

## Role of Asset Management

# The Rise & Fall of ESG

Anureet Saxena, Ph.D, CFA, CEO & Founder, Alignment Trio Management\*

**ESG movement is an equal opportunity offender that has disappointed both its earnest believers and harshest critics**

### Summary

- ✓ The number of companies that have aligned themselves with the Anti-ESG movement has increased two-fold since Nov 2024 election while the number of companies endorsing the ESG policies had been declining even before the election although the trend accelerated marginally after the election.
- ✓ Not all businesses are created equal when it comes to their ability and willingness to change stripes vis-à-vis ESG. Technology firms selling differentiated products at premium prices can hop off the ESG bandwagon with minimal impact on their top line growth or talent retention as compared to their peers in the Consumer space.
- ✓ Distancing themselves from their prior ESG commitments and/or actively embracing the Anti-ESG paradigm are some of the specific mechanisms that corporate executives are using to cultivate relationship with the White House.
- ✓ A politically expedient approach to ESG initiatives aggravates the principal-agent problem, reduces corporate accountability by taking focus off the singular goal of maximizing shareholder value, and compromises the efficacy of capital allocation through market mechanisms.

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## Chiropractic Alignment

The election of President Trump is consequential for ESG initiatives for three reasons. First, President Trump has been a vocal critic of ESG for several years. Second, unlike other politicians, President Trump has a tendency of staying faithful to his campaign promises even after the election which can be frightening or admirable depending on one's political leaning. Third, President Trump's instinctual governance style leaves very little latitude for businesses to position themselves on these issues. Firms are faced with stark choices of either eating crow and retrenching their ESG commitments, or facing the full wrath of a President who is not known for pulling punches.

As the nation was still coming to terms with the outcome of the 2024 elections, CEOs were already busy making emergency appointments with chiropractors to learn how to bend over backwards on their ESG posturing. Press releases distancing themselves from ESG policies were issued, websites were scrubbed of ESG verbiage and soon ESG became vilified acronym in the corporate world, their iconic stature prior to the election notwithstanding. Exhibit 1 corroborates this thesis by examining the number of companies in Noonum ESG and Anti-ESG indexes; these indexes capture the directionality of corporate positioning on ESG inferred using linguistic analysis. As it is evident from the Exhibit, the number of companies that have aligned themselves with the Anti-ESG movement has increased two-fold since Nov 2024 election. Interestingly, the number of companies endorsing the ESG policies had been declining even before the election although the trend accelerated marginally after the election.

The genesis of ESG can be traced to an extended period of accommodative monetary policy and socially divisive political discourse in the country. Billions of dollars flowed into funds that purported to create a better world while also delivering superior risk adjusted returns. Corporate entities enthralled at the prospect of merging morality with business jumped onto the bandwagon, and saw their stock prices rise in tandem. Interest rate hikes of 2022-2023 started to take the oomph out of the ESG frenzy. And then came the screeching halt on Nov 6th 2024. In other words, while President Trump can be credited with the increase in Anti-ESG sentiment, the slow death of ESG in capital markets & corporate America preceded his second win at the ballot; his election only accelerated what would have been the eventual outcome.

**Firms are faced with stark choices of either re-evaluating their ESG commitments, or facing the full wrath of a President who is not known for pulling punches**

Noonum's Linguistic Strength Indicator (LSI) offers an even more nuanced insight into this phenomenon. LSI measures the strength of a theme (ESG, Anti-ESG, etc) based on its occurrences in financial literature such as financial filings, earnings call transcripts, media announcements, news flow, etc. Exhibit 2 shows the divergence in LSI of ESG and Anti-ESG indexes in the past one year. The decline in support for ESG in the corporate arena is only matched by the growing support for its allegorical opposite. These trends reveal the shifting sentiment in corporate boardrooms for an ostensibly socio-economic movement such as ESG based on incumbent political reality.

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## Micro-economics & Corporate Strategy

The interaction of 2024 election and ESG also offer an excellent case study into complex relationship between micro-economics, public policy, and corporate strategy. Not all businesses are created equal when it comes to their ability and willingness to change stripes vis-à-vis ESG. For example, technology firms selling differentiated products at premium prices can hop off the ESG bandwagon with minimal impact on their top line growth or talent retention. The other end of the spectrum is defined by consumer firms that have spent years making inroads with millennials often using mechanisms like ESG to align themselves and stay socially relevant. Abandoning such corporate posturing risks alienating their prime clientele and creating a long-term credibility deficit.

