ESG Investing and Financial Risk in Local and Global Financial Markets

Sahakyan Ruzan A.
PhD in Economics, Associate Professor
Armenian State University of Economics (Yerevan, RA)
https://orcid.org/0000-0003-1942-5028
ruzan.sahakyan@gmail.com
Sargsyan Hayk A.
PhD in Economics, Associate Professor
Armenian State University of Economics (Yerevan, RA)
https://orcid.org/0000-0002-1720-4603
sargsyan007@gmail.com

UDC: 336.7; **EDN:** UQGFLT; **JEL:** G11, G21, G32, O13, Q56
DOI: 10.58587/18292437-2025.6-236
Keywords & phrases: ESG investing, financial risk, investment strategies, climate risk, natural disasters, sustainability reporting, energy transition, renewable energy

ESG (ԲՍԿ) ներդրումներ և ֆինանսական ռիսկը տեղական ու գլոբալ ֆինանսական շուկաներում

Սահակյան Ռուզան Ա.
Տնտեսագիտության թեկնածու, դոցենտ
Հայաստանի պետական տնտեսագիտական համալսարան (Երևան, ՀՀ)
Սարգսյան Հայկ Ա.
Տնտեսագիտության թեկնածու, դոցենտ
Հայաստանի պետական տնտեսագիտական համալսարան (Երևան, ՀՀ)

Ամփոփագիր. Բնապահպանական, սոցիալական և կառավարչական (ԲՍԿ - ESG) ներդրումները դարձել են ժամանակակից ֆինանսական շուկաների կարևոր գործոն՝ ազդելով ներդրումային ռազմավարությունների, ակտիվների գների դինամիկայի և երկարաժամկետ ֆինանսական կայունության վրա: ԲՍԿ չափանիշներով հիմնված ներդրումները օգնում են կրճատել ֆինանսական ռիսկերը, երբ հնարավոր ելքերի հավանականությունները կարելի է կանխատեսել, և հեշտացնում են անորոշությունների կառավարումը այն դեպքերում, երբ փոփոխություններն անսպասելի են կամ տեղի են ունենում բացառիկ իրադարձությունների պատճառով: ԲՍԿ միավորները կարևոր գործիք են ներդրումային ռազմավարությունների համար, հատկապես ինտեգրման և բացասական ընտրության մեթոդների կիրառման ժամանակ: ԲՍԿ ինտեգրումը ոչ միայն բարձրացնում է պորտֆելի կայունությունը, այլև նվազեցնում է կլիմայական և սոցիալական ռիսկերն՝ ներառյալ բնական աղետները, էներգետիկ անցումները և տեղական ֆինանսների ճնշումները: Գլոբալ ներդրումները ցածր ածխածնային տեխնոլոգիաների և վերականգնվող էներգիայի ոլորտներում զգալի աճ են գրանցել, սակայն շուկայական դինամիկան, քաղաքական անորոշությունը և կանոնակարգային փոփոխությունները շարունակում են ազդել եկամտաբերության վրա: Այսպիսով, ԲՍԿ ներդրումները նպաստում են կայուն տնտեսական աճին, դիմացկուն պորտֆելների ստեղծմանը և համակարգային ռիսկերի նվազեցմանը՝ ապահովելով երկարաժամկետ տնտեսական և ֆինանսական կայունություն տեղական և գլոբալ մակարդակներում:
Հանգուցաբառեր և բառակապակցություններ՝ ԲՍԿ ներդրումներ, ֆինանսական ռիսկ, ներդրումային ռազմավարություններ, կլիմայական ռիսկ, բնական աղետներ, կայունության հաշվետվություն, էներգետիկ անցում, վերականգնվող էներգիա

Инвестиции ESG и финансовый риск на местных и глобальных финансовых рынках

Саакян Рузан А.
Кандидат экономических наук, доцент
Армянский государственный экономический университет (Ереван, Армения
Саргсян Айк А.
Кандидат экономических наук, доцент
Армянский государственный экономический университет (Ереван, Армения)

Аннотация: Инвестиции, основанные на критериях ESG (экологические, социальные и управленческие факторы), стали важным элементом современных финансовых рынков, влияя на инвестиционные стратегии, динамику цен на активы и долгосрочную финансовую устойчивость. Инвестиции, ориентированные на ESG, помогают снижать финансовые риски, когда вероятности возможных исходов предсказуемы, и облегчают управление неопределенностью в случаях, когда изменения происходят неожиданно или связаны с исключительными событиями. Баллы ESG являются важным инструментом для реализации инвестиционных стратегий, особенно при применении методов интеграции и отрицательного отбора. Интеграция ESG повышает устойчивость портфеля и снижает климатические и социальные риски, включая природные катастрофы, энергетические переходы и давление на местные финансы. Глобальные инвестиции в низкоуглеродные технологии и возобновляемую энергетику значительно выросли, однако динамика рынков, политическая неопределённость и изменения в регулировании продолжают оказывать влияние на доходность. Таким образом, инвестиции в ESG способствуют устойчивому экономическому росту, формированию устойчивых портфелей и снижению системных рисков, обеспечивая долгосрочную экономическую и финансовую стабильность как на местном, так и на глобальном уровнях.

