event day of October 4th 2024, where the market odds for Trump surpassed Harris. It shows a significant AAR for day -1, 0, 2 and 3. A positive reaction on the event day at 0.15% ($p < 0.01$) goes against the trend of negative results for all other significant days, where day 2 is associated with the largest negative reaction of -0.87% ($p < 0.01$).

Table 14
Average abnormal return (AAR) over the event window of 4 October 2024

Event day	AAR in%	Std. Dev %	N
-1	-0.37***	1.668	1154
0	0.15***	1.571	1154
1	0.03	1.927	1154
2	-0.87***	1.667	1154
3	-0.19***	1.375	1154

This table reports the average daily abnormal return (AAR) for 1154 stocks in the S&P 1500 Composite Index for each day in the event window. The significance shows the statistical difference for the null that the AAR has a zero mean. Significance is denoted by: *** p < 0.01; ** p < 0.05; * p < 0.1

Figure 5
Abnormal returns for each day of event window for October 4th 2024



The CAR for the event window following October 4th 2024 shows a negative mean for the market returns, indicating that the market reacted negatively to Trump's increased probability of victory.

Table 15
Descriptive statistics of firm accounting characteristics and abnormal stock returns

	N	Min	p25	Mean	p75	Max	SD
Cumulative average abnormal stock returns							
[-1,3]	1154	-20.789	-3.055	-1.253	0.726	16.255	3.384
[0,2]	1154	-16.423	-1.995	-0.687	0.625	9.874	2.429
[1,3]	1154	-16.473	-2.259	-1.035	0.350	11.878	2.651

This table shows descriptive statistics of cumulative abnormal stock returns in connection with October 4th 2024 for S&P 1500 Composite Index companies for which the E-score and control variables are all available.

For event windows [-1,3] and [1,3], there is a significant difference between the high E-score and low E-score group, at a 10% significance level. Event window [-1,3] had a mean difference of 0.349 ($p < 0.1$), [1,3] had a mean difference of 0.375 ($p < 0.05$). Although significant, the event windows showed lower returns for the low E-score group compared to the high E-score

group which contrasts with the assumed relation between the two groups. The study expected that high E-score firms would be more negatively affected than the low E-score group, however, the opposite was found.

Table 16
Cumulative abnormal returns (CAR) around the event days

	CAR in%			
Event windows	High E-score	Low E-score	Diff.	N
Around the event date:				
[-1,3]	-1.078 (3.271)	-1.427 (3.488)	0.349*	1154
[0,2]	-0.642 (2.375)	-0.732 (2.483)	0.089	1154
After the event date:				
[1,3]	-0.847 (2.630)	-1.222 (2.662)	0.375**	1154

The above table reports the CAR mean and standard deviation for 1154 companies in the S&P 1500 Composite Index for each event window. The sign. indicates the statistical difference between the two groups utilizing independent samples T-test. Significance is denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

The regression tabulated in table 17 rejects the proposed assumption that the E-score would have an explanatory effect for the event windows around October 4th 2024. The results show a non-significant explanatory effect of E-high on the CAR for all the event windows, dismissing the proposed assumption.

Table 17
OLS regression of CAR on E-high and control variables

	(1)	(2)	(3)
Dependent variable:		CAR	
Event window:	[-1,3]	[0,2]	[1,3]
E-high	-0.002	-0.003	-0.018
	(0.002)	(0.002)	(0.002)
log(market cap)	0.215***	0.115***	0.247***
	(0.001)	(0.001)	(0.001)
Revenue growth	0.099***	0.086**	0.094**
	(0.000)	(0.000)	(0.000)
Leverage	0.016	0.025	0.020
	(0.000)	(0.000)	(0.000)
ROA	-0.005	-0.082*	0.004
	(0.000)	(0.000)	(0.000)
MtB	0.016	0.013	0.015
	(0.000)	(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes
Observations	1154	1154	1154
Adjusted R-squared	0.163	0.091	0.132

