Discussion of Jankowitsch, Pasler, Weiss, and Zechner (2025)

“Greenness Demand for US Corporate Bonds”

Discussant: Sangmin Simon Oh (Columbia Business School)

AFA Annual Meeting 2026

Empirical Approaches to Corporate Bond Greenium

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- Core Idea: When investors disagree about what "green" means, the market aggregates those views into a single aggregate green score, which can be identified from green investors' portfolio holdings

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[3] Direct Approach Using Portfolio Holdings **This Paper**

- Estimate greenness demand directly from bond-level portfolio choices
- Recover price effects via counterfactual equilibrium yields
- Recovers investor-level estimates, which enables answers to new questions

Recap

Question: How do investors' preferences for green assets shape prices and portfolios in the corporate bond market?

Methodology: Demand system a la Koijen-Yogo for corporate bond holdings

- Investor-level bond portfolios + bond-level characteristics (ratings, maturity, issuer ESG)
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Plan for Discussion

1. Demand System Approach for Corporate Bonds
2. Interpreting Trends in Greenness Demand

Comment 1. Demand System Approach for Corporate Bonds

Demand System Asset Pricing (DSAP)

Core Idea: Jointly understand prices, fundamentals, beliefs, holdings, and flows

- New approach to asset pricing (not a new theory)
- Does not assume frictions, institutions or segmented/frictional markets
  (e.g. mean-variance demand system in CAPM)

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Suggestion 1. Strengthen the case for using a demand system

- Potential direction: explicit reconciliation of the greenium literature?

Critiques of Logit Demand Systems (KY2019, KRY2024)

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1. Cross-Asset Dependence

In portfolio choice models, assets are interconnected, which can cause issues for estimating demand curves of each asset.

- Critiques: Fuchs, Fukuda, and Neuhann (2024, 2025), Haddad et al. (2025)
- Solutions: Koijen-Yogo (2020), Chaudhary-Fu-Li (2022), Haddad et al. (2025)

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- Authors (in Section 5): “investors cannot freely substitute across the whole market (e.g. mandates), thus making the standard logit model safe to use.”
- Issue: While substitution across buckets may be low, the substitution within the buckets can be very high
- Arguably this issue is economically far more severe in fixed income than equities

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Relevance for This Paper

- Less of an issue because the paper doesn’t entirely rely on the elasticity interpretation of the demand coefficient (but more for the counterfactuals)

Comment 2. Patterns in Greenness Demand

1. Time-Series Patterns

Figure 1: Overall Greenness Demand.
This figure shows the time series of the average demand coefficient on the environmental score. The solid line represents the average, and the shaded area represents the 95% confidence interval.