Ключевые слова и словосочетания: ESG инвестиции, финансовый риск, инвестиционные стратегии, климатический риск, природные катастрофы, отчетность по устойчивому развитию, энергетический переход, возобновляемая энергия

Introduction. As global interest in Environmental, Social, and Governance (ESG) has skyrocketed, research on the impact of ESG on firm risk and financial performance has also emerged as a trending area of investigation. ESG investing has become a central force in global financial markets, reshaping investment strategies, corporate governance, and capital allocation decisions. Amid growing concerns over climate change, social inequality, and corporate accountability, investors are increasingly incorporating ESG factors into their portfolios to achieve long-term value creation and sustainable growth. This trend reflects the broader understanding that financial performance is closely linked to environmental stewardship and social responsibility. The rise of ESG investing has sparked extensive debate among policymakers, financial analysts, and academics regarding its implications for economic growth and market stability. Proponents argue that ESG-aligned investments enhance corporate sustainability, reduce exposure to financial and environmental risks, and improve stakeholder trust, regulatory compliance, and access to capital. Critics, however, highlight challenges such as inconsistent ESG metrics, greenwashing, and potential trade-offs between profitability and sustainability.

Financial markets have responded dynamically, with institutional investors, asset managers, and regulators playing a pivotal role in shaping ESG adoption. The growth of sustainable financial instruments—including green bonds, ESG-focused exchange-traded funds, and impact investing vehicles—raises important questions about how ESG integration affects portfolio performance, risk management, and overall economic resilience. Understanding these dynamics is essential for assessing ESG investing's long-term contribution to financial stability and sustainable economic development.

Research methods. This study employs a mixed-methods approach to assess the impact of ESG investing on financial markets and economic trends. Quantitative analysis uses historical financial and ESG data from BloombergNEF, Bloomberg Intelligence, and S&P Global, covering global investments in low-carbon technologies, renewable energy projects, and ESG assets from 2009 to 2025. Statistical methods, including regression analysis and correlation assessment, examine the relationships between ESG allocations, portfolio performance, and market resilience under varying policy, geopolitical, and macroeconomic scenarios. Qualitative analysis complements the quantitative approach by reviewing policy developments, election outcomes, and regulatory changes affecting ESG integration, including the European Union's Corporate Sustainability Reporting Directive and global harmonization initiatives for sustainability reporting. Case studies of key markets such as the US, Europe, Japan, Canada, and Australia are incorporated to evaluate how ESG adoption interacts with energy transitions, corporate strategies, and investor decision-making. By combining financial data analysis with regulatory and policy review, the study provides a comprehensive understanding of ESG investing's role in shaping capital allocation, risk management, and sustainable economic development.

Literature review. Financial risk relates to stochastic positive or negative outcomes with determinable likelihoods [**16**]. In contrast, financial uncertainty corresponds to outcomes with indeterminate probabilities [**15**; **17**]. While financial risks are determinable based on available information, knowledge, and experience, financial uncertainty occurs due to a lack of adequate information, knowledge, and experience at the time [**28**] (Chart 1.).

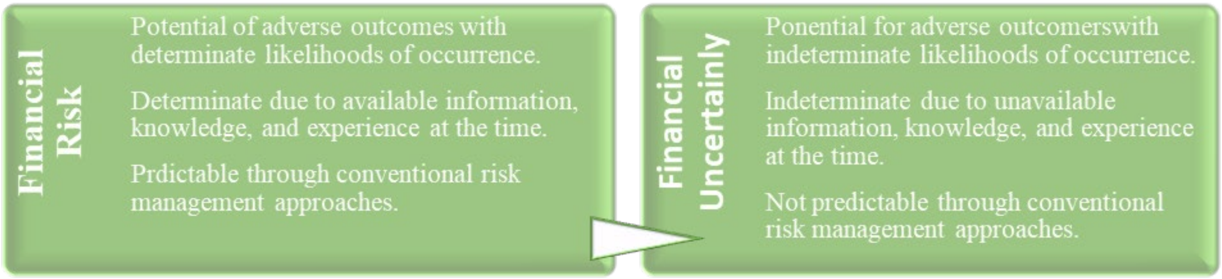

Chart 1. *Financial Risk and Financial Unvertainly*

Financial risk and financial uncertainty represent two distinct concepts with different implications for the decision-making of financial institutions and financial authorities. In decision-making under risk, potential stochastic positive or negative outcomes and their probabilities are determinable. In decision-making under uncertainty, these probabilities are indeterminable with adequate precision, which often occurs due to structural shifts and a lack of historical precedence.