LSI attribution analysis of Noonum ESG index (Exhibit 3) confirms this hypothesis. While the popularity of ESG has declined in both technology and consumer sector, the decline has been far more widespread within the former than the latter. Consumer firms' conundrum on how to balance ESG anchored marketing vis-à-vis a rising socio-political backlash against the same partly explains this divergence.

## US Political Connections

In an earlier article\*, we argued that political access is a valuable intangible asset in a Trumpian regime that can determine the economic fate of an organization. Distancing themselves from their prior ESG commitments and/or actively embracing the Anti-ESG paradigm are some of the specific mechanisms that corporate executives are using to cultivate such an "intangible" asset. To test this hypothesis, we examined the overlap between Noonum Anti-ESG index and Noonum US Political Connections index; the latter index identifies companies that have been successful in building relationship with President Trump, his family members, or his cabinet appointees.

**60% of the holdings in Noonum Anti-ESG index have been successful in building connections with the White House**

The overlap between the Noonum Anti-ESG and Noonum US Political Connections index increased significantly after the Nov 2024 election (Exhibit 4). In fact, 60% of the holdings in Noonum Anti-ESG index have been successful in building connections with the White House. Indeed, the direction of causality remains indeterminate; it is not clear if companies that are endorsing Anti-ESG philosophy are better suited to build political connections or companies that are politically connected are more inclined to align with the Anti-ESG movement. Nonetheless, the interaction between these two themes is noteworthy.

## Symptoms & Diagnosis

The Principal-Agent problem is a fundamental concept in modern corporate finance. It centers around the idea of aligning the incentives of the management that is hired to operate a firm with the incentives of the shareholders who contribute capital to create the firm. Addressing the principal-agent problem requires a delicate choreography between the shareholders, board of directors and company management. The genius of the ESG movement lies in its attempt to simultaneously compromise the integrity of all three players.

ESG movement incentivized the management to chase fictitious non-operating measures with little connection to company fundamentals. Improving carbon emission metrics based on spurious and dubious calculations took precedence over prudent allocation of company's resources to maximize ROI. It diffused the accountability calculus between the board of directors and company management by introducing ancillary performance measures that are irrelevant to long term valuation of the firm. It is much easier for the management to pay lip service to various socio-political goals than to make a concerted effort to improve EPS. Finally, it provided an illusion to the shareholders that aligning with the ESG narrative not only promises better risk adjusted returns but also returns that are of higher moral standing.

\* US Political Connections, An Intangible Asset. *Systematic Perspectives*, May 20<sup>th</sup> 2025

Corporate America has inbuilt immunity that has protected it from becoming a hostage to various socio-political movements over the decades. Why is it that those mechanisms failed to deliver in the context of an ESG onslaught? The answer to this question can be found using the age-old cliché: follow the money!

Active management suffered a one-two punch following the 2008 Great Financial Crisis. Rapid flow of assets from actively managed products to low-cost passively managed ETFs created an environment of tepid top line growth and margin compression for fund managers. Lopsided nature of the capitalization weighted indexes made it extremely difficult to beat the benchmarks in the 2010s. Faced with the double whammy of deteriorating business environment and challenging performance, active management desperately needed a Hail Mary pass. ESG to the rescue!

ESG movement allowed active managers to create bespoke versions of their products with the desired moral footprint which can then be sold at a premium price. It was an excellent marketing move that not only granted active managers a second lease of life but also picked up enough momentum to become a reckoning force in and of itself. Concomitantly, owners of passively managed ETFs also decided to hop onto the ESG bandwagon giving the movement the much-desired negotiating leverage in corporate boardrooms. It is this shift in boardroom power dynamics that explains upward trajectory of ESG in Corporate America in the 2010s. The same reasoning also explains its downfall.