1. Time-Series Patterns

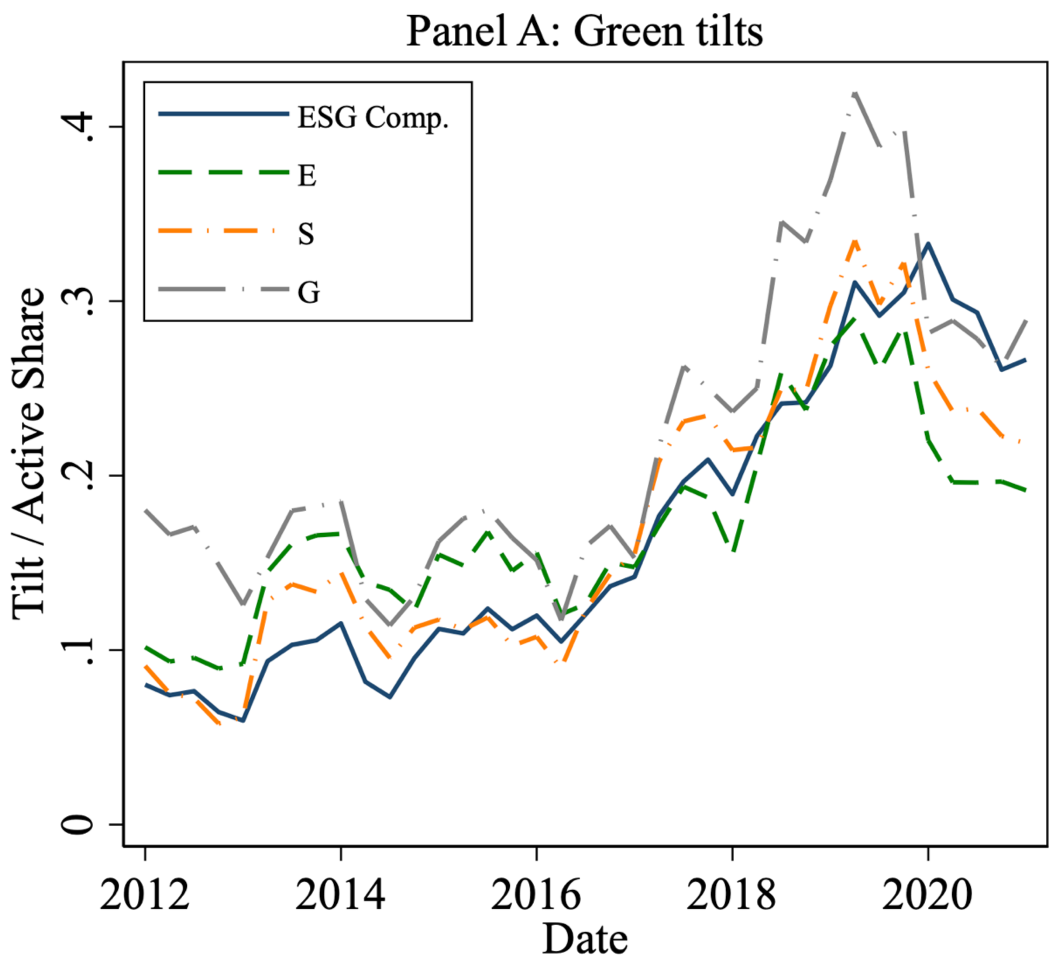

Figure 5, Panel A of Pastor-Stambaugh-Taylor (2024), “Green Tilts”

1. Time-Series Patterns

Figure 1
The perceived cost of capital of green and brown firms

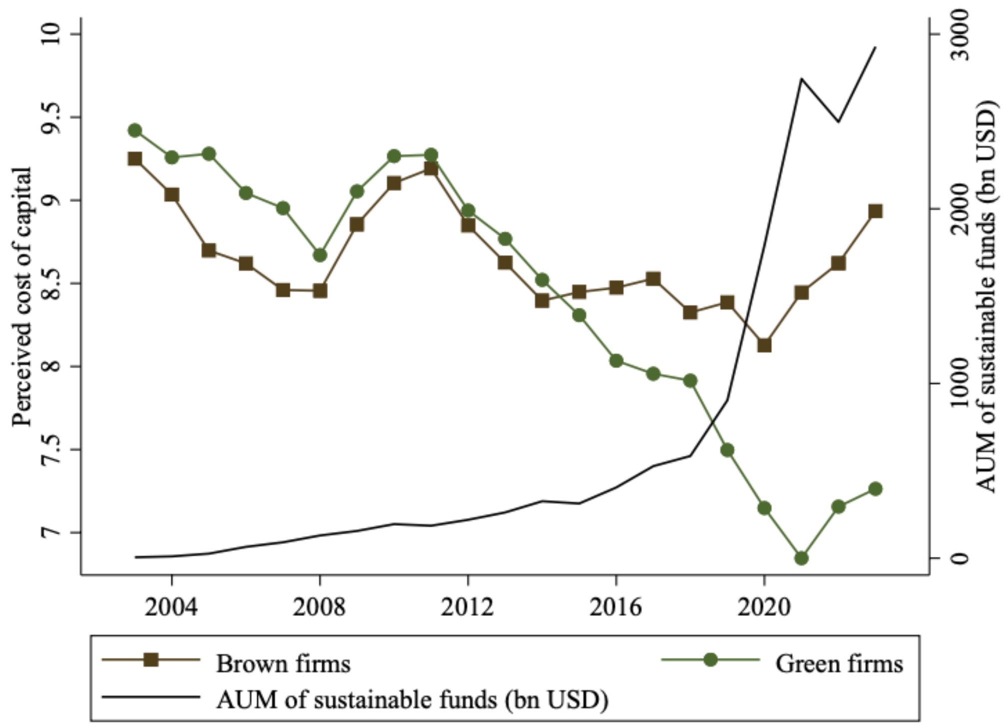

Figure 1 of Gormsen-Huber-Oh (2024), “Climate Capitalists”