The above table shows the results, standardized beta coefficients and robust standard errors in parentheses, of the OLS regressions of cumulative abnormal returns (CAR) on E-high, control variables and industry fixed effects. Columns 1 to 3 refer to October 4th 2024 and cover the following periods: (1) October 3rd to October 9th 2024; (2) October 4th to October 8th 2024; (3) October 7th to October 9th 2024. Significance is denoted by: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

4.5.3. Identifying Crucial Event Dates

Since there might be other shocks that affected the stock prices during the pre-specified time frame, the ISAT model has been employed to detect market reactions within the time period following the estimation window. Table 18 shows the results from the ISAT model which identified one structural break, being November 6th 2024 ($p < 0.01$), the first trading day after the event date. This speaks in favor of the study, suggesting no crucial dates outside of the studied event window.

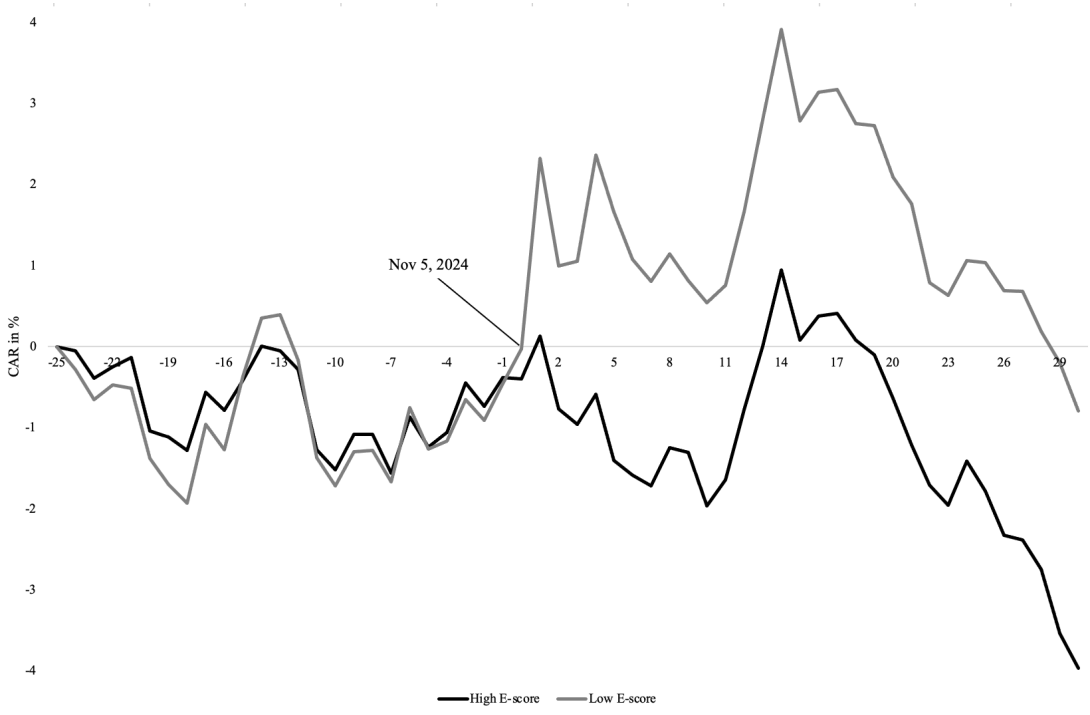
Table 18
Impulse indicator saturation following the estimation window

	Beta (Std. error)
2024-11-06	-1.817*** (0.002)
Ljung-Box Q(1)	1.269
ARCH-LM(5)	3.611
Adjusted R-squared	0.330

