Conference Name: International Conference on Business, Economics, Law, Language & Psychology, 18-19 June 2024, London
Conference Dates: 18-Jun- 2024 to 19-Jun- 2024
Conference Venue: The Tomlinson Centre, Queensbridge Road, London, UK
Appears in: PEOPLE: International Journal of Social Sciences (ISSN 2454-5872)
Publication year: 2024

Zafar & Qarni 2024

Volume 2024, pp. 328-329.

DOI- https://doi.org/10.20319/icssh.2024.328329

This paper can be cited as: Zafar, M., Qarni, M. O. (2024). Uncovering Diversification Benefits: Return Spillovers in USA ESG and Non-ESG Oriented Banks. International Conference on Business, Economics, Law, Language & Psychology, 18-19 June 2024, London. Proceedings of Social Science and Humanities Research Association (SSHRA), 2024, 328-329.

UNCOVERING DIVERSIFICATION BENEFITS: RETURN SPILLOVERS IN USA ESG AND NON-ESG ORIENTED BANKS

Madiha Zafar
NUST Business School, National University of Sciences and Technology (NUST), Pakistan
madiha.phd20nbs@student.nust.edu.pk

Muhammad Owais Qarni
NUST Business School, National University of Sciences and Technology (NUST), Pakistan
djl.tsri@gmail.com

ABSTRACT

Financial products are interconnected through the balance sheet and affect the overall economic system by connectedness. Investors are interested in the connectedness of markets, so our study investigated spillover dynamics and their influence on ESG and non-ESG-oriented banks in the USA. Our dataset comprises 2319 observations from January 1, 2015, to November 22, 2023. We employed the spillover index of Diebold and Yilmaz (2012) to conduct an extensive analysis of ESG-oriented and non-ESG-oriented banks in the USA. The study uncovered significant differences in interconnectedness and spillover effects between ESG-oriented and non-ESG-oriented banks, particularly during regular periods and the COVID-19 pandemic. ESG-oriented banks, in particular, exhibit higher levels of interconnectedness, with notable spillovers among themselves, indicating a need for cross-market diversification to manage risk. In contrast, non-

ESG-oriented banks demonstrate lower interconnectedness and spillover effects. The study highlights the potential benefits of portfolio diversification across ESG and non-ESG banks. The research concludes that such diversification can offer significant risk reduction benefits. Findings suggested that banks must incorporate ESG and non-ESG investments in their portfolio to mitigate overall risk. Banks' adoption of ESG standards may lead to investing in fewer projects, leading to ESG constraints in portfolio optimization. In this way, ESG investment restricts and constrains the diversification of portfolios, which increases risk and contagion.

Keywords:

Diversification, Spillover Index, USA Banks, ESG & Non-ESG Oriented