Investor ESG Sentiment and Stock Returns: The Mediating Role of Media Coverage

Gustavo Guerra Dantas; Bin Dong

July 26, 2025

Keywords: Socially Responsible Investment, Social Media, ESG, Buzz, Behavioral Finance.

JEL Codes: C90, G40, G50.

The integration of Environmental, Social, and Governance (ESG) considerations into investment strategies has expanded rapidly over the past decade, driven by growing societal, regulatory, and financial interest in sustainability. Despite this, the relationship between ESG and financial performance remains complex. A key limitation in the existing literature is the reliance on ESG scores, which are often divergent across rating providers, and whose impact on returns has been mixed among existing empirical research. From a behavioral finance perspective, a crucial yet underexplored mechanism in this area is the mediating role of other non traditional channels. Media contents, we argue, may serve as powerful informational cues that shape investor beliefs, sentiment, and behavior in ways that go beyond slower moving metrics such as ESG Scores.

This study examines how ESG-related media content influences stock returns, emphasizing the behavioral mechanisms that underlie investor reactions under different market conditions. Drawing from theories of perception formation and behavioral finance, we investigate how media-driven ESG signals affect belief systems and allocation decisions, particularly in the face of heightened uncertainty such as during the COVID-19 pandemic.

Using panel data from 1,262 publicly traded U.S. firms over 2019–2020, we combine ESG scores from Refinitiv and MSCI with media sentiment data from Refinitiv MarketPsych. The latter captures firm-level ESG mentions across news headlines, full articles, and social media, in volume based variables named ”Buzz”, as well as negative ESG incidents (ESG Controversies). We estimate fixed-effects panel regressions with monthly returns as the dependent variable and test the relevance of these media channels in shaping investor behavior across both stable (2019) and crisis (2020) periods.

Our results show that ESG-related media content significantly affects stock returns, particularly during periods of uncertainty. Overall media attention (Buzz) has a negative relationship with returns in both years, with stronger effects in 2020. Disaggregating by media type, ESG mentions in news headlines exhibit the most robust negative impact, suggesting that emotionally salient or attention-grabbing cues trigger risk-averse behavior. In contrast, ESG mentions within full-length news articles have a positive effect in stable periods, indicating a more nuanced investor interpretation under normal conditions. Social media, however, shows no consistent relationship with returns.

ESG Controversies are significantly impactful during the pandemic year but not before, highlighting a shift in investor attention toward real-time, risk-laden signals under crisis. ESG scores, by contrast, only matter in stable periods, suggesting that investors prioritize dynamic, more frequently updated information, over slower moving ones, when volatility increases.

These findings reveal that investor sensitivity to ESG narratives is context-dependent: in crises, attention gravitates toward immediate and negative media cues, while in stable markets, deeper ESG analysis plays a larger role. This has important implications for as-

set managers, firms, and regulators seeking to understand the dynamic relationship between sustainability information and market pricing.