This table presents the results from the ISAT model. The dependent variable is the difference in abnormal returns between the high E-score and low E-score groups. Selection is carried out at a confidence level of α = 0.0005. Standard errors are shown in parenthesis. The Ljung-Box Q(1) and ARCH-LM (with 5 lags) are Ljung and Box (1978) tests of the standardized residuals. The diagnostics suggest that the residuals are uncorrelated and homoskedastic. Significance is denoted by: *** p < 0.01; ** p < 0.05; * p < 0.1

The structural break that occurred on November 6th 2024 can also be observed in the figure below, showing the CAR of the period after the estimation window. Where day 1, November 6th 2024, marks the day when the groups of high E-score and low E-score firms deviated the most in terms of stock returns. Both prior to the event date, and after the immediate market reactions following the election day, it is evident that the stock returns of the two groups follow the same trend even though the high E-score group still experienced a hampered CAR due to the negative stock returns following the first days after the election day.

Figure 6
Cumulative abnormal returns after estimation period



5. Discussion

Section 5 interprets the results and discusses how the findings support or challenge the existing literature in the field. The discussion considers investor motivations, the conditional economic value of sustainability, its possible contingency issues, and the fragility of ESG strategies in polarized political environments.

5.1. Summary of Main Findings

This study investigated how firms with high environmental performance were affected by the 2024 US presidential election in comparison to firms with low environmental performance. The results from the one-sample t-test, where the AR for all firms per day within the event window were statistically tested against a mean of zero, showed significant AAR for all the days within the event window except for two, being day -4 and 3. The days with significant non-zero AAR presented a volatile pattern, both pre and post the election date. Differences between the high E-score and low E-score group were investigated by an independent sample t-test, which showed significant differences of the CAR for all the three event windows, [-4,5], [-3,0], and [0,3], revealing that the high environmentally performing firms experienced lower returns than the comparison group. The CAR for the high E-score group was not only lower but also negative for event window [-4,5] and [0,3], compared to the low E-score group, which experienced positive CAR.

The regressions revealed that the E-high variable had an explanatory effect on the deviating CAR for the two groups, demonstrating that firms with high E-scores experienced significantly lower stock returns following the election day, compared to firms with low E-scores, supporting the hypothesis of the paper. The findings suggest that market participants anticipated a political and thereby regulatory environment that would be less favorable for environmentally responsible firms under Trump's presidency. This result stayed robust across two out of three event windows, where the window [-4,5] and [0,3] presented significant results, while window [-3,0] was insignificant. The output suggests a pronounced but slightly delayed market reaction, where no significance is observed when isolating the days before the election. The observed findings stayed statistically significant also when controlling firm size, revenue growth, leverage, ROA, MtB, and industry fixed effects. The E-high dummy coefficient was negative and significant, indicating that high environmental performance was systematically penalized by the market in response to the presidential election. The model showed no homoskedasticity, multicollinearity, or autocorrelation during validation tests. Robustness tests validated the main results as the pattern of the results persisted when using other measures of environmental performance, but also through an alternative market return variable. A placebo test using G-score instead of E-score yielded no significant result, supporting the conclusion that the market reaction was tied to environmental performance.

To further understand the market reactions, the variable of revised EPS forecasts, being the difference between a forecasted EPS before the election and the revised version after the election, was explored. It was found that firms in the high E-score group experienced significant negative revisions in the two-year forward forecast, when excluding industry fixed effects, whereas the one-year forecast revisions were insignificant. The inconsistency of the