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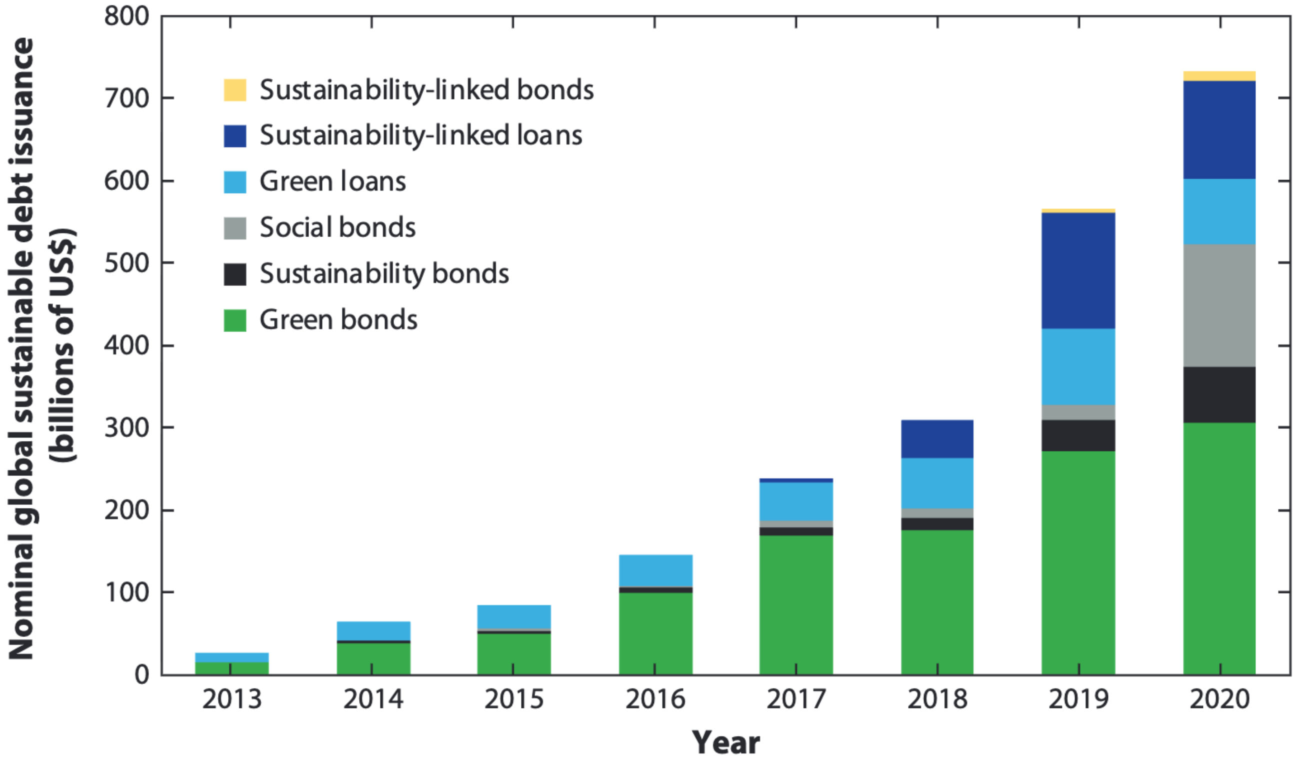

Figure 1 of Baker-Bergstresser-Serafeim-Wurgler (2022), "The Pricing and Ownership of US Green Bonds"