ESG scores are a key tool for implementing investment managers' ESG strategies [**2**, pp. 87-103]. Among the most popular strategies are ESG integration, which incorporates ESG factors alongside financial factors in portfolio selection, and negative screening, whereby assets with the worst (or "worst-in-class") ESG characteristics are excluded. Investment managers typically rely on ESG scores from one or several data providers to measure ESG performance. ESG scores are therefore central to ESG investing and, by extension, to a substantial and growing share of global investment allocations.

However, much as the developing research on municipal finance haslinked place-based climate risk [**11**, pp. 216-218; **12**, pp. 4588-4635; **19**, pp. 455-493] and opioid addiction [**7**, pp. 2019-2066] to subsequent strain in the financial health of publicentities and race-based discrimination to arbitrage opportunities [**24**, pp. 2112-2129; **29**], similar associations may bepresent with other environmental (e.g., preparedness for the energy transi-tion or emissions) and social (e.g., violent crime, excess mortality, poverty,malnutrition, housing affordability, policing and incarceration) outcomesthat influence quality of human life.

Roy, Jaiswal, & Gautam (2024) note that ESG portfolios exhibit varying risk and return patterns across market regimes, with higher returns and lower risk during Covid periods, highlighting the importance of dynamic risk assessment for asset managers and investors [**25**, pp. 183-194].

Guo (2025) finds that the Monday effect is weaker in ESG markets than in non-ESG markets, as ESG investors prioritize long-term sustainability over short-term market sentiment, highlighting behavioral differences and the stabilizing role of ESG investing [**13**, pp. 157-164].

Sabbaghi (2023) finds that high ESG-rated firms exhibit greater volatility in response to negative news compared to positive news, with impacts observed in both developed and emerging markets, emphasizing the importance of ESG disclosures for understanding market risk [**26**].

Tutar et al. (2025) find a positive relationship between banks' CAMELS scores and ESG performance in Türkiye, indicating that financially resilient institutions demonstrate stronger sustainability practices, highlighting the interplay between financial stability and responsible business operations [**31**, pp. 2061-2086].

The shift toward ESG investing reflects growing recognition that environmental, social, and governance factors materially affect a company's long-term value and risk exposure [20]. Responsible environmental practices, social policies, and strong corporate governance enhance resilience, stakeholder trust, and sustainable value creation, reshaping traditional financial logic [**9**, pp. 210-233].

Recent studies indicate that strong ESG performance is associated with lower default risk and improved stock liquidity, though effects vary by industry and firm characteristics [**18**; **27**, pp. 100-115], highlighting the need for context-specific analysis of ESG impacts on financial performance.

Several studies have investigated the effects of ESG investing on financial markets. According to Fatemi, Glaum, and Kaiser (2018), companies with robust ESG practices tend to exhibit lower financial volatility and enhanced risk management [**8**, pp. 45-64]. Furthermore, research by Albuquerque, Koskinen, and Zhang (2019) suggests that firms with high ESG scores enjoy better access to capital, reduced cost of debt, andenhanced stock performance [**1**, pp. 4451-4949]. The growing demand for ESG investments has led to the development of ESG indices, such as the MSCI ESG Leaders Index, which serve as benchmarks for sustainableinvestment strategies [**10**, pp. 69-83].

Beretta et al. (2020) show that strong ESG performance enhances the tone and content of intellectual capital disclosure in integrated reporting

[**3**], while Carungu et al. (2021) find that mandatory non-financial reporting does not necessarily improve disclosure quality, highlighting persistent variation in firms' sustainability reporting practices [**6**, pp. 449-476].

The extent to which natural disasters negatively affect sub-national government revenue remains an unsettled empirical question. Jerch et al. (2020) find that local government revenue declines following natural disasters [14], whereas Miao, Hou, and Abrigo (2018), Masiero and Santarossa (2020), and Miao, Chen, Lu, and Abrigo (2020) report no statistically significant changes in revenue [**22**, pp. 11-44; **21**, pp. 481-516; **23**, pp. 72-101]. Second, the pricing of municipal bonds is forward-looking; therefore, bond prices should incorporate expectations about both the short- and long-run economic effects of natural disasters. However, the empirical literature examining the long-run impacts of natural disasters on local economies has thus far produced mixed results.

Results. According to BloombergNEF (BNEF), global investment in low-carbon technologies has surged from $160 billion in 2009 to $2.1 trillion in 2024. In addition, global investment in new renewable energy projects hit a record $386 billion in the first half of 2025, up 10% from the previous year. As the trend continues to develop, investors are increasingly looking to assess how these shifts are transforming company business models and impacting investment returns [**5**].