**ESG movement is an equal opportunity offender that has disappointed both its earnest believers and harshest critics**

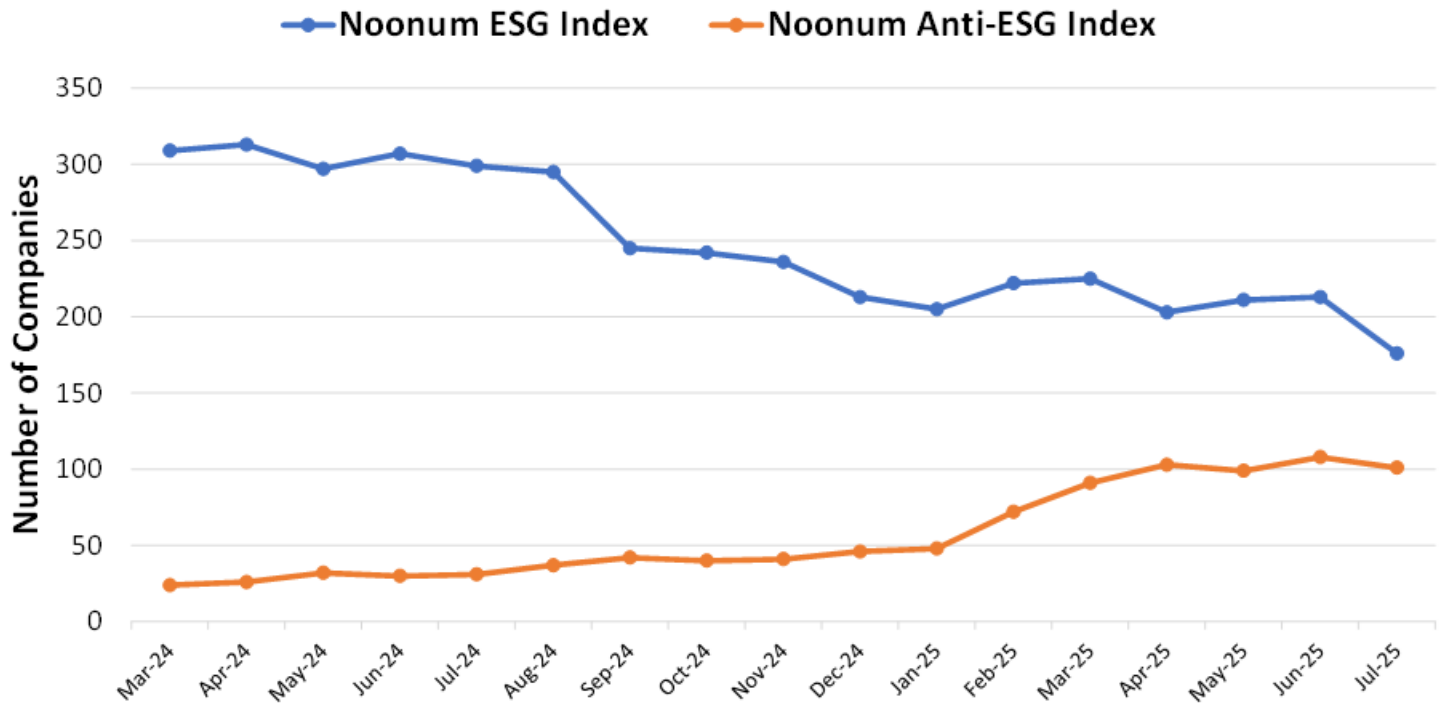
In March 2022, Federal Reserve embarked on its campaign to rein in spiraling inflation by increasing interest rates. High interest rates increase the opportunity set and opportunity cost of active management thereby allowing fund managers to differentiate themselves by doing what they are best at, namely, picking winners and losers. Higher cost of capital also instituted a sense of discipline among the investors. When capital is free, everybody is a philanthropist; at higher cost of capital, meeting the target rates of returns becomes a priority and moral misgivings become more dispensable. Increasing social backlash against specific provisions of the ESG movement and an evolving political discourse prompted passive managers to reconsider their ESG stance. All of this contributed to a decline in ESG following, a phenomenon that accelerated after President Trump's second stint at the White House.