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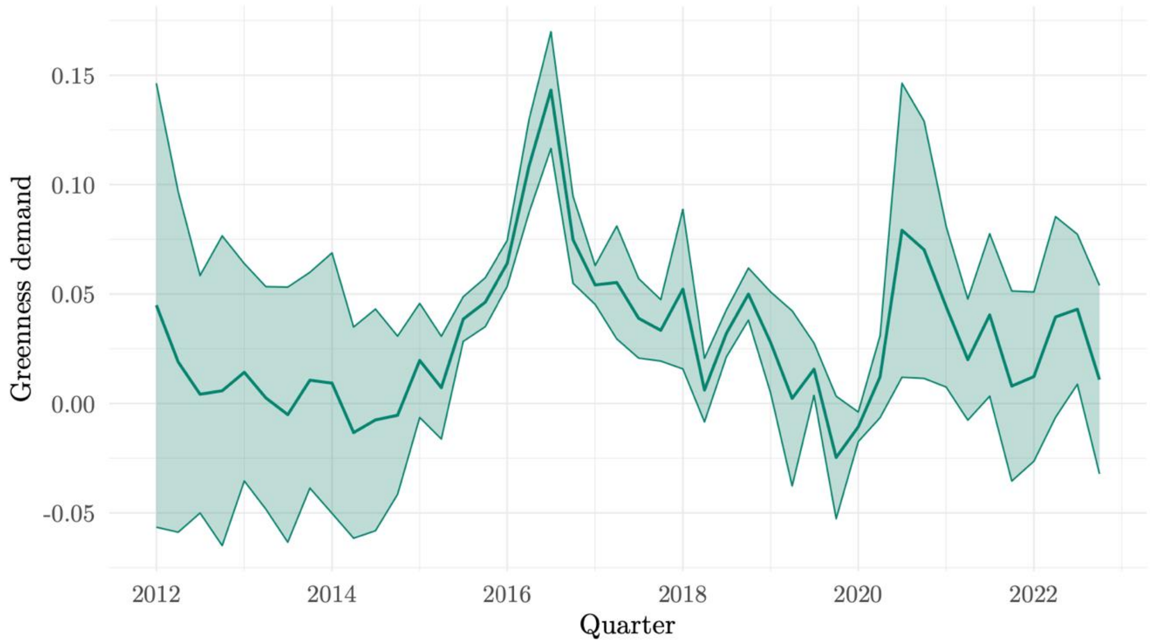

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- Possibility #1:Coefficient partly absorb short-run rebalancing, issuance responses, or cross-bond substitution rather than changes in underlying demand parameters

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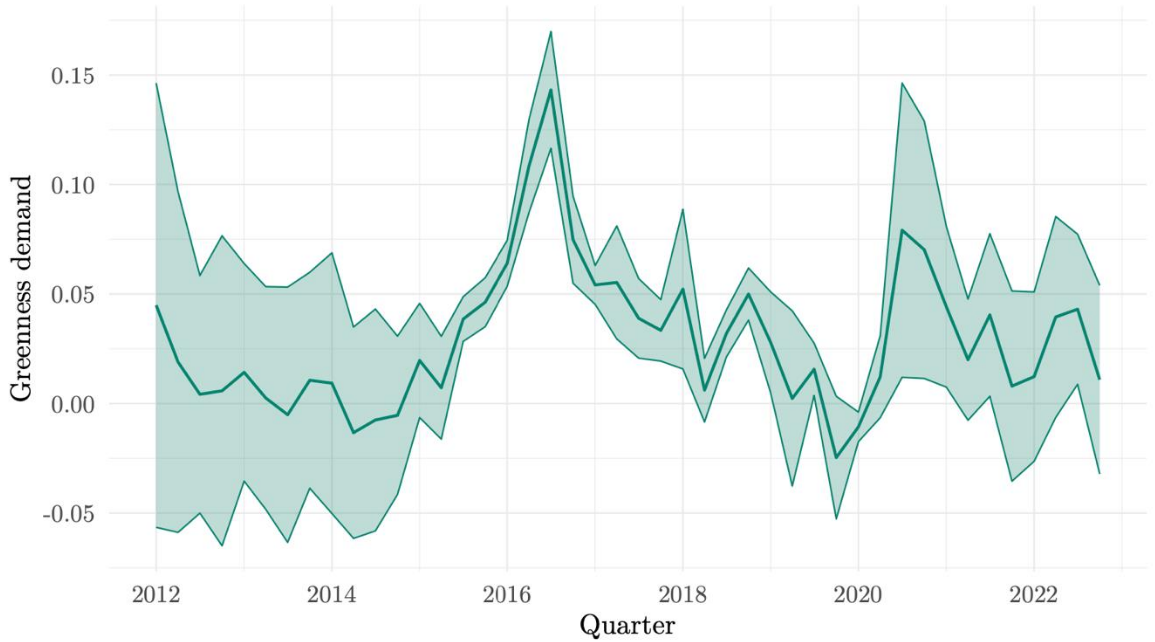