Companies and countries are entering a period marked by evolving policy frameworks and persistent geopolitical uncertainty, which will influence how they implement sustainability, climate, and energy-transition strategies. As global priorities shift toward low-carbon development and resilience, both private and public sectors must adapt to increasingly complex regulatory and market environments.

The year 2024 saw an unprecedented number of national elections across more than sixty countries, and the resulting political transitions are expected to significantly shape worldwide approaches to sustainability and climate policy in 2025 and beyond. These electoral outcomes may alter regulatory trajectories, investment incentives, and long-term climate commitments. At the same time, sub-national governments, industries, and financial institutions are likely to continue advancing their own sustainability initiatives, ensuring that progress in environmental and energy-transition efforts remains multifaceted and not solely dependent on central policy directions. The institutional assessment is one of the five factors considered in sovereign ratings. It encompasses an analysis of how a government's institutions and policymaking affect its credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding effectively to economic or political shocks.

According to S&P Global Ratings (2025), the scope of this assessment has expanded to reflect megatrends that will influence sustainability strategies. This involves examining global developments that may affect sustainability, highlighting the significant shifts occurring in sustainability discussions worldwide. The central challenge for organizations is how to advance their sustainability strategies while navigating an increasingly fragmented world where the rules of engagement are constantly evolving [**30**].

Despite continued debate about the consistency of ESG metrics, the scale of ESG investing continues to grow. Global ESG assets surpassed $30 trillion in 2022 and are expected to exceed $40 trillion by 2030 **[4]**, indicating a steady expansion of their share in global assets under management.

Although macroeconomic pressures and mixed sentiment persist, the ESG market is projected to mature further as international regulatory frameworks strengthen disclosure standards and improve oversight. Regional developments remain uneven, with Europe maintaining a leading role, while the United States shows slower growth amid ongoing discussions about ESG practices. At the same time, emerging markets—including Japan, Canada, and Australia—are gaining importance. Recent scenario-based assessments suggest that investors increasingly view ESG integration as supportive of stronger returns, higher portfolio resilience, and more robust fundamental analysis. Market growth, while slower than in previous years, reflects a broader consolidation phase in which strengthened regulatory frameworks and enhanced disclosure requirements are expected to improve the credibility and consistency of ESG-related financial products. Regional patterns remain diverse: Europe is anticipated to retain its position as the largest ESG market, while growth in the United States may moderate amid ongoing debates and market concentration. In contrast, countries such as Japan, Canada, and Australia are emerging as faster-growing ESG markets, driven by supportive policy environments and rising institutional demand. Overall, these trends suggest a gradual maturation of the ESG investment landscape, characterized by increased oversight, more standardized practices, and a continued—though more measured—expansion of ESG assets globally.

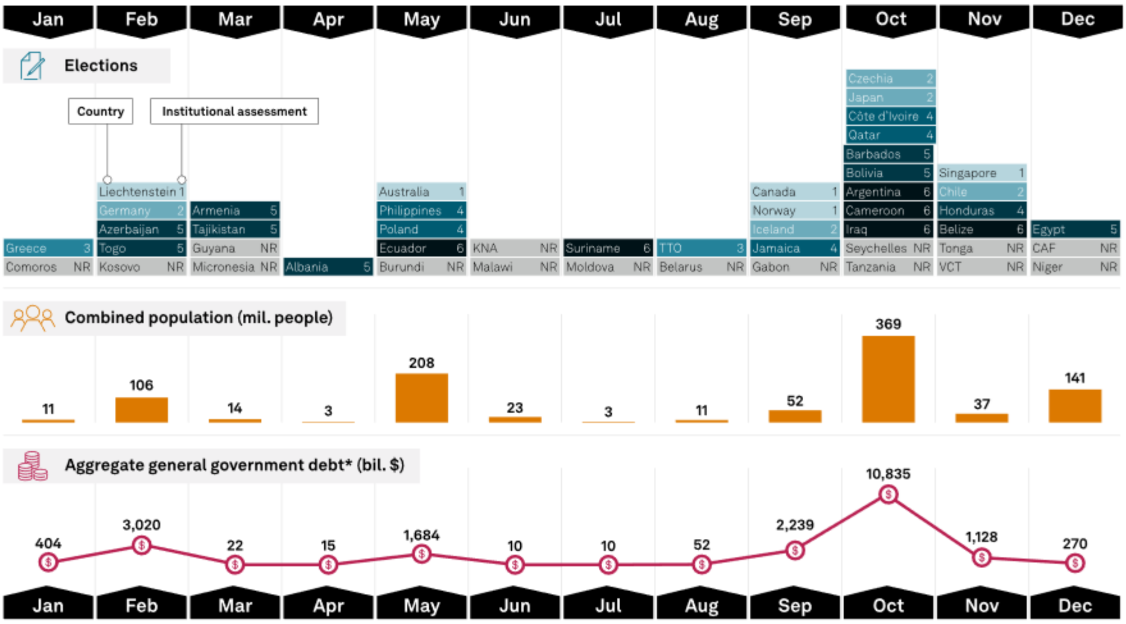

Chart 2. *The 2025 election calendar is lighter than 2024, but policy uncertainly will increase*

