

Abstract

In financial markets, environmental, social, and governance (ESG) considerations have gained prominence as key drivers of investment decisions. This thesis extends the asset pricing literature by extending the renowned Fama-French three-factor model to incorporate ESG and ESG momentum factors. By building upon the foundation of the market, size, and value factors, this study explores the potential significance and impact of ESG-related metrics on a handful of portfolios with various construction methods. Additionally, the investigation evaluates the influence of ESG and ESG momentum portfolios to generate abnormal returns. With empirical data from the U.S. stock market for roughly 14-year period from 2008 to 2021, this research aims to provide insights into the potential role of ESG-related factors in enhancing the explanatory power of asset pricing models and shedding light on the evolving relationship between financial performance and sustainability factors.

Keywords. : Asset Pricing Model, Fama-French, Fama, French, ESG Investing, ESG momentum, ESG