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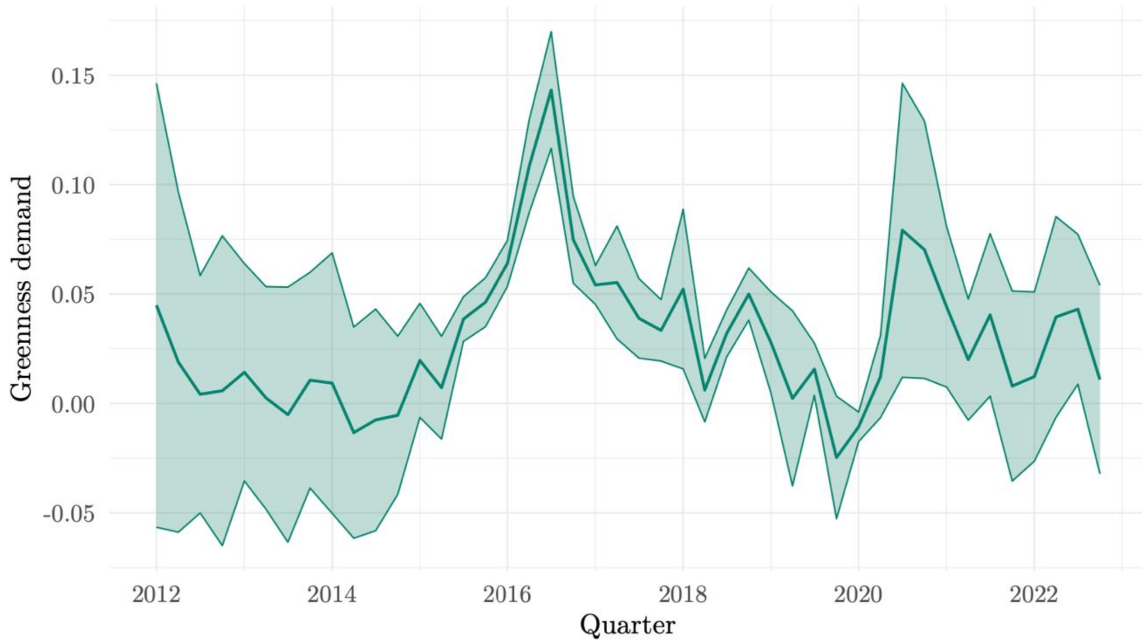
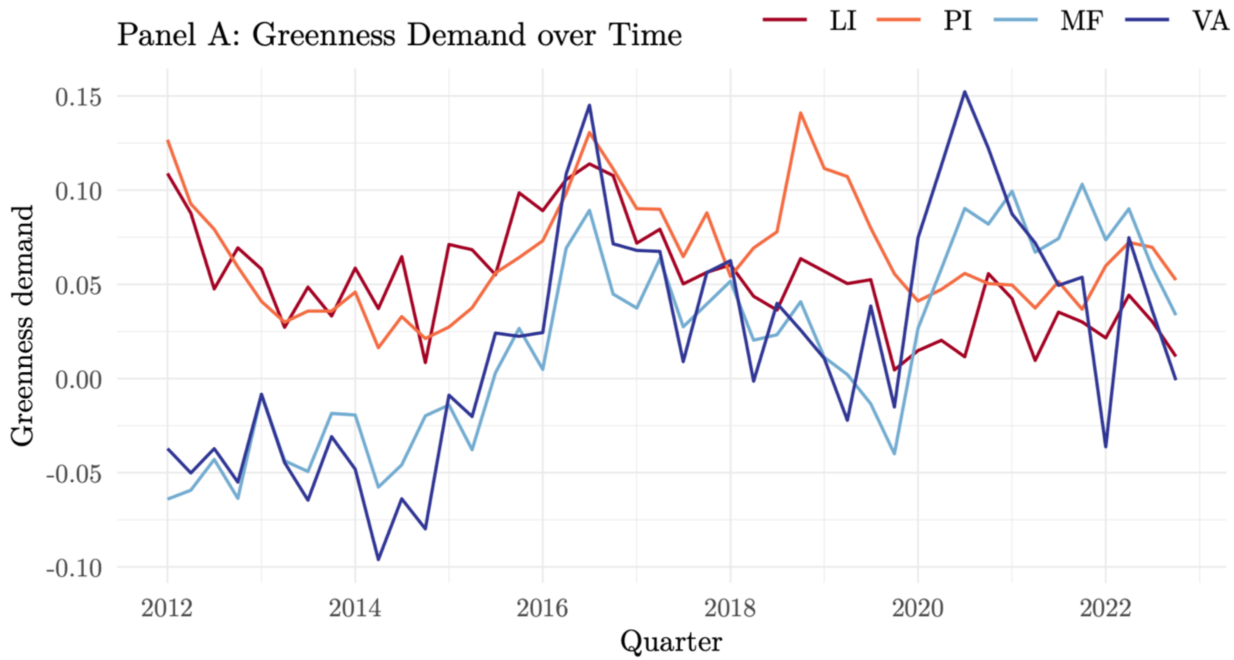