In 2025, the energy transition is expected to be shaped by a tension between policy and market forces. Although clean technologies continue to make significant inroads in the global energy system, 2025 is likely to present new challenges to growth. Rising geopolitical uncertainties are shifting some attention from decarbonization efforts toward energy security and affordability. Political agendas increasingly suggest a potential easing of clean energy targets in response to ongoing economic pressures and geopolitical risks [**30**].

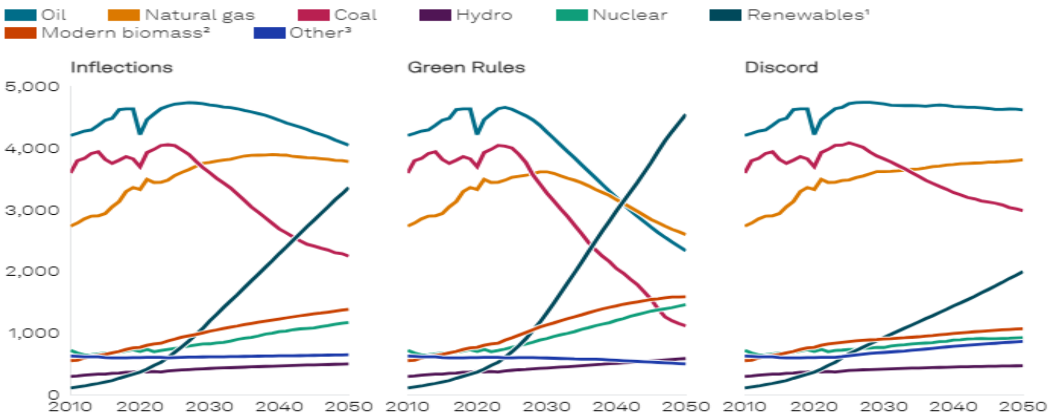

Chart 3. *Global energy markets are on the cusp of change, with significant structural reordering expected over the coming decades* (MMtoe = million metric tons of oil equivalent.)

¹ Includes solar, wind, geothermal and ocean energy.

² Includes biofuels and biomass (industry, electricity, district heat and refining).

³ Includes solid waste, traditional biomass, ambient heat, net trade of electricity or heat.

Moreover, expectations for rapid growth in electricity demand—driven by the expansion of data centers—may result in a sustained, rather than diminished, contribution of fossil fuels to power generation. This interplay between policy and market dynamics will be particularly evident in the United States, where the Inflation Reduction Act has stimulated increased clean energy investment, even as the country remains the world's largest producer of oil and gas. (Chart 3)

Jurisdictions worldwide are expected to continue pushing for consistent and comparable sustainability reporting, although concerns about increased reporting burdens for companies may slow adoption.

In 2025, momentum toward global harmonization in sustainability reporting is likely to remain strong, as a growing number of jurisdictions adopt sustainability-related disclosure standards. The two-leading standard-setters—the Global Reporting Initiative and the International Sustainability Standards Board—are emphasizing interoperability and collaboration. These initiatives to improve disclosure are expected to enhance the quality and comparability of climate-related information and other sustainability topics globally. Additionally, 2025 marks the first year in which certain companies will report under the European Union's Corporate Sustainability Reporting Directive. This directive aims to harmonize corporate sustainability reporting by requiring companies to publicly disclose information on sustainability issues according to the principle of "double materiality," which accounts for both financial materiality and the impact on society and the environment. Key developments by country are summarized in Table 1 [**30**].

Table 1. *Adoption of ISSB-Based Sustainability Disclosure Standards by Jurisdiction*