When examined in this light, the vacillations of corporate executives vis-à-vis ESG seem less hypocritical and more rational. Phrased simply, the job of a CEO is to navigate the company through the prevailing socio-political regime and address the specific demands of the shareholders as communicated by the corporate board. Moral ambivalence of a small but influential subset of the latter pushed corporate executives into the warm embrace of the ESG movement whereas reality check from the former transformed that fondness into revulsion overnight after the Nov 2024 election. To summarize, ESG movement is an equal opportunity offender that has disappointed both its earnest believers and harshest critics. Not only did it fail to deliver on its lofty – and often self-contradictory – goals, it contaminated the ethos of corporate America by taking focus off the singular goal that truly matters, namely, delivering a rate of return that exceeds the cost of the capital!

## Conclusion

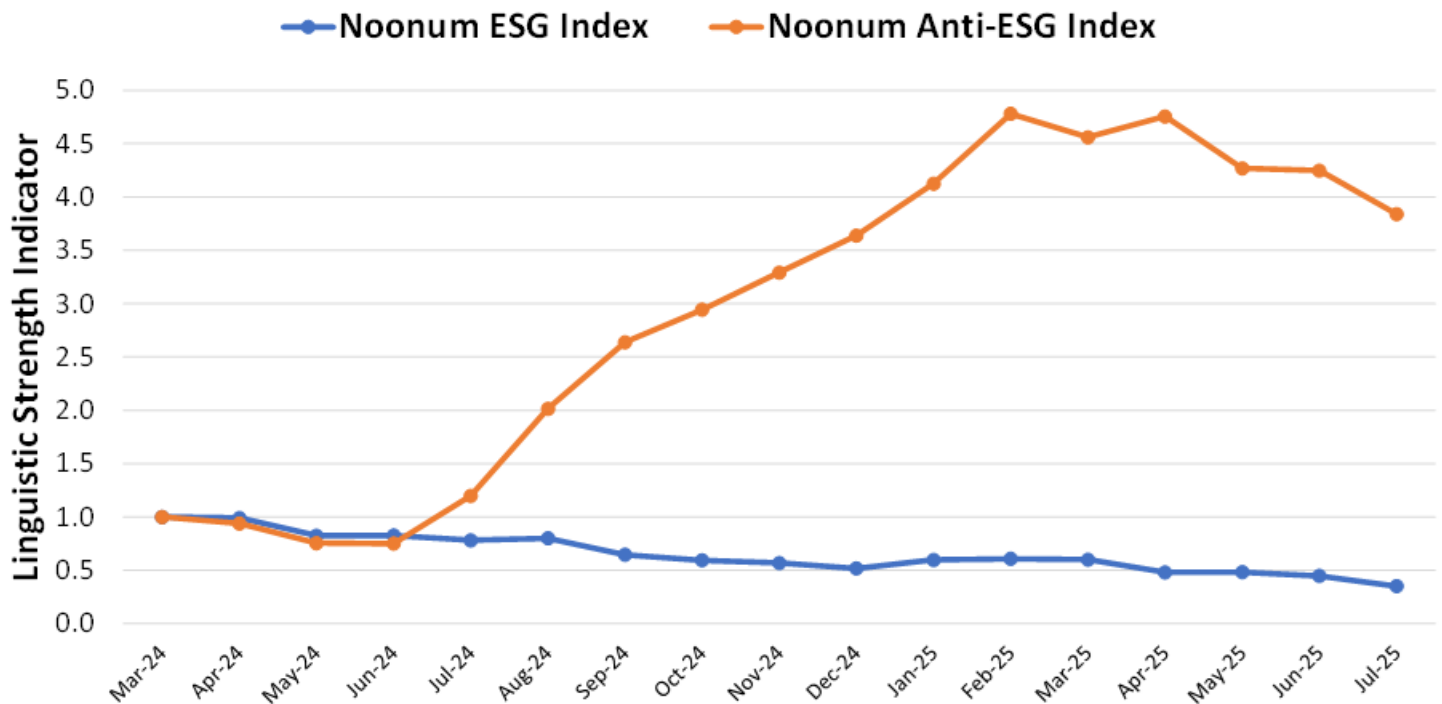
While the corporate world was busy gerrymandering their ESG messaging, the technology to systematically analyze such messaging was maturing at the same time. Advances in Large Language Models (LLM) in general, and contextual understanding of linguistic inputs in particular, puts us in a vantage position to chronologically annotate the changes in corporate tone with respect to ESG and declutter the underlying socio-political changes. Use of Noonum AI technology in the analysis presented here being a good case in point.