Suggestion 1. Interpretation of time-series patterns

- Possibility #1:Coefficient partly absorb short-run rebalancing, issuance responses, or cross-bond substitution rather than changes in underlying demand parameters
- Possibility #2: Coefficient reflects state-contingent investor behavior where ESG preferences become salient only when risk or regulation changes

2. Cross-Sectional Patterns



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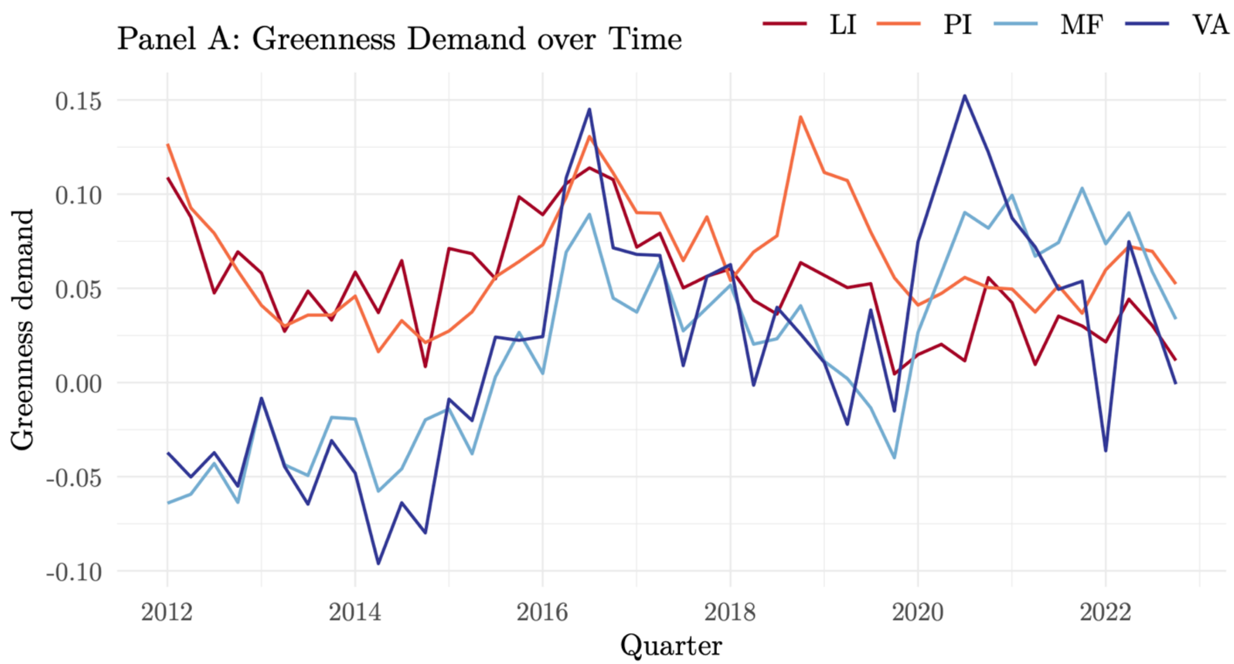

Suggestion 2. Interpretation of cross-sectional patterns

- Insurers: Why do life insurers and property insurers have very similar patterns?