Jurisdiction/ Status	Developments
Bangladesh/ Adopted	Bangladesh's central bank issued guidelines for banks and financial institutions to apply ISSB standards as of Jan. 1, 2024.
Brazil/ Adopted	Brazil adopted standards Jan. 1, 2024. They will become mandatory from Jan. 1, 2026. The country's Ministry of Finance and its securities regulator, Comissão de Valores Mobiliários (CVM), announced plans to adopt standards on Oct. 20, 2023.
Costa Rica/ Adopted	Costa Rica adopted standards on voluntary basis as of Jan. 1, 2024. They will become mandatory for publicly listed companies regulated by the country's financial regulator Consejo Nacional de Supervisión de Sistema Financiero as of 2026, for the 2025 fiscal year and mandatory for companies classified as large taxpayers as of 2027, for the 2026 fiscal year.
Nigeria/ Adopted	Nigeria adopted standards as of Jan. 1, 2024 to be voluntary until 2026. Mandatory reporting will be phased in from 2027. A consultation on the adoption roadmap closed on March 14, 2024. Nigeria's Financial Reporting Council launched the ISSB standards on June 26, 2023, along with the ISSB and the Nigerian stock exchange.
Kenya/ Adopted	The Institute of Certified Public Accountants of Kenya adopted the standards as of Jan. 1, 2024. Companies are expected to file their first disclosure reports as of Jan. 1, 2025. The country's central bank published a climate risk disclosure framework on Sept. 18, 2024, based on international standards including the ISSB's climate-related standard. A consultation was scheduled to end on Oct. 31, 2024.
Turkey/ Adopted	Turkey adopted standards in 2024. They will be mandatory for companies that fulfill two of the three following criteria for two consecutive reporting periods: assets of more than 500 million Turkish lira; annual net revenues of more one billion Turkish lira; and more than 250 employees. Turkey's Public Oversight, Accounting and Auditing Standards Authority announced plans to adopt standards at 28th UN Climate Change Conference, 2023.
Australia/ Plans to adopt	Australia's standards will apply as of Jan. 1, 2025, for companies with annual revenues of more than A$500 million; as of July 1, 2026, for companies with annual revenues of more than A$200 million; and as of July 1, 2027, for companies with annual revenues of more than A$50 million. The Australian Accounting Standards Board approved the standards on Sept. 20, and Australian lawmakers voted to approve the legislation on Sept. 9, 2024.
Canada/ Plans to adopt	Canada plans to adopt standards voluntarily from Jan. 1, 2025. The Canadian Sustainability Standards Board launched a consultation from March 13, 2024 to June 10, 2024. The CSSB plans to make feedback publicly available in the fourth quarter of 2024.
Hong Kong/ Plans to adopt	Hong Kong Stock Exchange plans to adopt standards as of Jan. 1, 2025 for listed companies. The Hong Kong Institute of Certified Public Accountants proposed HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and HKFRS S2 Climate-related Disclosures, based on the ISSB's two disclosure standards. The standards would be effective from Aug. 1, 2025. A consultation was scheduled to run to Oct. 27, 2024.
India/ Plans to adopt	India's central bank published a draft framework on ISSB standards for banks and financial institutions on Feb. 28, 2024 and plans to adopt standards for banks and financial institutions as of 2025.
Philippines/ Plans to adopt	Philippines plans to adopt standards in 2024, with listed companies reporting in 2025 for the 2024 financial year. The Philippines' Securities and Exchange Commission held a consultation on sustainability disclosures based on the ISSB standards and other global sustainability frameworks in October 2023 and is scheduled to release guidelines in 2024.
South Korea/ Plans to adopt	The Korea Sustainability Standards Board (KSSB) published on April 30, 2024, draft sustainability-related disclosure standards based on the ISSB. A consultation ran to Aug. 31, 2024.
Japan/ Plans to adopt	The Sustainability Standards Board of Japan (SSBJ) published on March 29, 2024, its draft ISSB-related disclosure standards aligned with IFRS S1 and IFRS S2. A consultation ended July 31, 2024. The final standards will be issued no later than March 31, 2025.
Malaysia/ Plans to adopt	Malaysia plans to adopt standards as of 2025 with the following schedule: 2025-2026 for main market listed companies and 2027-2028 for companies listed on Malaysia's ACE high-growth market and non-listed large companies with annual revenues of 2 billion ringett or above. Malaysia's Advisory Committee on Sustainability Reporting held a consultation on ISSB adoption from Feb. 15, 2024 to March 29, 2024 and published a National Sustainability Reporting Framework on Sept. 24, 2024, to guide companies on applying the ISSB standards. Bursa Malaysia, the Malaysian stock exchange, launched a consultation from Sept. 24, 2024 to Oct. 25, 2024, on its proposed changes on sustainability reporting in its listing requirements.
Singapore/ Plans to adopt	Singapore's Accounting and Corporate Regulatory Authority and Singapore Exchange Regulation announced ISSB-related reporting requirements on Feb. 28, 2024. They would be mandatory for listed companies between 2025 and 2027 and for large non-listed companies with annual revenue of at least S$1 billion and total assets of at least S$500 million between 2027 and 2029.

