

## **New AI-powered Research from Matter Unveils how ESG News Drives Market Behaviour**

**Copenhagen, Denmark** – Matter, the Nasdaq-backed ESG and sustainability data provider today publishes novel results from extensive research that delves into how the market reacts to positive and negative Environmental, Social, and Governance (ESG) news on companies.

The study employs data from Matter's 'SDG Signals', a Natural Language Processing (NLP) sentiment analysis tool, to analyze how sustainability related news in the media affects the market value of companies with different ESG profiles.

SDG Signals is an AI solution developed by Matter, that is trained on a unique, proprietary dataset of more than 100,000 sentences that have been individually classified by sustainability specialists. The AI detects positive and negative sustainability sentiment in media related to more than 50,000 listed companies and categorizes the sentiment according to the UN SDGs – which is the world's broadest and most widely-supported framework for sustainability.

The analysis is based on more than 12,000 events over a period of 5 years, from 2018–2023, focusing on a subset of 600 listed firms in Europe. The research introduces three key findings that challenge the conventional understanding and offer fresh perspectives:

- 1. Divergent Reactions to Positive and Negative ESG News:** In a surprising departure from existing literature, the study reveals that negative sustainability-related news trigger a significant decrease in a company's market value, which persists 21 days after an event, while the same response isn't mirrored in positive news events. The negative reactions are particularly pronounced for negative events relating to the environment, peace, and prosperity.
- 2. Impact on Companies with Lower ESG Risk Ratings:** Companies with strong ESG ratings incur more substantial value repercussions when confronted with negative news. This could highlight the market's predisposition to factor in sustainability expectations. However, it also raises concerns about potential misconceptions, where companies with pre-existing low expectations are not proportionately impacted by negative SDG-aligned events.
- 3. Regional Variances in how SDG-aligned events impact market value:** Notably, the study observes that these reactions are more pronounced in Europe compared to the global scale. This suggests regional disparities in market responses to ESG news, possibly representative of a heightened emphasis and awareness of ESG and sustainability issues in Europe.

## **Significance for Investors**

This research offers unique insights and strategic tools for ESG analysts and portfolio managers. Utilizing sentiment analysis empowers investors to anticipate and navigate significant stock price fluctuations, not just in the short term, but also over more extended periods. This capability becomes a critical tool for managing portfolio risk and achieving superior returns in investment strategies – particularly those with a sustainability skew.

Additionally, the results highlight trends and inconsistencies in the way investors expect companies to behave, and how they react. The market appears to react to sustainability news in a manner which is much more focused on minimizing risk, rather than capturing potentially positive sustainability opportunities, which can be argued to be representative of a broader trend in ESG.

Finally, the study is also indication of how AI can give investors new tools to manage challenges specific to sustainable investment strategies. As the interest in sustainable finance continues to grow, special-built tools like SDG Signals are expected to gain more prominence in the investor tool-kit.

Emil Fuglsang, COO and co-founder of Matter, explains: “This research shows how AI, via solutions such as SDG Signals, can add valuable insights to our understanding of sustainable finance, in terms of identifying new areas of potential outperformance for investors. But it also points to areas which require greater attention if the capital markets are to effectively incentivize sustainable behaviour in corporates.”

## **About Matter**

Matter provides sustainability data, analytics and reporting solutions for asset managers, asset owners, banks and investment platforms. The company’s products and services include analytics tools for sustainability analysis and regulatory reporting of portfolios and funds, and data offerings spanning key climate metrics, companies’ alignment with the UN SDGs, and actionable insights on hundreds of ESG themes. Matter is headquartered in Copenhagen, Denmark, and is serving clients in North America, Europe, Asia and Oceania. The company’s solutions and data are already used by investors managing and advising on more than €2tn of investments. For further information on Matter, please visit [www.thisismatter.com](http://www.thisismatter.com).

For inquiries, please contact:

Emil Fuglsang

COO, Matter

[emil@thisismatter.com](mailto:emil@thisismatter.com)