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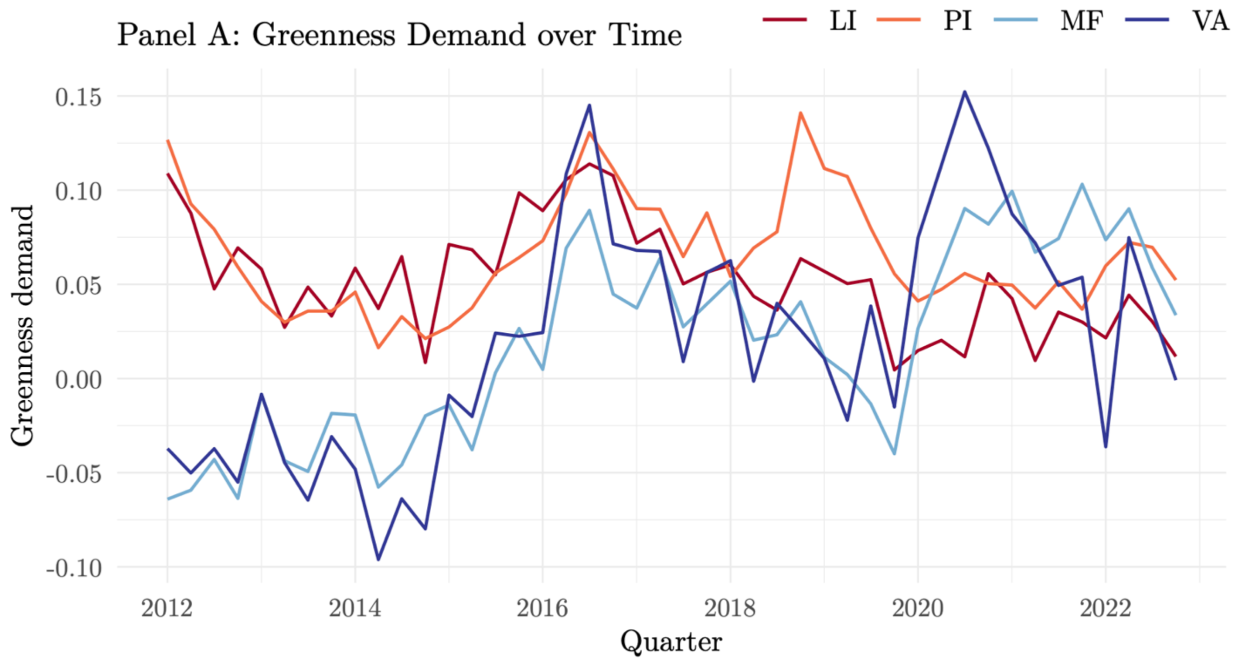

Suggestion 2. Interpretation of cross-sectional patterns

- Insurers: Why do life insurers and property insurers have very similar patterns?
- Mutual funds: “mutual funds channel or reflect their investors’ preferences”

  ⇒ Test by exploiting variation in funds’ incentives to pass through investor preference
  - Active funds have greater discretion (vs. passive funds)
  - Funds with non-ESG mandates may have less discretion

Final Thoughts

- A demand-system approach that brings discipline to measuring ESG demand in corporate bond markets

- **Punchline:** Investor demand for greenness is real, time-varying, and politically sensitive with strong implications for prices

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  - Discuss / address potential critiques of the logit demand system
  - Deeper interpretation of time-series and cross-sectional patterns

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- **A few suggestions for future iterations:**
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  - Deeper interpretation of time-series and cross-sectional patterns

- **A few questions prompted by the paper for the future:**
  - How much of ESG pricing reflects persistent investor types versus transient political sentiment?
  - Should policymakers think of institutional investors as part of the transmission of climate and regulatory shocks?

- **Very much looking forward to the next version!**