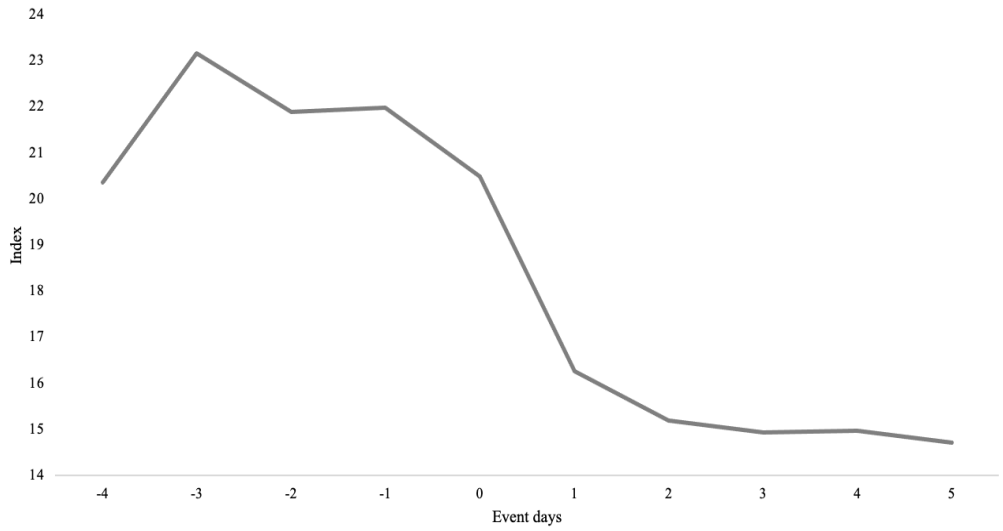
results indicates that although there are signs of a negative relationship, the finding was rather weak.

The suggested anticipation effects were tested during an alternative event window connected to October 4th 2024. There was, according to an independent t-test, a significant difference in CAR between the two groups in event window [-1,3] and [1,3], although the observed difference was in opposite of the prediction, where the low E-score group experienced lower returns than the high E-score group. However, the regression showed that the variable E-high did not have an explanatory effect on the difference. Given these results, the market did not react prior to the final election outcome as predicted by the thesis, despite the odds market's rising probability of Trump's victory. The output from the ISAT test further supported this reasoning, finding one structural break during the whole event period, which was the first trading day after the US president was elected, on November 6th 2024.

5.2. Market Reactions Delayed by Uncertainty

In contradiction to prior research, suggesting that markets react in anticipation of policy changes (Goodell & Vähämaa, 2013; Kang & Ratti, 2013; Pastor & Veronesi, 2012), this study found no significant evidence that the market reacted in advance of the election day. This is particularly notable given the high probability of a Trump victory in the weeks leading up to election day, as indicated by prediction markets. Trump's campaign rhetoric, promising to "Terminate the Green New Deal" and "approve new drilling, new pipelines, new refiners, new power plants, new reactors", offered investors a clear signal of policy changes. In theory, such statements should have increased the perceived political risk for firms that benefited from pro-environmental policies under the IRA (Martinez & Mai, 2024). The absence of an anticipatory market reaction may be attributable to persistent uncertainty regarding the election outcome, similarly to the 2016 election (Hristov & Roth, 2022; Huang, 2022). The high levels of the VIX index prior to the final result (FRED, 2025), as seen in figure 7, supports this theory, suggesting notable market uncertainty that kept investors cautious despite the favorable odds for Trump. One possible explanation is that market participants were reluctant to reposition portfolios in advance due to the fear of mispricing. In a political environment where the candidates have polarized environmental policy, the cost of being wrong, such as divesting sustainable firms in the event of a victory for Harris, may have outweighed the benefits from acting early (Pastor & Veronesi, 2012). The hesitation could reflect some form of rational inaction, where the potential reputational or financial losses from incorrectly forecasting the outcome discourage anticipatory moves. The days following the election, despite a sharp decrease in the VIX index, showed high volatility in the AAR. This volatility is better explained by a mix of profit-taking, reassessment of the election outcome, and a market correction rather than uncertainty and fear, in line with the reasoning by Vasileiou (2020) and Ahmed et al. (2025).

