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Investors' Climate Sentiment and Financial Markets

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We propose a measure of investors' climate sentiment by performing sentiment analysis on StockTwits posts on climate change and global warming. We find that investors' climate sentiment generates a mispricing in the Emission-minus-Clean (EMC) portfolio (Choi et al., 2020), the portfolio that invests in emission stocks and goes short on clean stocks. Specifically, when investors share a positive attitude towards climate change, they tend to overvalue the negative externalities produced by emission stocks. Moreover, we show that carbon prices are a successful incentive to reduce CO₂ emissions. Finally, our model can predict the price of the EMC portfolio also for long-term horizons.