A politically expedient approach to ESG initiatives aggravates the principal-agent problem, reduces corporate accountability by taking focus off the singular goal of maximizing shareholder value, and compromises the efficacy of capital allocation through market mechanisms. Perhaps, one can learn from the booming renewables industry in the state of Texas, a staunchly Republican stronghold. Texans' proclivity to make profits significantly outstrips their dislike for ESG. Capitalism works if you let it!



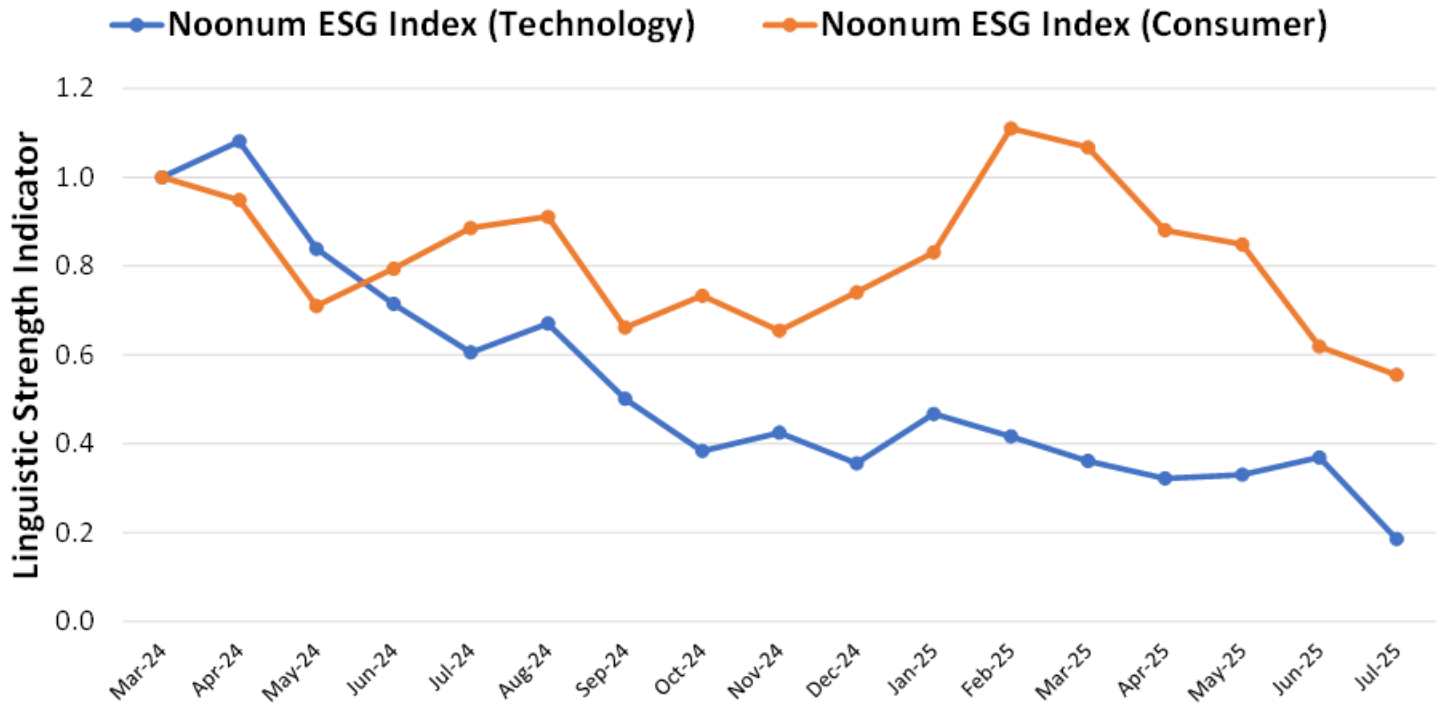
**Exhibit 1:** The number of companies endorsing the ESG policies had been declining even before the election. Notably, the number of companies that have aligned themselves with the Anti-ESG movement has increased two-fold since the Nov 2024 election