Figure 7
VIX index development during event window



5.3. Green Investment Contingency

Even though no significant results were found on investor anticipation prior to the election, the study did find, in line with the hypothesis, that investors punished firms with high environmental scores and rewarded firms with low environmental scores after the election. This could be a reflection of investors' expectations of weaker environmental regulations under the new administration, acting in line with the republican's prioritization of short-term economic targets over the democrat's promotion of long-term environmental protection (Brulle et al., 2012; Shrestha, 2024). Historically, under democratic administrations, firms with large carbon emissions have been more exposed to the costs of climate regulations and firms with low carbon emissions have benefited from tax credits. Consequently, when environmental regulations are expected to be loosened, which would be a probable anticipation by market participants given Trump's statements during the presidential campaign, the low E-score firms were rewarded by financial markets. Similarly, firms with high environmental effort were penalized since investors needed to reconsider an investment case without assuming tax credits as a part of the return, due to the rollback of green acts such as the IRA (Martinez & Mai, 2024), making the investments less attractive and leading to capital reallocation.

These findings indicate that the value of environmental responsibility is dependent on the context. In contrast to findings that associate sustainable firms with resilience during periods of uncertainty through enhanced trust (Hoang & Phang, 2023; Lins et al., 2017), lower risk premiums (Wong et al., 2024; Zhao et al., 2024) and long investment horizons (Ramelli et al, 2021; Starks et al. 2017), this study reveals a negative effect of environmental performance on stock returns. It appears that during the 2024 US election, which according to the VIX index contained high levels of uncertainty, firms with high E-scores became more vulnerable as environmental responsibility was a political target. A critical question arises: are investors genuinely embracing a stakeholder model, or merely reacting to government incentives? If environmental performance is rewarded primarily when aligned with policy support, the market's preferences for sustainability is instrumental rather than ideological, tearing apart the

illusion of a stakeholder perspective where investors' sustainability considerations in reality are driven by policies supporting ESG. If that is the case, the underlying reason for the market reaction is purely the anticipated earnings, rather than the underlying corporate values. These actions suggest that environmental responsibility in itself does not add economic value but rather is contingent upon political and regulatory endorsement. The contingency of the political environment is enhanced by the findings connected to the variable of revised EPS forecast. The revision in EPS forecasts provided indications that analysts revised the two-year forward earnings expectations downwards for high E-score firms after the election. The observations suggest that the policy rollbacks were not anticipated to have an immediate effect but were priced in at a medium-term horizon. Such timing is consistent with the political processes of rolling back legislation and bringing them into effect. The fact that the E-high variable had a significant effect on the EPS for the two-year forward forecast supports the view that the market reacted to firm profitability, in line with the shareholder perspective.

The results from the EPS regression underscores the role regulations have in the financial market in translating environmental actions into economic value. The transition from a stakeholder perspective to a shareholder perspective, where economic value is chosen over sustainability, is further supported by the postponement of reporting frameworks, such as CSRD, by the Members of the European Parliament (MEP). The communicated argument for the hold-up was a simplification effort with the aim of strengthening EU's competitiveness (European Parliament, 2025), releasing companies from the obligation to report according to, among others, the extensive framework of CSRD. This decision could be interpreted as a shift in priorities, where the EU tries to adapt to the changing global political trends, prioritizing the EU's competitiveness, similarly to how the US prioritizes economic gains, over sustainability efforts. These actions indicate tailwinds for the shareholder perspective over the stakeholder perspective also on a global level.

5.4. Practical Implications

These findings challenge the idea that environmental responsibility is universally rewarding and question the depth of investor commitment to the stakeholder perspective. If capital is injected into environmentally responsible firms only when policy is favorable, then environmental responsibility may not be a reflection of investor values but more a function of profit-seeking, through short-term adaptation to political incentives. Moreover, the instrumental use of environmental responsibility by investors raises the possibility of greenwashing, where the environmental claims are emphasized primarily for reputational and financial gain, rather than genuine impact. The dynamic suggests that environmental responsibility may function as a brand equity tool used for market signaling, valuable only if it aligns with the prevailing political and market sentiment. The observed dependency upon policies shows the fragility of ESG strategies, especially in environments where regulations can shift dramatically between administrations, such as in the US where the gap between the republicans and democrats has grown. The results further propose that private capital may not be sufficient to sustain the sustainability agenda without the backing of policies.

