MILANO FINANZA
Weekly | Date 23-05-2020 | Page 41 | Sheet 1

Banor: "The pandemic has accelerated current trends. And companies with the best ESG performance will regain ground more rapidly"

The pandemic? It's just an accelerator for current trends. And so, while it's true that the market reversal of March did not spare anybody, not even the most ethical companies from an ESG stand point or those belonging to more popular sectors like internet or technology, it's in the recovery phase that the big difference is noticeable. "The collapse is justified by the fact that these stocks have a strong presence in the portfolios of institutional investors and, in moments of panic, they are subject to forced and indiscriminate sell offs", commented **Angelo Meda**, Head of Equities at Banor SIM. "But, subsequently, the stocks linked with long-term trends like smart working or online sales are registering historic highs, and the COVID-19 emergency has only accelerated these trends. Renewable energy stocks, on the other hand, recovered almost all of the losses registered in March, with the long-term trend not accelerating but remaining unchanged despite the drop in energy prices". Conversely, the prices of stocks associated with sectors considered less sustainable, like energy, are much lower than in February, notwithstanding the bounce back. "Nobody predicted negative oil prices during the brutal correction in March, but a price collapse scenario had been widely contended. The pandemic has only accelerated the pace of a process that has been going on for at least five years".

The long-term trend for ESG stocks is also confirmed by the difference in performance from the beginning of the year of the MSCI World ESG Leaders index (the index that takes into account the best companies among those with a high ESG rating, complying with the sectoral exposures of the general index) with respect to the traditional MSCI World: a 1.3 percentage point advantage for the 'greener' index, which became evident in the two to three week bounce back period between March and April.

"It is therefore not just a question of sectors or structural trends. The companies that report the best Environmental, Social and Governance performances have a competitive advantage that enables them to gain market share and recover more quickly from losses during the difficult phases. The ESG investment philosophy serves the purpose of identifying the long-term risks and opportunities following these three guidelines that indicate how to strategically position a portfolio, avoiding short-term trading", explained Meda who noted that, in comparison with the preceding crises, the strong and rapid impact of the current crisis on the world economy will make the 'S' component more important than in the past. "The Social dimension of a company was considered to be the least important of the three in an ESG analysis, both because of the difficulty in measuring it and because of the missing link in the past between stock exchange performance and social issues, going into more detail for the environmental and management aspects of the company", concluded Meda. “At this moment in time, with rising unemployment, furloughs growing at the same rate and the need to support global health systems, the Social component will be able provide more for companies that are more ethical and capable of supporting communities, rekindling interest in an aspect of ESG analysis that had been neglected up to now".

Laura Magna