**Source:** Noonum Inc

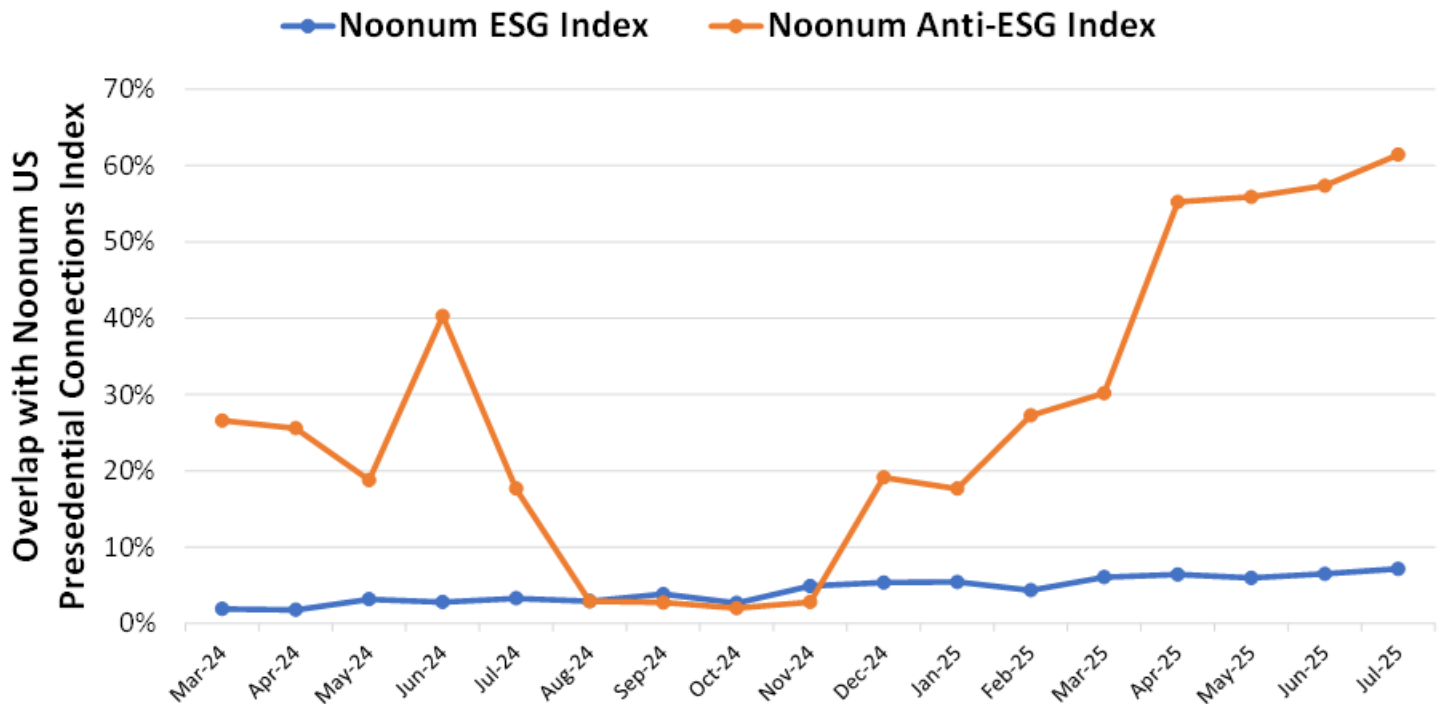


**Exhibit 2:** Linguistic Strength Indicator measures the strength of a theme (ESG, Anti-ESG, etc) based on its occurrences in financial literature such as financial filings, earnings call transcripts, media announcements, news flow, etc.

**Source:** Noonum Inc



**Exhibit 3:** Consumer firms’ conundrum on how to balance ESG anchored marketing strategy against a rising socio-political backlash against the same partly explains their reluctance in completely abandoning ESG. Technology firms that sell differentiated products at premium pricing do not suffer from such reservations.  
**Source:** Noonum Inc



**Exhibit 4:** The overlap between the Noonum Anti-ESG and Noonum US Political Connections index increased significantly after the Nov 2024 election  
**Source:** Noonum Inc