Taiwan/ Plans to adopt	Taiwan plans to adopt standards in 2026 after the Taiwan's Financial Supervisory Commission announced a roadmap for ISSB disclosure adoption on Aug. 17, 2023. Large-cap listed companies with capital of more than NT$10 billion will be required to report in 2027 for financial year 2026. Listed companies with capital of between NT$5 billion and NT$10 billion will be required to report in 2028 for financial year 2027. Other listed companies will be required to start reporting in 2029.
United Kingdom/ Plans to adopt	The UK plans to publish UK-specific standards based on the ISSB standards by the first quarter of 2025. Listed companies with more than 500 employees and large non-listed companies with more than 500 employees and annual revenues of more than £500 million have been subject to mandatory disclosures based on the TCFD recommendations since 2022.
China/ Plans to adopt	China plans to introduce basic corporate sustainability disclosure standards and climate-related disclosure standards based on the ISSB standards by 2027 and plans to establish a nationwide standard by 2030.
Mexico/ Plans to adopt	Mexico's Financial and Sustainability Reporting Standards Board plans to adopt standards for non-listed companies as of Jan. 1, 2025. The country's National Banking and Securities Commission proposed changes on Sept. 13, 2024, to existing regulation requiring issuers to include sustainability-related information in accordance with the ISSB standards in their financial statements. A consultation was scheduled to end Oct. 13.
Bolivia/ Plans to adopt	The College of Auditors or Public Accountants of Bolivia's National Technical Council for Auditing and Accounting approved a resolution to introduce standards for companies that "carry out economic activities throughout Bolivia" as of Jan. 1, 2027.
Pakistan/ Plans to adopt	Pakistan plans to adopt ISSB-related standards following a series of consultation sessions with companies and audit firms in 2023. The Institute of Chartered Accountants of Pakistan proposed requiring large companies to publish sustainability reports aligned with the ISSB standards starting on or after Jan. 1, 2025.
Sri Lanka/ Plans to adopt	The Institute of Chartered Accountants of Sri Lanka published standards based on the ISSB and adapted for the local market as of Jan. 1, 2025.
Chile/ Plans to adopt	Chile's financial regulator, la Comisión para el Mercado Financiero, has proposed that companies start reporting on IFRS S1 and S2 in 2027 based on the 2026 financial year. The proposal would amend existing regulation requiring companies under the regulator's supervision to disclose sustainability and corporate governance information in annual reports. A consultation on the proposals ended on Sept. 27, 2024.

Conclusions. This report has examined how ESG investing is changing the financial world. ESG factors have moved from the periphery to become integral to market systems, investment products, regulatory frameworks, and institutional strategies. They serve not only as risk management tools but also as sources of financial innovation. In 2025, global ESG assets are projected to surpass $40 trillion, with rapid growth in low-carbon and renewable energy investments reflecting the increasing financial relevance of the energy transition. Despite this progress, significant limitations persist. Long-term ESG performance data remain scarce, ESG materiality is firm- and region-specific, and integration into mainstream asset pricing models is underdeveloped. Evidence on the economic impacts of ESG-related environmental and social factors, including natural disasters and social inequalities, is mixed, and research on adoption in Global South economies is limited. Variations in reporting standards across jurisdictions, including the EU's CSRD and ISSB/GRI frameworks, further challenge comparability and harmonization.These gaps underscore the need for future research and policy development focused on building robust ESG data infrastructures, refining asset pricing models, and evaluating the regional transferability and economic trade-offs of ESG policies. Addressing these challenges will be essential for investors and policymakers seeking to implement effective and sustainable strategies in a rapidly evolving global environment.

References

1. Albuquerque, R., Koskinen, Y., & Zhang, C. (2019). Corporate social responsibility and firm risk: Theory and empirical evidence. Management Science, 65(10), 4451-4949. https://doi.org/10.1287/mnsc.2018.3043
2. Amel-Zadeh, A. and Serafeim, G. (2021). Why and how investors use ESG information: Evidence from a global survey. Financial Analysts Journal, 74(3), 87–103
3. Beretta V, Demartini M., & Trucco S. (2020). Tone at top in integrated reporting: The role of non-financial performance. DOI: https://doi.org/10.1108/S1479-351220200000034009
4. Bloomberg. (2024, February 8). *Global ESG assets predicted to hit $40 trillion by 2030, despite challenging environment, forecasts Bloomberg Intelligence*. Retrived 15.11.25 from https://www.bloomberg.com/company/press/global-esg-assets-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/
5. Bloomberg. *Bloomberg Expands Analytics to Help Investors Evaluate Transition Risk and Opportunity Amid the Rise of Low Carbon Technologies*. Retrived 15.11.25 from https://u.to/sW5oIg October 30, 2025.
6. Carungu, J., Pietra, R., & Molinari, M. (2021). Mandatory vs voluntary exercise on non-financial reporting: Does anormative/coercive isomorphism facilitate an increase in quality? Meditari Accountancy Research , Emerald PublishingLimited, pp. 449-476.
7. Cornaggia, K., Hund, J., Nguyen, G., & Ye, Z. (2022). Opioid crisis effects on municipal finance. *The Review of Financial Studies, 35*(4), 2019–2066.
8. Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating roleof