6. Conclusion

Section 6 summarizes the key findings and contributions of the paper. It states the limitations of the study and suggests areas for future research.

6.1. Closing Remarks

This study contributes to the existing literature on the financial relevance of environmental responsibility by revealing a case in which high environmental responsibility was not only unrewarded, but penalized. Using an event study approach with regression analysis and analyst forecast data, the study found evidence that firms with high environmental responsibility were harmed, while firms with low environmental responsibility experienced better stock returns, by investors following Trump's victory in the 2024 election. These findings suggest that the market anticipated a regulatory and political environment that would be less favorable for environmentally responsible firms with the new administration under Trump.

The absence of significant market reactions before the election, despite the rising probability for a Trump victory, suggest that political uncertainty constrained market participants to act before the election outcome was confirmed. The post-election reaction, in contrast, was significant and consistent with a reassessment of earnings, confirmed by the downward revision of the EPS two-year forecast by analysts for firms with high environmental responsibility.

The findings challenge the conventional narrative that ESG enhances firm resilience and long-term value, suggesting that political context has critical implications on the market valuation of sustainability. In context of the 2024 election, where environmental responsibility becomes a political target, it can turn into a liability for the firm rather than an asset. This underscores the fragility of impact investing and raises critical questions regarding investor commitments. Moreover, the findings suggest that investors engage in ESG investing as a response to policy incentives rather than to support ideological values, which further exposes private capital's ability to sustain sustainability agendas without the support of political incentives.

6.2. Future Research

This study is subject to several limitations. The first and most pronounced is the short-term focus of the market reactions, looking at the immediate reactions following the 2024 election. Even though the results offer insight into investor expectations it lacks the long-term effects of political shift in firm valuation. A more comprehensive understanding of the event could be gained by investigating the long-term market reaction following the election, to see whether the result persists, reverts, or evolves over time as the political consequences, through policy changes, materialize. Secondly, due to data limitations, the variable of revised EPS forecasts could not be investigated on a deeper level. This area could be expanded on to see how the magnitude changes when looking at earnings expectations further into the future, such as in a three-year or five-year forecast. Lastly, this study is geographically limited to the US market. Given the global nature of financial markets but also through globalization of supply chains, future research could explore whether firms outside of the US also experienced spillover effects. This would allow for assessments of firms' sensitivity towards the US political landscape and to which extent the US affects international capital returns.

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Appendix

Appendix A - usage of Artificial Intelligence

This study has utilized generative Artificial Intelligence (AI) to assist with coding in R Studio. The large language model ChatGPT has provided code for cleaning data and computing of new variables, preparing the data set for analysis in IBM's statistical program SPSS. The only risk of inaccurate output, also known as AI hallucination, from the AI was in the code it provided. After some slight tweaks, the code was deemed functional, as the output from R Studio cleaned the data as requested. The code was verified by browsing a platform for programmers, Stack Overflow, and by comparing the raw data with the cleaned data, double-checking the removed rows and new columns. Since the AI simply provided code that was to be used in R Studio, it was never given access to the data file and thereby had no possibility of altering any of the raw data. The use of AI has increased efficiency with regards to the time spent on coding, releasing time for deepened analytical discussions which brought this thesis forward. Thereby, by using AI, the study has indirectly been given a deeper and more thorough analysis.

As a refiner in the writing process, ChatGPT was also, in some cases, used as a tool to assist in the formulation of sentences. Although the content stems from the authors, the text gained clarity due to the use of the AI, ultimately benefiting the reader. As the AI generated valuable improvements, each recommendation was carefully reviewed and adapted to ensure accuracy and alignment with the intended message. While the text gained readability, time was once again saved, allowing for more discussion and deeper analysis. The result is a more coherent final document that effectively communicates the study's key findings.