disclosure. Global Finance Journal, 38, 45-64. https://doi.org/10.1016/j.gfj.2017.03.001
9. Friede, G., Busch, T., & Bassen, A. (2015). *ESG and financial performance: Aggregated evidence from more than 2000 empirical studies.* Journal of Sustainable Finance & Investment, 5(4), 210–233.
10. Giese, G., Lee, L. E., Melas, D., Nagy, Z., & Nishikawa, L. (2019). Foundations of ESG Investing:How ESG Affects Equity Valuation, Risk, and Performance. Journal of Portfolio Management,45(5), 69-83.
11. Gilmore, E. A., Kousky, C., & St. Clair, T. (2022). Climate change will increase local government fiscal stress in the United States. *Nature Climate Change, 12*, 216–218. https://www.nature.com/articles/s41558-022-01311-x
12. Goldsmith-Pinkham, P., Gustafson, M. T., Lewis, R. C., & Schwert, M. (2023). *Sea level rise exposure and municipal bond yields*. *The Review of Financial Studies, 36*(11), 4588–4635
13. Guo, Q. (2025). *Monday Effect in ESG vs. Non-ESG Markets: A Behavioral Finance Perspective.* Advances in Economics Management and Political Sciences, 233(1), 157–164. https://doi.org/10.54254/2754-1169/2025.BL28700
14. Jerch, Rhiannon, Matthew E Kahn, and Gary C Lin, 2020, Local public finance dynamics and hurricane shocks, Technical report, National Bureau of Economic Research
15. Keynes, J. M. (1937). The General Theory of Employment. The Quarterly Journal of Economics, Volume 51, Issue 2, 1937.
16. Knight, F. H. (1921). Risk, Uncertainty and Profit. Houghton Mifflin Company.
17. Lawson, T. (1985). Uncertainty and Economic Analysis. The Economic Journal, Volume 95, Issue 380, 1985.
18. Li, H., Zhang, X., & Zhao, Y. (2022). *ESG and firm's default risk.* Finance Research Letters, 47, Article 102715.
19. Liao, Y., & Kousky, C. (2022). The fiscal impacts of wildfires on California municipalities. *Journal of the Association of Environmental and Resource Economists, 9*(3), 455–493.
20. Martiny, A., Testa, F., Taglialatela, J., & Iraldo, F. (2024). *Determinants of environmental social and governance (ESG) performance: A systematic literature review.* Journal of Cleaner Production, 456(1), 142213.
21. Masiero, Giuliano, and Michael Santarossa, 2020, Earthquakes, grants, and public expenditure: How municipalities respond to natural disasters, Journal of Regional Science 60, 481–516.
22. Miao, Qing, Yilin Hou, and Michael Abrigo, 2018, Measuring the financial shocks of natural disas ters: A panel study of us states, National Tax Journal 71, 11–44.
23. Miao, Qing, Can Chen, Yi Lu, and Michael Abrigo, 2020, Natural disasters and financial implica tions for subnational governments: evidence from china, Public Finance Review 48, 72–101.
24. Ponder, C. S. (2021). Spatializing the municipal bond market: Urban resilience under racial capitalism. *Annals of the American Association of Geographers, 111*(7), 2112–2129. https://doi.org/10.1080/24694452.2020.1866487
25. Roy, V., Jaiswal, T., & Gautam, A. (2024). *Assessing risk profiles of ESG portfolios in global financial markets.* Decision, 51, 183–194. https://doi.org/10.1007/s40622-024-00388-x
26. Sabbaghi, O. (2023). *ESG and volatility risk: International evidence.* Business Ethics, the Environment & Responsibility. https://doi.org/10.1111/beer.12512
27. Shakil, M. H., & Rahman, M. M. (2019). *The relationship between ESG performance and stock returns: Evidence from emerging markets.* Emerging Markets Review, 39, 100–115.
28. Slovik, P. (2010). Market uncertainty and market instability. IFC Bulletin, Volume 34, 2010. Bank of International Settlements.
29. Smull, E., Kodra, E., Stern, A., Teras, A., Bonanno, M., & Doyle, M. (2023). Climate, race, and the cost of capital in the municipal bond market. *PLOS ONE, 18*(8), e0288979. https://doi.org/10.1371/journal.pone.0288979
30. S&P Global. (2025, January 15). *Top 10 sustainability trends to watch in 2025: Here's what you need to know about the trends that will shape strategy in a challenging year*. https://www.spglobal.com/sustainable1/en/insights/2025-esg-trends
31. Tutar, H., Tutar, S., Medetoğlu, B., & Kalaycı, M. (2025). *From risk to responsibility: examining the financial resilience of banks.* Management Decision, 63(7), 2061–2086. https://doi.org/10.1108/MD-10-2023-2017

Сдана/Հանձնվել է 28.11.2025
Рецензирована/Գրախոսվել է 05.12.2025
Принята/Ընդունվել է 12.12.2025